

# REVISTA ECONOMICĂ

Nr. 3(56)/2011

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Universitatea “Lucian Blaga”  
din Sibiu  
Bd. Victoriei nr. 10  
cod 550024, România

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Str. dr. I. Rațiu Nr. 2, Sibiu  
cod 550012, România  
tel.: 40-269-243 210

revista.economica@ulbsibiu.ro

**Revistă de teorie și practică  
economico-financiară**

**ISSN 1582-6260**

**SIBIU, 2011**

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<http://economice.ulbsibiu.ro/revista.economica/>

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## ROMANIAN COMPANIES FACING CRISIS – REALITIES AND NEEDS IN RISK MANAGEMENT

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**Abstract:** *Adequate risk management is under-evaluated in the Romanian economy of the moment, even if the crisis is still affecting the performance and stability of the national economy as well as the companies struggling to survive. The economy has to face access to competitively international markets depending on the consequent use of international management principles and techniques, mainly of risk management, due to the specific evolution of the aggregate economical context. The result of analysis of the real present situation shows inadequate adapting of Romanian organizations to the requirements of risk management, new non-conventional threats, insufficient support of the economical national strategies. The qualitative research conducted in order to identify the specific needs of risk management in Romanian companies, by means of selective scientific research conducted in business and academic areas shows inadequate response to the challenges of the crisis.*

**Key words:** globalisation, risk, incertitude, crisis management, recovery strategies

**JEL classification:** M21

### 1. Introduction

In 2009, professor Andrei Marga noted that *"in Romania, the proper debate on the financial and economical crisis entered during 2008 is still waiting for its beginning. Not even now proper anti-crisis measures are adopted. The crisis, itself, came up infirming expectations. As **The Economist** noted, even in October 2008, in Romania crisis will prove to be more severe, due to the greater dependence of foreign investment, as well as to the incompetence of decisions."* : Marga, (2009). The expectations of the journalists of *The Economist* proved to be realistic once again and the dimensions of the economical crisis in Romania shows to have by far exceeded both the expectations of the authorities and of the companies. The lack of preventive attitude towards threats as well as inadequate reaction to the immediate and perspective risk proved both at macroeconomic and microeconomic levels generated crises within the crisis.

The present paper refers to the microeconomic level of management of the Romanian companies during crisis. If the idea that management is more likely an art and not a science is unanimously accepted, then risk management will be the art of making decisions in a world of incertitude – which is a complex process of identification, analysis and reaction referring to the risks that the organization is exposed to.

Connecting the Romanian economy to the European and aggregate economical system has raised the importance of this study and the request of adequate consideration of this scientific discipline regrettably under evaluated at the moment due to various reasons which are to be further discussed.

The challenges which the young free Romanian economy has to face are numerous, difficult to manage – the access to competitively and international markets depending on the consequent use of international management principles and techniques, mainly of risk management, due to the specific evolution of the aggregate economical context, dramatically affected by crisis.

A qualitative research conducted by the author during 2008 – 2009 in academic and business environments brought out interesting opinions and pointed out directions to be considered in order to face the difficulties of the crisis. The qualitative research considered a total of 171 questionnaires, addressed to four distinct categories, in four different topics, as follows: academic staff (46 respondents from universities of Sibiu, Cluj-Napoca and Braşov), managers activating in banking, public institutions, business counseling, corporate (20), master degree attendants and PhD attendants in management and economics (55) and students specializing in management (50). The option for the opinion questionnaire instead of factual data questionnaire was founded on the intention of obtaining not only facts, but mainly attitudes, motivation, interests. The present paper presents some of the conclusions of this wide research, as well as the

consequences of the situations revealed by the research, consequences affecting the business environment not only during the crisis but also in the immediate future of the Romanian economy.

## **2. Perception and responsibility towards risk**

The obvious tendency towards globalization has led to an important local development, even a regionalization, further to the obvious de-centralization of economic development. Business globalization and companies' internationalization have not only direct impact, but can affect even companies which do not have a strategy of internationalization. The research revealed sound knowledge of the objective reality of the aggregate economy evolution, as well as of its impact on companies' management which proves to be a good foundation in achieving correct risk management as business will never be conducted in isolation, no matter the dimensions of the companies, these depending on powerful inter-relation.

The increasing importance of risk management in the new context is revealed by the characteristics of the macroeconomic context identified by the research as follows:

- Strong development and intensification of international economic relations
- Diversification of international business flows and of the contents of international economic flows
- The lack of request-offer balance implying exceeding of offer
- Increasing of mobility up to financial and economic instability
- Diversification of management techniques simultaneous to diversification of international business
- The complexity of the conditions having impact upon economical results of the company
- Increasing of the work-force involved in activities generated or connected to investment or commercial areas, compared to the total of work-force
- Dramatic lowering of costs in transportation and communication and development of technologies connected to informatics and communications

If benefited effects of business globalization result in access to new markets, priory inaccessible, in the easier access to raw materials of a better cost-quality ratio, in the access to superior qualified work-force for lower wage-costs, in a faster technological, commercial and management renewal, in increasing and fastening of the know-how transfer and in superior options for partnership and strategic alliance, the Romanian companies management is forced to consider, on the other hand, a series of specific problems such as:

- The strong competitiveness of Asiatic markets (specially China)
- Losing of the identity, searching for a new work-frame
- Stabilization of the market of multinational companies in the business area of Romanian companies
- Changes in infrastructure
- The lack of loyal competition, of business ethics, extending use of false payment instruments
- Law incoherence and interpretable business legislation
- The lack of a flexible domestic work-force market, adapted to the productive needs
- Raising of a cheap but not qualified work-force
- Indifference for the environment and human resources

## **3. Specificity elements for risk management in Romanian organizations of the present time**

Crisis involves threats and new risks. Threats and risks require adequate risk management. Risk management requires inner and outer context analysis, risks identification, qualitative and quantitative evaluation of these risks, developing and implementing the reaction plan, risks monitoring, identification of new potential risky situations and development of an adequate environment for communication.

The major change requested by the difficult evolution of the moment is eventually a change in mentalities, more than a change in technology, so that the risk is considerably diversified as the human factor involved is mostly heterogeneous. The research conducted proves that if theoretically there is a major interest in risk management problems, the concrete action is rather insignificant compared to the importance of the problems, not only at the microeconomic level of business management but also at the macroeconomic level of national economical strategies. Even if the problem of implementing management systems costs is real, it is important to highlight that these costs depend on the methods of administrating unpredictable situations and according to the profile and dimension of the organization we can mention project risks or product risks that require different approaches, different training, different financial efforts that could be undertaken if proper awareness of risk management importance becomes manifest: Koenig (2004).

However, under these circumstances, the specialized structures of risk management in fact do not exist yet – except for the banking system where these are imperatively required by the system functionality. One of the causes of this situation seems to be the fact that aligning the management procedures to the

normative system of risk management requires data processing administration, implementing of programs and monitoring systems still unaffordable to a great majority of companies in Romania. More important than the cost of such monitoring programs and administrating risk programs remains the availability of considering the responsibility for risk management as a priority in the Romanian business environment. Considering this idea, the reality dramatically contradicts the theoretical perception so that the most interviewed managers consider it necessary to attribute risk management responsibility either to a « group of thinking » or to a specialized extern expert, yet more than half of those interviewed see the possibility of really attributing this responsibility to a specialized risk management structure in a near future, but regretfully there are managers that consider this option not to be a priority for them.

According to the research results, Romanian managers consider that their activity is strongly influenced not only by risk, but also by incertitude. The weigh of decisional situations under risk and incertitude conditions is rather low compared to the considerable weight of decisions adopted under certitude conditions, which reveals a certain attitudinal constancy referring to the risk aversion of Romanian managers, on one hand, but also an incorrect perception of the long term evolution of the economical environment where business is conducted in the new Romanian economy, on the other hand.

The tendency of managers to undertake risks is variable, depending not only of context but mostly of individual behavioral variations, generated by experience and the individuality of the decision-maker. Considering this situation, managers can be classified in three major categories: managers who avoid risks, those who undertake risks and those who rule risks - the research conducted confirms the general tendency of avoiding risk, instead of the responsible and creative undertaking of the risk, situation that justifies the lack of interest in developing risk management strategies.

Avoiding risk brought by an unsure environment is achieved either by means of negotiating contracts to deaden insecurity or by delaying decisions, or by means of delegation. Managers seem to avoid facing risk, considering it phenomena that can not be controlled. The managers' vision upon risk seems to be slightly different of that mentioned by the theory of decision, being a little less precise – it seems that managers rarely measure the risk associated to an option according to the variation of probabilities distribution related to the possible results thus three characteristic features being noted:

- The majority of managers do not consider incertitude of a positive return as an important aspect of risk; the gaining possibilities have a capital importance for evaluating the attraction of an option, and the idea of risk is associated to a negative result.
- For the manager, risk is not a probabilistic concept – the majority of managers consider incertitude as a risky factor and the amplitude of the eventual unsatisfactory results is considered to be a noteworthy element. Managers generally evaluate the undertaken risk mainly reported to key-values and not considering the help of informatics or the probabilistic theory.
- Most of the managers do not aim to reduce risk to a single measurable element, although they still search a certain precision in estimating risk based on numerical computations; being aware of the multitude of aspects involving risk managers do not consider expressing risk neither by a number nor by a statistical series

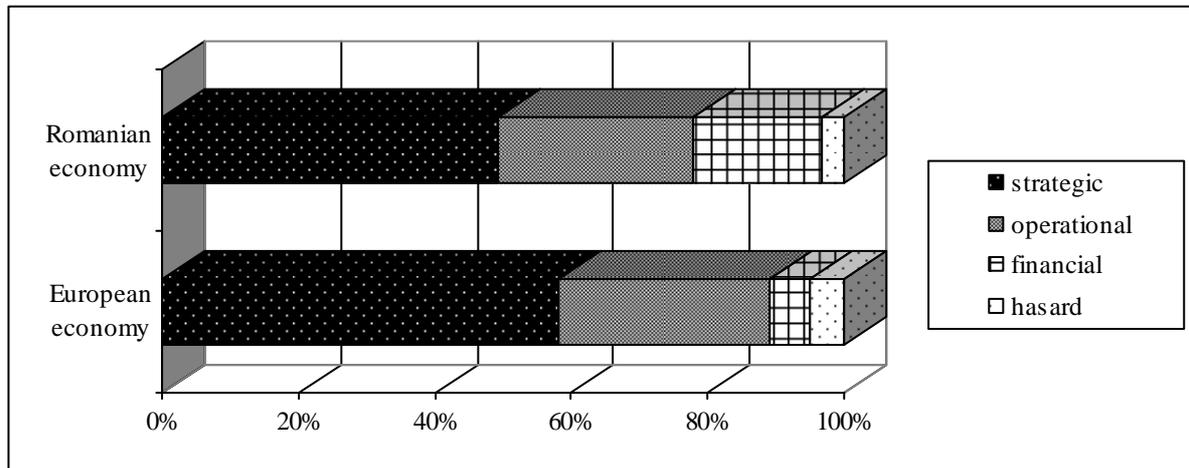
The ratio of risk and incertitude decision situations is rather low compared to the significant ratio of decisions adopted under certitude conditions, which reconfirms a certain constant attitude of risk aversion of the managers involved in the research, on one hand – only 7% declared ratio for decisions adopted under risky conditions – but also the considerable influence of incertitude upon the managerial activity, on the other hand – 19% ratio for the decision adopted under incertitude conditions. The research revealed that the requests for the decisional process should be as follows:

- Decision should be scientifically funded
- Decision should be “authorized” – not only adopted at the adequate management level, the formal authority of the decision being insufficient without the authority given by knowledge
- Decisions should be integrated, resonant with the other decisions taken or intended, according to the company strategy
- Decision has to match the optimum timing for adopting and implementing
- Decision should be formulated clearly and briefly, to contain the objective and the main operational parameters – indicating the objective simultaneously with the action intended, the resources to be involved, the responsibilities and the duration or the term of application

Sources of risk in the business conducted in Romania should be found, according to the specialists interviewed, mainly in the area of strategic risks, following the characteristic profile of aggregate economy, even if the ratio seems slightly different (49% strategic risk in Romanian economy, compared to 58%

strategic risk considered by the important European companies): Koenig (2004). As far as operational risk is concerned, Romanian companies are exposed to a ratio of about 29%, compared to the important European companies (31%), the considerable difference being registered for the estimations of financial risk, which affects Romanian companies up to a ratio of 19%, compared to a 6% estimated ratio for the important European companies. If the important European companies do not seem to be affected by hazard, for the Romanian companies this represents a real threat, even if the impact is estimated at only 3,2 %.

**Figure 1: Major risk sources in Romanian economy, compared to European economies**



Source: Risk Management Congress, Bucharest, 2004

The research concludes that the efficient programs of risk management should involve the stages as follows:

- Evaluating of the project dimensions and of the risk involved (internal and external dependences of the organization)
- Elaborating the plan of action in case of emergency – focusing upon the stage immediately following the incident
- Elaborating the plan for administrating the crisis – including the organizational structure of the crisis management team, identification criteria for situations potentially developing to crisis, roles and responsibilities of the members of the team and of the company staff.
- Conception of the recovery strategy – establishing the company priorities in resuming activity, modalities of resumption of key-activities, identification of alternatives and plans for bringing to the normal state the company activities.
- Testing and training the work-force, updating the plan periodically – recommendations resulted from previous stages should be implemented, plans should be tested and periodically (yearly) re-evaluated and adapted to the eventual changes.

Business risk management consists of a complex system of techniques, being based on decisions that have to be considered reported to different parameters; research conducted in management have contoured a series of improvements of prevision and monitoring the potential risks. Famous bankruptcies in the immediate past have been caused by risks known yet not taken into attention, so that the problem of risk monitoring seems to be of maximum importance as well as the eventual improvements needed, as risk measurement is obviously vital in the correct administration of the business. The personal research inquired upon whether risk evaluation and monitoring is a current practice in the Romanian business management, as well as the reasons why this analysis practice might reveal eventual particularities compared to the European countries. The presented research showed that Romanian companies generally consider monitoring risks more important than the European companies. This might be due, according to the expressed opinions, to the reasons as follows:

- Greater risk exposure of the Romanian companies, compared to the similar companies of the European Economic Community
- Romania faces ample processes of economic and financial reform
- Romanian business is financially based on credit, market is developing and adapting to the European community requests, thus a thorough analysis of risks is required

- Romania still crosses a transition period for which risks – no matter their nature – are still greater than for a developed economy
- In Romanian economy a greater responsibility of stockholders is needed, as well as more transparency and the approach of the same control systems and methods as in the European Community.
- Financial market is less stable in Romania
- Legislation is changing too often
- Rising of prices for energy, raw materials and services are unpredictable

The performance indicators systems is a valuable tool for economical analysis; considering this important system we might group these indicators in: technical-economical potential indicators, financial potential indicators and economical-financial result indicators. The opinions of the collaborating specialists show that indicators can not always provide clear image of the risk potential situations that might affect their business, due to the situations as follows:

- Due to the integrated business context, depending of suppliers as well as key-clients, the loss or damage of the production capacity, of informatics systems and telecommunications or any other important function will cause grave disturbance of activity and jeopardize business relations with the company partners
- Having no supply or sales alternative, any incident occurred either to the key-suppliers or the key-customers can unexpectedly disturb the firm functionality
- It is imperatively required to include in the managerial system the Business Continuity Planning Component having the role of providing viability maintaining of the company in case of unpredicted events
- The use of performance indicators can not fully cover the risk of cash-flow management during crisis situations – the cash-flow management requires more complex instruments in order to reach and maintain the liquidity optimum which might reveal different levels, depending on the business sector.
- Determining of the optimal cash-flow should also consider providing of the “stocks” destined to exceptional situations
- A good cognition of debtors and of market conditions gain importance under the circumstances of increasing volatility of funds
- Resources management should more carefully consider good cognition of creditors and the accurate payment-terms policy, fully adapted to the specific conditions of each important transaction

Modern organizations are structured to provide efficiency by quick decision making at all decision levels, by means of specializing, competence delegation, and responsibility dissipation by hierarchical levels. Risk management infrastructure should benefit of an independent staff reporting to an executive committee or a manager specialized in risk management having competences, attributions and responsibilities clearly stated in monitoring and administrating risk: Koenig (2004). Generally this structure does not exist in Romanian organizations, although its necessity is admitted, at least in declarations. In the XXI century Romanian economy risks are evaluated especially by the executive manager or the financial manager, instead of a specialized structure.

The research revealed the situation that in the Romanian economy specialized structures in risk management actually do not exist – excepting the banking system, where these are imperatives of the system functioning. If interviewed students consider the risk manager a necessity up to an absolute majority, managers have been requested to shade the option – the conclusion showed that the presence of a risk manager should be useful (20%), or a work-team set up as a “thinking group” (40%) or even an external counsellor specialized in risk management (40%) should be requested. The real situation shows that the risk manager or the structure of “provision and/or administrating risk department” would eventually be operational in the future, none of the managers collaborating in the research being in the situation of giving an affirmative answer to the question referring to the existence of a risk manager at the present; an alarming ratio of 14% of the total of opinions indicating that this responsibility allocation does not constitute a priority at the moment.

The directions such a structure of risk management should have to activate are: Koenig (2004)

- Ensuring continuous training of all employees in the domains of risk management and corporate management
- Providing of an environment where risk complying policy is efficient
- Involving in effective implementation of corporate policies
- Dedication for thoroughly concordance of conducting business in the respect of local legislation, regulations and traditions thus never contradicting these

- Making public the opinions of independent auditors according to which the organization respects the standards of conducting business made public by the Board of the company

Starting from data provided by specialized literature, the most important risks upon which the Romanian companies' management focuses should be connected to the market and the financial instability and the least threatening risks refer to environment polluting, employees or customer damages and losses due to thefts.

The maximum risk exposure of Romanian companies due to the European Economic Community integration and the imported effects of the crisis show the aspects as follows:

- Inner structure of the company is insufficiently compatible to the structure of European companies
- The management system is similar to the system of the European Community, yet difficult to implement, due to the difference in mentality, education or competence
- Company capitalization, access to alternative financial resources (either conventional or non-conventional) use of the monetary and capital markets and competitive financing instruments are exposed to greater risk
- Cost administrating systems (introducing of the cost-management system, based on profit and costs centres)

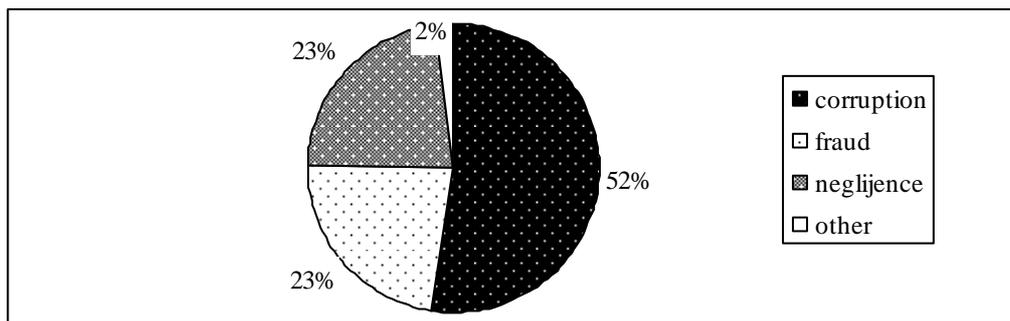
The research identifies the main risks in the business conducted by Romanian companies as follows:

- ! Raising competition, for which Romanian economy is not enough competitive – while great international corporations cover important market sectors, due to very competitive marketing practice, Romanian producers are not yet familiar to such situations (due to the monopoly characterizing the socialist economy) so they are not able to reach sales objectives and tend to become seized by the “battle” with foreign producers for the market-share
- ! Fluctuation of the manufactured products prices
- ! External crisis and instability of the domestic market, low productivity, insufficient development of the Romanian economy, generating exchange rate fluctuations and implicit prices increasing and request decreasing
- ! Failure to pay risk and considerable payments delays (delayed payments in the domestic market amounts 80% of the total payments)
- ! Terms observance, vital for production cycles and contracts observance generates reducing of payment delays of important customers
- ! Limiting of eventual damages caused to the customers by the company products – increasing the quality of products and the improving quality management
- ! The lack of quality management systems or the inadequate implementing of programs of quality management is a reality in the Romanian business life, having considerable impact upon performance and competitiveness, not only on international markets, but even on domestic market

Collaborating specialists consider that preponderance of behavioural and attitudinal risks specific for the Romanian economy of the time shows the configuration as follows: corruption (52%) is accompanied by fraud (23%) and negligence (23%), as major risk factors, but also of bureaucracy, failed political programs, failure of educational reform, low quality of public services, underground economy (2%). Corruption is a generalized phenomena, its amplitude and characteristics being particularities that differentiate national economical systems, corruption being one of the important risk factors considered in country risk analysis; corruption is a determinant risk factor in Romanian economy, requiring macroeconomic regulation and minutiae identification procedures, legislative counteracting, at the present insufficient.

The research also concludes that a series of important steps in elevating the national strategy to face these risks should be implementing by local administrations of the proposed projects, organizing of fair and transparent elicitations, in fully respect of the law, the efficient fund management, a greater responsibility of decisional factors in order to provide effective response, for a better resource mobilization, increasing the quality of public policies under correct and attentive political coordination, serving the community interest.

The international business community signals the increasing importance of new risks, considered unconventional, as well as the worrying escalate of these new types of risks having unpredictable consequences and being so difficult to administrate due to their quick propagation (terrorism, criminal activities, pandemic diseases, natural disasters). Part of these risks can be quantified by the country risk but administrating these risks requires strong national-wide and international intervention. Although proliferating of these non-conventional risks seems to be rather alarming in Romania, authorities do not show too much concern, not enough to adopt the adequate legislation.

**Figure 2. Main non-conventional risks in Romanian economy**

Source: Andron, D., Research notes

The most frequent new types of risks in the case of Romanian economy of the time are those generated by lack of correctness and lack of performance. According to the consulted specialists, there is no national strategy able to offer adequate protection for the new un-conventional risks (terrorism, criminal activities, and pandemic diseases) and the intervention plans required are not sufficient, due to the reasons as follows:

- Non-conventional threats should require elaborating of complex plans involving ministries and departments having at the present less important problems which still have not found solutions.
- Lack of adequate organizational structures does not allow effective responsiveness
- Lack of quick monitoring generates insufficient responsiveness
- Either the inexistence or not respecting of the strategic plans does not allow resource mobilization
- Natural disasters affecting Romania in time have left important damages because of the insufficient supplementary funding required for eventual emergency situations and because of an inadequate allocation of existing funds
- The insufficient resource allocation makes it impossible to even consider a resource mobilization, the only action ever taken being a momentary action
- There is no interest in political co-ordination, which is anyway insufficient, due to the inadequate communication
- As far as terrorism threat is concerned, there is no thorough approach in Romania

The need of effective state regulation of the business environment can not be perceived otherwise than a real request, as long as this regulation is correct, coherent and aiming to provide prevention. As far as the Romanian state role is concerned, referring to the business risk problem, specialists are generally not content with the institutional protection of the state perceived in business environment regulation (59%-discontent, 35%-not answering). Opinions have been formulated referring to difficulty of maintaining ethics and obeying market regulations due to the economical and political instability, juridical incertitude and the aggressive fiscal policy. The improvements of the legal system expected by the quoted specialists refer to the legal and institutional aspects as follows:

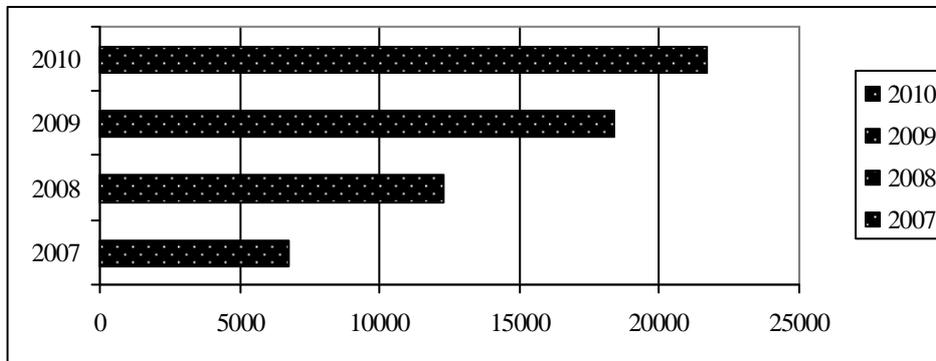
- Transforming the functioning of the system
- Eliminating of administrative barriers
- Business environment consolidation
- Financial market and banking – regulations referring to market ethics and risks, transparency, access of wide public to information
- Competition policy – institutional-normative conditions providing safety functioning of free competition
- Returning to trading traditions
- Anti—corruption regulation

Concrete propositions referring to the legal frame and concerning regulation of business conditions have been offered by management specialists focusing mainly on the need of the legal demand to implement systems for the documentation electronically administration.

The international markets instability, mainly the financial market, as well as energy and fuels markets directly affect the whole aggregate economical activity. Having the aggregate economical crisis as background, the Romanian economy strongly connected to the worldwide international economic flows offered alarming signals: the number of companies brought to insolvency in 2008 is double to that recorded the previous year (12.308 compared to 6.782, only during January 1 – November 17, and by the end of the year, the figure almost reached 14,500). Extending the analysis, these alarming signals were not properly

considered: 18,421 companies brought to insolvency in 2009 raised to 21,692 companies reaching insolvency in 2010: ORC (2011). The international financial crisis, persistent and deepening, can be considered neither an accident, nor a consequence of economical cycles, but a process determined by structural causes, requiring thorough regulation of the financial markets.

**Figure 3. Number of Romanian companies brought to insolvency**



Source: ORC, 2011

As an important risk factor, the dynamics of the aggregate financial market and its instability are perceived by interviewed specialists in management as being determinant for the evolution of the Romanian business environment. The impact of risks associated to the evolution of the aggregate crisis on the business developed in Romanian economy is showed, as the collaborators perceive, under the aspects as follows:

- Any major crisis, in any part of the world and any domain will increasingly affect Romania, due to globalization and European Union integration
- Major crisis on the international markets have considerable impact on the risk level in Romanian economy, by increasing costs (transportation and salary costs) by decreasing of the product productivity, by inflationist shocks, by decreasing investments, decreasing of the buying force, increasing of unemployment
- The Romanian economy, being still a fragile economy, will be strongly affected by any crisis
- Increasing the risk level associated to major crisis affects Romanian economy by increasing the risk in most of the activity domains, by higher production costs, limited access to credits, decreasing of production
- The impact upon the organizational culture, mainly in productive organizations, due to the risk of exceeding costs and failing to deliver production at due terms
- Inevitable costs rising can not be found in product prices, especially when these are quoted on the stock market
- The crisis impact is perceived at its maximum by specialists in finance
- The specialists in public institutions do not consider their activity is affected by the risk generated by the aggregate crisis
- The banking specialists consider that the risk associated to the major international crisis determines the recession they perceive in their activity sector, recession that will propagate in the national economic system

Finally, a brief view upon the future of the business environment of the Romanian economy should consider the situation of the academic educational system performance and the business risk management. Considering the reality that the educational system provides a work-force having a more important knowledge and educational potential, a high specialized work-force, and that according to the modern education population culture and personal vision of life are more orientated towards flexibility, dynamism, creativity, strong self-development determination, the research analyzed the capacity of the university education to adapt to the requests of human resource development in business risk management. Specialists training, starting with middle-management levels becomes vital in the adapting effort of the organization to the macro economical context in which it evolves. The aptitude of risk administration is to be educated; it is not a consequence of experience, as the research proofs.

The students' interest in more detailed study of risk problems does not find the same echo in the specialized academic study curricula. This vulnerability of the educational system has been also noticed by the managers who are aware of the need of the work-force – especially the specialized staff - to adapt fast to the

requests of the new evolutions of the business environment. University professors unanimously agree (87% of expressed opinions) that study programs are not sufficiently adequate to the competence requirements of the graduates, the rest of 13% considering these programs even totally inappropriate. The disciplines that brought to the students the concept of risk are mainly financial administration, economy and investments. Thus, students do not have a correct image – not even a complete one – of the business areas strongly affected by risk, 52,38% of them do not even know which this areas might be, while the rest of 47,62% of the students consider investments, stock markets and banking to be the areas most exposed to risk. Obviously the suggestions that students presented for improving the instructive process are numerous and coherent, their orientation being towards firmly contoured directions such as:

- Increasing the weight of practical activities (35%),
- Development of managerial abilities (17%),
- A more ample approach of risk problems (12%),
- The quality of the instructive process (12%).

It is not to be neglected the weight of the students that could not find any proposition at all (24%) in order to benefit of better specialized education, adapted to the needs of the of economical evolution, which they might expect from the educational system. It is a pleasant surprise to note that the students' requests for improving the educational system are perfectly concordant to the professors demands, which reveals not only the correctness of the educational relationship but also the high level of awareness of the training needs of the students, their connection to the objective reality.

#### 4. Conclusions

Due to the complexity of the theme and to the deficit approach of the theme by the scientific literature the research did not intend to solve the main problems of the risk management issue, considered as a whole dynamic and changing system but only to enlighten some specific issues, precisely identified, intending to define new starting directions for developing further research.

The impact of the research conducted becomes a major one not necessarily by offering immediate punctual or general valid solutions, such an expected finality being not only extremely ambitious but even non-realistic. The expected finality was reached by the result of analysis of the real present situation considering the major deficiencies of the capacity to implement specific strategies and techniques of the risk management in the Romanian economy, by the final identification of urgent intervention needed and of the directions which might prove to be of highest priority in developing risk management.

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## SOME CONSIDERATIONS RELATING TO HEALTH MANAGEMENT AND OCCUPATIONAL SAFETY<sup>1</sup>

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**Abstract:** *Organizations of all types are the most anxious to achieve and demonstrate in the area of health and performance in occupational safety, by control risks associated with health and safety at work, compatible with standard "systems policy objectives and management of health and safety occupational" (occupation health and safety assessment series-OHSAS), Norms approved by the Association of standardizations of Romania (so), 31 March 2008, in accordance with standards OHSAS 18001/2007 and OHSAS 18002/2004.*

**Key words:** health, safety and system management performance

**JEL classification:** J81, J83, J88.

### 6. Introduction

This work proposes to investigate the perception of employees and employers on the issues of importance granted health and safety. Under the programme of research strategies "The Impact of flexible work on upgrading work" of the market, I considered a timely analysis of things that deals with the aspects of health and safety.

If the inception of the market economy in our country, the general optic was the granting of a range of increases to compensate for various problems and causes of professional illnesses, action only on the effects, with the winning field perspective for the involvement of economic operators in matters of health and safety and gradually it did place a series of standards in this aspect.

The standards for ensuring health and safety at work are developed in response to request entities with respect to a norm admitted by the system for managing the health and occupational safety, against which can be assessed and certified its own management systems.

OHSAS 18001/2007 was prepared to be compatible with standards for management systems ISO 9001/2000 (quality) and ISO14001/2004 (environment), in order to facilitate the integration systems for quality management, environment and health and occupational by organizations economic. Standard norms OHSAS was drafted in accordance with rules of Directives ISO/CEI, Part Two. The standards OHSAS relate to health management and occupational safety and are intended to ensure organizations elements of a system of effective management, which can be integrated with other requirements of management and help organizations in achieving economic and social objectives.

These standards, as any international standards, are not intended to be used to create non-tariff barriers or to grow or change its legal obligations of the organizations but to assist in developing and implementing a policy to take account of the legal requirements and the informations on the risks to health and occupational safety.

Associated with the standardizations of Romania, it has developed the standard SR OHSAS 18001/2008 so that it can be applied to organizations of all types and sizes and in various areas: social, cultural and geographical. A success system depends on the commitment by all levels and functionalities of the organization, in particular the management of the highest level. A system of its kind allows an organization to develop a policy on health and safety at work, to establish targets and processes allowing policy commitments undertaking, take the necessary steps to improve performance and system to demonstrate compliance with requirements of the norm system. The overall objective of this norm is supporting and promoting good practices, in accordance with socio-economic needs. It should be noted that many requirements can be solved simultaneously or revised at any moment by undertaking.

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<sup>1</sup> This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/1.5/S/59184 „Performance and excellence in postdoctoral research in Romanian economics science domain”

## 2. Health management and occupational safety-overview

Health management and occupational safety covers a range of issues, including the strategic implications and competitive organizations which require more general guidelines for a wide range of issues relating to the system of health and safety management it may be used OHSAS 18002 occupational.

OHSAS is based on Standards methodology known: Plan-Do-Check-Act (PDCA), and can be described as a short after:

- Planning: fix targets and processes necessary to obtain results in line with the organisation's policy on health and safety at work.
- Executes: implements processes
- Check: monitored and measured processes in relation to the policy, objectives, the legal requirements and other requirements on health and safety and report the results.
- Acting: take measures for continuous improvement of performances in health and safety.

Several organizations they lead activities by applying a system of trials and the interactions between them, called ' approach based on trial ". Use this approach based on the process is promoted by ISO 9001. Since the method can be applied to all PDCA lawsuits, the two methodologies are deemed compatible.

The standards OHSAS contain requirements which can be audited objectivity; however standards law lays down requirements absolute for performances in health and safety. Outside commitments, the health policy and security, to meet legal requirements applicable unit must comply and other requirements on which it has underwritten, in order to prevent accidents and disease and for improvement continuous quality work.

The standard health and safety does not include specific requirements for other management systems, such as systems for management of quality, environment or financial management, however, its elements may be aligned or integrated with those of other systems unit of the management unit.

The standard OHSAS are applicable to any organizations and seeks:

- a) To establish a system of health and safety management in order to eliminate or minimize the risks for employees and other interested parties who might be exposed to dangers associated with its activities;
- b) To implement it, to maintain and improve continuously provisions of norms;
- c) To ensure his own political accordance with the declared by enterprise:
- d) To demonstrate compliance with rules, undertaking by it's rules:
  - Achieving a auto evaluation and a declaration on its own responsibility,
  - Getting confirmation by the parties which have an interest in the organization, such as: customers,
  - To comply with its or obtain confirmation statement on its own responsibility from a party foreign organization,
  - Getting certification/registration system or the management of health and safety by a foreign organization.

The OHSAS norm treats occupational safety and health and does not intend to treat other areas concerning health and safety, such as maintenance programmes of physical shape/insurance for employees of comfort, safety products, damage property or impacts of environmental.

### **System requirements and health management and occupational safety**

The organization must determine, to investigate, to implement it, to maintain and improve management system continuously, in accordance with requirements of the standard OHSAS and to determine how to meet these requirements.

The management of the highest level must define and approve policy for health and safety of the organization and to ensure that the scope defined by the management system of health and safety, and politics:

- corresponds to nature and to the types of risks of the organization;
- includes a commitment to prevention of occupational injuries and disease, and the continued improvement of management and performance;
- includes a commitment to comply at least with legal requirements applicable to other requirements to which organization subscribe under its own risks;
- provide a framework necessary for setting objectives and analysis;
- is documented, implemented and maintained;
- is served all employees who work under control of the organization in order that they become aware of the individual their obligations in the field and health security;

- is available stakeholders;
- is periodically reviewed to ensure that remains relevant and appropriate for the organization.

### **Methodology system for managing the health and safety**

OHSAS standards are based on known methodology: Plan-Do-Check-Act (PDCA).

#### **Plan**

The organization should establish and implement and maintain a procedure (procedure) to identify continuing dangers, risk assessment and establish controls necessary.

The procedure (procedures) For hazard identification and risk assessment must take into account:

- routine activities and the non-routine;
- activities of all personnel who have access to work (including subcontractors and visitors);
- human behaviour, capabilities and other factors of human nature;
- hazards identified generated outside of the workplace, able to affect the health and safety of persons under control of the Organization, the workplace; (
- dangers in the vicinity of the job through activities related to work and under control of the Organization;
- infrastructure, equipment and materials from work, if they are supplied by the organisation or other parties;
- amendments and proposals for changes within the organization, the activities Its of the materials;
- changes in management system, including temporary changes and working on their operations, processes and activities;
- any legal obligations applicable risk assessment and implementation checks necessary;
- design jobs, processes, facilities, equipment/cars, the operational procedures and work organisation, including human adaptation to the capabilities.

Methodology organization for hazard identification and risk assessment should:

a) to be defined as regards its field, nature and timing of implementation to ensure that it is rather proactive than activate her;

b) to ensure identification, setting priorities, documentation risks and the checks, as appropriate.

The management of modification, the organization must identify hazards and risks to health and safety at work, associated with changes in the organization, in the system of management, times of its activities, prior to the introduction of amendments. The organization must ensure that the results of these assessments are taken into account when setting controls. When setting checks or taken into account changes in existing controls, it should be taken into account the risk reduction next hierarchy.

- elimination;
- replacement;
- technologic measures;
- signaling/warning and/or administrative action;
- individual equipment.

An organization that has the OHSAS standard must:

- to investigate and update results on identifying hazards, risk assessments and checks set;
- To ensure that the risks and checks set should be taken into account when setting, implements and maintain their own system of management;
- To establish and implement and maintain a procedure (procedure) for identification and access to legal requirements and other requirements that apply;
- To ensure that when established, implement and maintain their own system of management, it will take into account these legal requirements applicable and other requirements to the organization has subscribed;
- To update this information;
- to communicate relevant information concerning the legal requirements and other requirements persons working under organization control and other interested parties relevant.

*Objective and programme (programmes)*

To achieve its objectives, the organization must establish, implement and maintain a programme (programmes). These programmes must include:

- responsibility and authority designated for achievement, the functions and appropriate levels of the organization;
- The means and time limits objectives will be carried out.

The schedule (programmes) must be analyzed (analysis) at intervals planned and regular and adapted (Adjusted), as is necessary to ensure that the objectives are achieved.

**Implementation and operations***Resources, functions, accountability, responsibility and authority*

The management of the highest level must assume responsibility for final system management of health and safety. The management of the highest level must demonstrate its commitment by:

- ensuring the availability resources essential to establish, implementation, maintenance and improving management system;
- allocation of responsibilities and authorities delegation, in order to facilitate effective management; functions, responsibilities, responsibilities and authorities must be documented and communicated.

The organization must appoint a member of (members) management of the highest level with specific responsibility, regardless of other responsibilities and authority and functions well defined for:

- To ensure that the system of management is established, implemented and maintained;
- To ensure that management of the highest level are submitted reports on performance system management.

*Competence, training and awareness*

The organization must ensure that any person (persons) under its control, which fulfil (s) tasks which can have an impact on health and safety, is competent (are competent) from the point of view of the studies, training or experience. The organization must identify needs associated with training and its risks with the system of management. This should ensure training or take other measures to meet these needs training, to assess the effectiveness of measures or taken

The organization should establish and implement and maintain a procedure (procedure) to ensure that persons who work under their control are aware of:

- The consequences, existing or potential, the activities of work and conduct of their benefits and the individual performances by improving;
- functions, responsibilities and their importance in achieving compliance with the policy and procedures on health and safety and system requirements for management, including the requirements on preparing for emergency situations and the ability to answer,;
- the possible consequences of deviations from the specified procedure.

The procedures for training should take into account the different levels of: responsibility and knowledge like linguistic and general.

*Communication, participation and consultation**Communication*

The organization must determine, to implement and maintain a procedure (Procedures) regarding the dangers of health and safety at work, for:

- communication between domestic levels and different functions within the organization;
- communication companies contracting with other visitors to the workplace;
- reception documentation and responses to the relevant communications for the interested external parties.

*Participation and consultation*

The organization must determine, to implement and maintain a procedure (procedure) for:

a) employee participation by:

- Appropriate involvement in the hazard identification, assessment and risk setting controls;
- Involvement in appropriate investigating incidents;
- Involvement in development and review policies and objectives in health and safety;
- consultation when changes are affecting their own health and safety;
- representation in matters of health and safety.

Employees must be informed about their participation agreements, including the representative (s) their health problems and security.

- b) consulting Contracting companies where there are changes that affect the health and safety.

*Documentation*

The documentation system for managing the health and safety must include:

- politics and objectives;
- Description scope;
- Description of the main elements of the system of management and the interactions between them and the reference documents related to;
- documents, including recordings, required by the standard OHSAS;
- documents, including record, the organization deems necessary to ensure proper planning, operation and effective control processes related to its risk management.

*Document control*

Documents requested by the management system must be kept under control. The organization must to establish, to implement and maintain a procedure (procedures) for:

- a to approve documents, before the issue;
- the analysis, the update, if necessary, and reapproved documents;
- to ensure that they are identified changes and progress review of its current documents;;
- to ensure that versions relevant documents applicable are available at points of use;
- to ensure that the documents remain legible and easy to identify;
- to ensure that records of provenance foreign organization considers necessary for planning and operation of the system of management are identified and their distribution is monitored..

*Operational control*

The organization must determine those operations and activities that are associated with hazard (hazard) identified when implementing checks is necessary to manage risk (risks) in health and safety. They must include management changes. For these operations and activities, the organization must implement and maintain:

- operational controls, as required and organization activities carried out. The organization must integrate controls operating in their own system of management;
- controls on products, equipment and services purchased;
- checks on contractors and other visitors at work;
- procedure documented, to cover the situations in the absence of such procedures could lead to divergences on politics and objectives undertaking;
- criteria for operating specified where their absence could generate divergences on politics and objectives in health and safety.

*Training for e emergency situations and response capacity*

The organization must determine, to implement and maintain a procedure (procedures) for:

- to identify the potential for urgent situations;
- reply to such emergencies.

The organization must respond to emergency situations occurring and to prevent or minimize any negative consequences associated with these situations. The organization must also be tested, periodically procedure (Procedures) its response to emergencies, involving, where it can be, interested parties relevant, as appropriate.

**Verification**

*Measuring and monitoring performance*

The organization should establish and implement and maintain a procedure (procedure) for monitoring and measurement, regularly, their performance. This procedure (these procedures) should provide:

- both measurements qualitative and quantitative, corresponding the needs of the organization;
- monitoring of the degree to which met targets of the organization;
- monitor effectiveness checks (both for health and safety);
- measurement proactive performance, which monitors compliance with the program;
- measurement of reactive performance monitoring for professional disease, incidents (including accidents, "incident without consequences", etc.) and other evidence of historical performance deficit;

- recording of data and results of monitoring and measuring, sufficient for further analysis of the actions facilitating corrective and preventive.

If they are necessary equipment for monitoring and measuring performance, the organization should establish and maintain calibration procedure and maintenance of such equipment, as appropriate.

#### *Assessing compliance*

Consistent with the commitment or compliance, the organization must determine, to implement and maintain a procedure (procedure) for periodic assessment of compliance with applicable legal requirements. The organization must keep records of periodic evaluations results.

#### *Investigating incidents, non-compliance, corrective actions and preventative*

The organization must determine, to implement and maintain a procedure (procedure) for recording, investigating and analyzing the incidents:

- determination main deficiencies or other factors that could cause, or contribute to the appearance incidents;
- identification requirements for implementing the corrective actions;
- identifying opportunities for the application of preventive action;
- identifying opportunities for improvement continues;
- communication of the results of such investigations.

#### *Shortcomings, corrective actions and preventive action*

The organization must establish, and to implement and maintain a procedure (procedures) for treating non-compliance, existing or potential corrective actions and to implement and preventative. The procedure (procedures) must define requirements for:

- identification and correction of non-compliance and undertaking action (actions) required to reduce consequences;
- non-compliance investigation , determining the cause (causes) of their appearance and undertaking operations to avoid repeating them;;
- evaluation actions need to prevent non-compliances and implementing appropriate actions in order to avoid their appearance;
- registration and notification action results (actions) corrective and preventive steps were taken to;
- analysis efficacy action (actions) ,corrective and preventive action.

When through corrective and preventive action, threats are identified threats, or the need for checks is identified, procedure asks to have proposed measures to be evaluated in terms of risk, previously on implementation.

#### *Registration control*

The organization must establish and maintain records, needed to demonstrate compliance with requirements its own system of management and with the requirements of the norm OHSAS, and to demonstrate results. The organization must establish, implement and maintain a procedure (procedure) for identification, storage, protection and recovery, storage and disposal records. Entries must be and should remain legible, identifiable and traceable.

#### *Internal Audit*

The organization must ensure that internal audits system of management are conducted at planned intervals:

- a) to determine whether the system of management::
  - one is under the measures planned for the management health and safety, including requirements of the norm OHSAS;
  - it has been implemented and maintained properly;
  - is effective in carrying out policies and objectives Organization;
- b) to provide management information concerning the results audits.

Schedule (programmes) audit must be planned (planned), established (set), implemented (implemented) and maintained (kept) by organizations based on the results of risk assessment for activities of the organization and the results of earlier audits. It must be established (set), implemented (implemented) and maintained (retained) procedure (Procedures) audit to relate to:

- responsibilities, powers and requirements for plan and performing audits, reporting results,;
- setting criteria, scope and frequency and methods of audit.

Selecting auditors and performing audits must ensure objectivity and impartiality of audit process.

#### **Analysis of management**

Management of the highest level of organization should examine the system of health and safety at planned intervals, to ensure that it is in permanent, appropriate and effective. Analyses must include assessing opportunities to improve and needs to change the system of management, including political objectives and the health and safety. Elements of entry for analyses of management must include:

- results of internal audits and assessments comply with applicable legal requirements and other requirements to which organization subscribe;
- anticipation and consultation results;
- communication relevance (relevant communication) with concerned foreign parties, included complaints;
- the organization performance on the health and safety;
- the measure in which they were met (the objectives);
- the stage of investigation of incidents, corrective actions and preventive actions;
- actions of hot pursuit of the previous analyses carried out by management;
- changing circumstances, including the development requirements of legal and other requirements relating to health and safety;
- improvement of recommendations.

Elements of exit for analyses of management must be consistent with commitment by the organization on continuous improvement and must include all decisions and actions in connection with possible changes in the performance, and policy objectives, resources and other elements of the system of management.

### 3. Conclusions

Starting from the standards of health and safety assessment series operational OHSAS 18001 and OHSAS 18002, Romanian rules by safety and health law at work No 319/2006 modified by Hg 955/2010 have introduced obligations for operators in the security and health at work. Operators have established by internal rules, called generic "Assessing Compliance ":

- the applicable requirements under the law 319/2006;
- who and where applicable;
- assessing how to comply with legal requirements;
- Actions for compliance.

By " Assessing Compliance ", entities were established, the rule, the Director-General responsibility and the SIPP, risks that have occurred in safety and health work plans, prevention and protection, population records high risk of accident, establishment of responsibilities in training and operation of the service SIPP. Enterprises in our country, complying with the provisions Hg 50/2009 on the contribution of accident insurance for employment and occupational diseases, apply coefficient corresponding to fund the risk to the salary fund. Also under Hg 1048/2006, economic entities meet the minimum use by workers of equipment ,for protection at work, in order to avoid risks being assessed, and observing at the same time, prescriptions and measures contained in programs for monitoring and measurement.

For maternity Protection at Work, according to 96 government decree/2003 units have organized their own medical clinics, or are assigned to other entities cabinets, which allows recording of persons capable of pregnancy. Under Hg 580/2000 and government decree 99/2000 economic entities respect the rules of measures in periods with extreme temperatures, allowing continuous access to water and soft summer and winter tea and adequate working programme to work in open space.

Organizations carried out all these measures in the context, this being the legislation, the developing economic and social policies and to promote measures of good practices on the health and occupational safety. Several organizations have conducted examinations and audits on the health and safety at work to assess the performance in this field.

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## A POSSIBLE CONCEPTUAL FRAMEWORK FOR AN INTELLIGENT PROJECT MANAGEMENT

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**Abstract:** *The general framework of the present paper consist of the transition from sustainable economic development to regenerative development.*

*In the same time, it is to consider the impact of intelligent clusters network concept on project management approach in the context of natural resource economics and environmental economics based on human rationality and resilient nature intelligence .*

*Intelligent project management is only a simple matter of optimal economic resources allocation and metabolic procesuality, or have also another meaning in terms of human causal ontological principles?*

**Keywords:** project management, clusters, specialisation, multidisciplinary

**JEL classification:** B41, C38, O32, Q01

The present paper starts from some general premises: the distinction between specialisation and multidisciplinary aspects in the context of scientific research progress as well as the reality of the interaction between the natural environment, on the one hand, and the socio-economic environment on the other.

As mentioned by some researchers like Gabriela Piciu, and Gheorghe Manolescu (2009, 2010, Bucharest), environmental project management is defined as the subjective, comparative, parametric and efficiency orientated process of analysis, modeling and implementation of specific temporary resources teleological oriented to achieve a desired result, taking into account both the transition process from classical sustainable economic development to regenerative economic development(the so called triple bottom line and triple top line paradigms),as well as the concept of network - a matrix of structured interconnected elements and its possible natural, economic and financial flows, interdependencies or connections within and between the natural entities and socio economic agents.

In this context it is to consider the impact of intelligent network concept on project management approach by considering the two well known approaches of environmental issues-natural resource economics and environmental economics, between neoclassic and institutionalism, informational externalities and adaptive complex systems.

Intelligent network as a geographic, functional, productive and institutional space of interconnected clusters reveals concrete contrasting features: specialisation and multidisciplinary, optimisation and sustainability, market and institutions, human rationality and nature intelligence.

Firstly, taking into account the neoclassical framework, the intelligent clusters are specialized to generate and disseminate information through the networked market chains of producers and consumers utilities, illustrated by pecuniary and technologic informational externalities.

Just as it is known, by considering the distinction between private values and social values externalities illustrate costs or benefits induced by economic operators on tertiary natural and legal persons generating economic and social effects, positive or negative that influences production and consumption decisions of consumers and producers .

In this framework, by considering the relations between the elements of its mechanism (marginal private cost, external marginal cost ,social marginal cost, marginal private benefit) externalities exist when private values and social values differ - positive , where the marginal social benefit is higher than private marginal benefit and negative when the social marginal cost is higher than the private marginal cost. Outsourcing or internalization of externalities are achieved through incentives or penalties in terms of regulations or tax policy to compensate third parties and determining the optimum pollution.

At the same time, the economic literature mention the so-called Marshallian information network externalities, as illustrated in the literature under the binomial concept pecuniary externalities- technological externalities.

Thus, the concept of network externalities has been addressed in other studies by classic researchers such as J. Viner , J.E. Meade, T. Scitovsky and recently C. Antonelli highlighting some general and specific issues.

In general, they illustrate direct and indirect interactions between economic agents, in the presence or absence of price mechanism, considering the structure of relative prices of resource inputs-the fact that environment can be polluted not only through economic and environmental interactions but also through the benefits and costs access and use of environmental information technology.

In particular, network externalities illustrates three possibilities of manifestation circumscribed to the specific space of microeconomic interactions between the agents involved (technical production, socio institutional, geographical region).

Within the productive context of technical, economic and environmental efficiency , network externalities reveals the impact of the presence or absence of price mechanism, by considering the distinction between spontaneous capacity to absorb the benefits of information-technology on the one hand, and the additional costs of setting up the network of structure relative prices necessary to required knowledge of inputs, on the other, the realization that companies buy inputs (and selling products), at cost (prices), which are smaller (larger) than the equilibrium levels due to specific factors relative structure production. In other words, the focus is on the costs faced by firms to access and exploit the informational externalities.

From the social and institutional point of view, information externalities are analyzed in the context of considering the features of public goods (non-rivalry, non-exclusion, non-divisibility) , in order to implement specific strategies for absorption of scientific knowledge.

In the geographical regional space, network externalities raise the question of the distinction between the physical proximity of geographic-information technology spillover effect and functional specialization characteristics of clustered regional areas in the context of regional development : regional development could mean exchanges of information and knowledge between different areas not because they neighbored but because are interested in a real best practice interconnection.

In this context, it is illustrated the transition from spontaneous and technological externalities caused by regional endogenous growth and geographical proximity models - the Arrow Marshall Romer externalities (industrial concentration in a single branch), Jacobs externalities (diversity of firms and industries in a given region) and Porter externalities (competition in the local and regional space) – to the pecuniary externalities spillover caused by the information costs induced by innovators and imitators agents, leading to specific interactions between regional operators, interested in the impact of external costs of using information (searching , structuring, understanding, absorbing, purchasing and acquisition of information by third companies).

Characteristics of the context in which firms operate are important for informational externalities in the reshaping of technological change by reconsidering the role of informational inputs costs of technological change, the effects of structure of relative prices network of other intermediate inputs and the complementarily impact of endogenous and exogenous factors specific to technical -productive, social-institutional or geographical region environment.

Secondly, the intelligent clusters illustrate another side of manifestation in the context multidisciplinary, institutional economics framework, taking into account the natural entropic socio ecologic metabolism and the creative, unpredictable and resilient features of adaptive complex systems that lead to a thinking system based on so called adaptive innovating management in the field of technical- economic and socio ecologic areas.

Briefly speaking, about a intelligence network is based on a round table debates between economists, engineers, psychologists, sociologists, political and communitarian interested groups that are in the process of individual and social learning concerning the improving the economic efficiency and sustainable communities actions taking into account the metabolic exchanges of matter, energy and information between the natural and the artificial socio economic environment .

The nature intelligence is working here as a source of inspiration, its thermodynamic entropic metabolism and the nonlinear, unpredictable and resilient learning of complex adaptive systems as is revealed by researchers like A. Lotka or Nicholas Georgescu Roegen, Robert Ayres and Allen V. Kneese, or Jesus Ramos-Martin, Mario Giampietro and Kozo Mayumi in the field of technical industrial metabolism

or C.S. Folke, C. S. Carpenter, T. Elmqvist, L. Gunderson, C.S. Holling and B. Walker for the resilient dominant feature of socio ecological panarchies.

In this context the intelligent clusters acts as adaptive productive learning spin offs and spin outs in the researches and business areas or as social learning resilient sustainable communities in the regional geographic space.

The project management illustrated in the form of intelligent specialized or multidisciplinary clusters reveal different risks and opportunities for financing environmental projects , taking into account both the climate changing risks, the importance of a mentor given with intellectual financial and experience skills (interested not only for “money investing” but more important to create a mental abilities investment-to reason, plan, think abstractly, opened minded to individual and social learning) in the way to minimize mistakes and maximize knowledge efficiency .

However, remains a problem.

In appearance, the intelligent project management it is a matter of mechanics or routine in the sense of something useful for profit or to reflect the socio-politic interaction between economics, society and nature in the process of adaptation to climate changes. The human intelligence applied to environmental issues could be synthetically presented as interaction between homo oeconomicus and zoon politikon-the politic animal .

But maybe we can go further considering some philosophical aspects in the context of teleological analysis of project management.

As already stated Fritjof Capra in his article “Is there a purpose in nature?” we may say that the natural and social world laws reflects order, causation and reason, a mirror of cuantic cosmogony universe laws that leads to wonder what’s happened to us?

That’s why an intelligent project management should take into account among others, and the analysis of materialistic Aristotle causes(formal, structural, efficient and final), continuing with the Platonic idealistic dualism and why not considering the creatio ex nihilo principle - inspired from the orthodox religion metaphysics- to meditate more deeply not only about the structure and dynamics of adaptive instinctual matter intelligence but also on the fact that the relation between nature and human intelligence have a deepening purpose, in terms of mind, soul and conscience.

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## FISH SPECIES OF COMMUNITY INTEREST MANAGEMENT ISSUES IN NATURA 2000 SITE SIGHIȘOARA-TÂRNAVA MARE (TRANSYLVANIA, ROMANIA)

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**Abstract:** The aim of this paper is to reveal a part of the proper management directions for the Natura 2000 Site Sighișoara - Târnava Mare area, one of the biggest and most important of such category in Romania. Since 2000 till the present three fish species of Community interest were permanently motorized. Based on these species populations presence, their variation under quantitative aspects, relations with their ecological needs and the presence of different human impact types were highlighted the main management directions which should create the framework for the actual management plan for this protected area.

**Key words:** Romania, Natura 2000 site Sighișoara-Târnava Mare River, *Barbus meridionalis*, *Sabanejewia aurata*, *Gobio kessleri*, human impact, lotic ecosystems conservative status, integrated monitoring, conservative management.

**JEL classification:** Q50, Q57

### 5. Introduction

The main aims of the European Community politics and administrative structures in the field of nature are the preservation, the safeguarding and the amelioration environment quality, in the context of the rationale use of the nature reserves. The biodiversity preservation constituted an important intention of the European Union, more accentuated in the last three decades.

To develop its environmental strategies and policies the European Community take in consideration the scientific accessible information, the nature conditions characteristic to different parts of the Community and the necessity of a well-balanced evolution of its component areas, the outcome advantages and the necessary expenses.

The activity frame at the European Community level for the biodiversity conservation was confirmed based on the Habitats Directive (92/43/EEC) and the Birds Directive (79/409/EEC).

Both these directives attempt to guard and preserve the biodiversity on the European Union territory by building a protected area network (Natura 2000 network), through which the habitats and species considered characteristic and valuable for the European biogeographic regions are protected.

Right now, Romania provide to the European natural patrimony over: 47% of the territory covered by natural and semi-natural ecosystems; 780 types of habitats; 3700 superior plant species; 33085 invertebrate species and 717 vertebrate species (Curtean-Bănăduc and Florescu, 2007).

Romania has the highest biogeographic diversity of all the European Union nations and joined the European Union in 2007, with five biogeographic regions: Continental, Alpine, Pannonic, Pontic and Steppic.

There are two main ways through which the Natura 2000 ambition and mechanisms can enhance the nature conservation: the enlargement of the protected natural areas surface and the building and enforcement of correct (scientifically based) management plans for these protected areas.

In the areas declared Natura 2000 sites resources and services provided by ecological systems can be used by the human-socio-economic system in the case in which the primary management objective maintaining the favorable conservation status of the species and habitats for which conservation the site was designated.

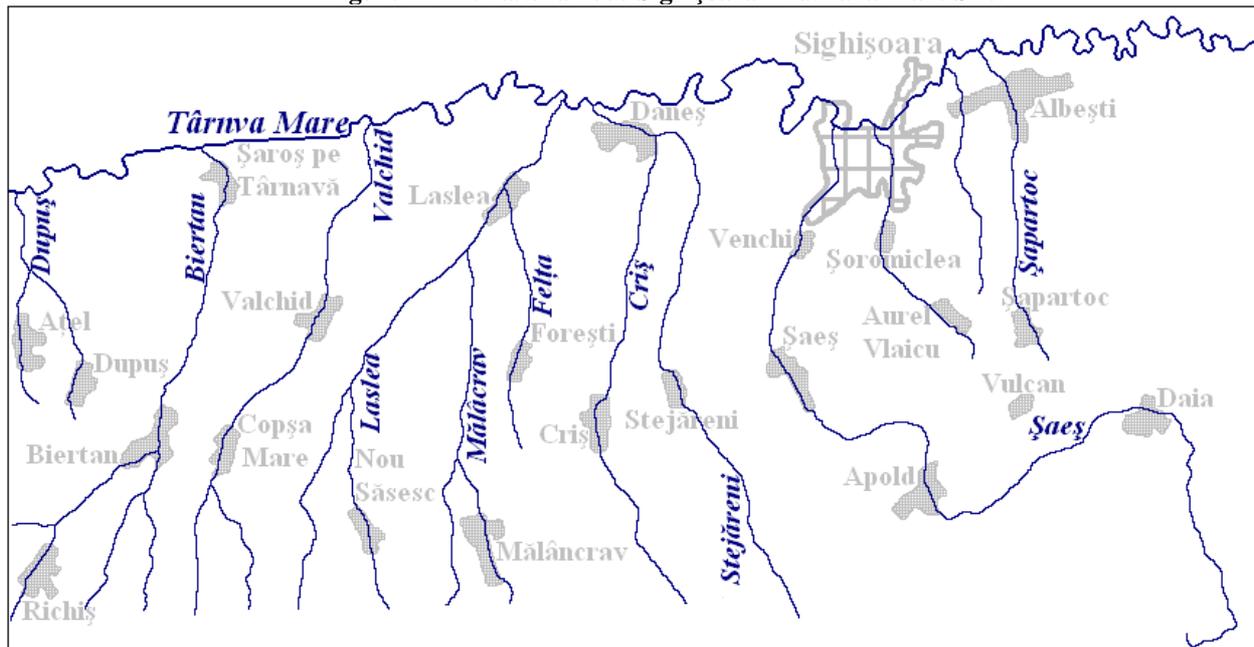
The Natura 2000 sites are areas which should be managed with the purpose of maintaining favorable conservation status of the species and habitats for which these conservation areas were designated. As a result, should be noted that in these areas may be developed socio-economic activities which not prejudice the objectives of conservation of the species and habitats of Community interest.

The Natura 2000 Sighișoara - Târnava Mare Site (Figure 1), with a surface of 85374 ha, is localised in the Continental biogeographic region at latitude of N 46°8'4" and E 24°49'12", has a minimum altitude of 330 m a.s.l. and a maximum one of 828 m a.s.l. From the administrative point of view this protected area is located in the counties Mureș (53%), Sibiu (27%) and Brașov (20%) (Natura 2000 standard form).

This site proposal was made at the Biogeographic Seminars for Bulgaria and Romania held at the "Lucian Blaga" University of Sibiu in 2007. The acceptance of this site was based on the local biodiversity richness and traditional activities (Curtean-Bănăduc et al., 2008) including three fish species presence, belonging to the Annex II of the Habitats Directive (92/43/EEC): *Barbus meridionalis* (Natura 2000 code - 1138), *Sabanejewia aurata* (Natura 2000 code - 1146) and *Gobio kessleri* (Natura 2000 code - 2511).

On this three fish species biology and ecology, this paper will draw some necessary management directions for the studied area.

Figure 1: The Natura 2000 Sighișoara - Târnava Mare Site.



## 6. The fish species present in the Annex II of the Habitats Directive (92/43/EEC) of the Natura 2000 site Sighișoara - Târnava Mare.

*Barbus meridionalis* Riso, 1827; Ord. Cypriniformes; Fam. Cyprinidae.

This fish species terra typica is the Mureș River basin (Transylvania, Romania) to which the studied Târnava River area belong too.

Ecologic elements. It is a bottom-dweller, fresh-relatively cool and well saturated with oxygen water fish species. A short-lived species type which is found in mountainous and hilly streams and rivers, with springs also in this two areas. Prefer the clear and fast running water sections and the hard substrate. No migrations were ascertained for this species. The reproduction is happened in the spring season, sometimes lasts until summer. (Bănărescu and Bănăduc, 2007)

Economic elements. Its economic importance is local, being appreciated.

Threatening elements. It is threatened by any type of pollution, habitat destructions, water abstraction and overfishing.

In the studied basin this fish species presence was monitorized since 2000 in the Târnava Mare River and some tributaries, and Târnava Mică River. Its presence is continuous in the following sectors of this Natura 2000 site or in adjacent areas with importance for this species recolonisation movements after accidental or permanent human impact (Curtean-Bănăduc A. et al., 2001; Curtean-Bănăduc A. et al., 2007) in the area: Târnava Mică River (1 km downstream Praid, 1 km downstream Sovata, 1 km upstream Sângiorgiu de Pădure, 1 km upstream Coroisănmartin, 1 km upstream Târnăveni, at Cetatea de Baltă, 1 km upstream Blaj) and Târnava Mare River (1 km upstream Zetea Lake, 1 km downstream Zetea Dam, downstream Odorhei, at Vânători, downstream Sighișoara, 2 km upstream Mediaș, 1 km downstream Mediaș, 2 km downstream Copșa Mică, 1 km upstream Blaj). The situation in this respect regarding the Târnava Mare River main tributaries belonging to this Natura 2000 site is as following: Șaș Stream (10 m

upstream the confluence with Târnava Mare River, 5 km upstream the confluence with Târnava Mare River), Stejăreni (10 m upstream the confluence with the Criș Stream), Criș Stream (10 m upstream the confluence with Târnava Mare River, 5 km upstream the confluence with Târnava Mare River), Mălâncrav Stream (8 km upstream the confluence with Târnava Mare River), Laslea Stream (10 m upstream the confluence with Târnava Mare River, 5 km upstream the confluence with Târnava Mare River), Valchid Stream (5 km upstream the confluence with Târnava Mare River).

The presence of this species is a quasi-general one in its ichthyological zone but the ecological status of these populations are sometimes bad if we take in consideration some quantitative aspects, respectively the local *Barbus meridionalis* populations have sometimes a low relative abundance which vary between 3% and 60%. This variation represents also a reliable general indicator for this watershed ecological status!

The protection of this fish species of conservative interest populations should be based on its environment protection through integrated management which should solve the following identified problems: riparian zones have been reduced or eliminated by the agriculture expansion and detrimental agriculture practices, resulting the diminishing river shading and rising aquatic habitat temperatures; extreme sedimentations problems due to erosion, channel incisions and storm water runoff increased by the absence of riparian vegetation; constant inputs of pollutants at significant levels; erosion and sedimentation problems result from a lack of riparian vegetation along long sectors of river corridors and can lead to siltation of gravel beds critical to this (aquatic) insectivorous species; human disturbed hydrologic regime in some sectors; the artificial stream barrier which influence the fish migrations; habitat loss induced native fish species decline and the appearance of no native fish species that are more tolerant of different types of human affected habitats; the riverine flood plains important at least for the cyprinids species have been radical reduced; the habitat loss facilitate overcrowded situations which lead to appearance and eruptions of diseases; over canalisations, many stream sectors were channelized and isolated from their natural floodplains, etc.

***Sabanejewia aurata*** (De Filippi, 1863); Ord. Cypriniformes; Fam. Cobitidae.

Ecologic elements. It is a mainly nocturnal, demersal, freshwater, bottom feeder fish species, appearing usually in the upper and middle parts of the rivers. The sand presence in the river bed is a vital habitat requirement, the individuals standing a long time in the sand. Its presence in muddy or silted places is an exception. It need a rather warm temperature of the water in the summer season (not too much over 20°C). Its decreasing in abundance was noted in the presence of the man-made environment alterations. (Bănărescu and Bănăduc, 2007)

Threatening elements. Pollution and the habitats destruction are the main threats for this species.

In the studied area this species was monitorized since 2000 in the Târnava Mare River and some tributaries, and Târnava Mică River. Its presence is continuous in the following sectors of the Natura 2000 site or in adjacent areas with importance for this species recolonisation movements after accidental or permanent human impact (Curtean-Bănăduc A. et al., 2001, Curtean-Bănăduc A. et al., 2007) in the area: Târnava Mică River (1 km downstream Praid, 1 km downstream Sovata, 1 km upstream Sângiorgiu de Pădure) and Târnava Mare River (1 km downstream Zetea Dam, downstream Odorhei, downstream Sighișoara, 2 km upstream Mediaș, 1 km upstream Blaj). Regarding the Târnava Mare River main tributaries (belonging to this Natura 2000 site) the situation is as following: Șaeș Stream (10 m upstream the confluence with Târnava Mare River), Criș Stream (10 m upstream the confluence with Târnava Mare River), Laslea Stream (10 m upstream the confluence with Târnava Mare River, 5 km upstream the confluence with Târnava Mare River).

The relatively good spreading image in the studied basin of this species should be corrected by the quantitatively aspects reports, in this respect the local populations have sometimes very low relative abundance which vary between 1% and 43%. This variation represent too a reliable general indicator for this watershed ecological status!

The conservation of this species should be based also on its environment protection through management actions which should face few main problems: the actual reduction of the riparian zones due to the agriculture pressure, the reducing of the river shading and heating of the water in the summer period; excessive sedimentations problems; permanent pollution at high levels too; accentuated siltation is very important for this species regress; habitat destruction and loss produce population decline and the appearance of no native fish species; etc.

***Gobio kessleri*** (Dybowski, 1862); Ord. Cypriniformes; Fam. Cyprinidae.

It is living in the middle course of the big rivers. Prefer a water speed of 45 - 70/90 cm/s, the sandy substrata and not deep water sectors. Usually many individuals can be found together. The reproduction seems to happen in June. (Bănăduc, 2003; Bănărescu and Bănăduc, 2007; Bănăduc, 2007)

Threatening elements. It can be threatened by pollution and habitat destructions.

In the studied area this species presence was monitored since 2000 in the Târnava Mare River and Târnava Mică River. Its presence is continuous in the following sectors of the Natura 2000 site or in adjacent areas with importance for this species recolonisation movements after accidental or permanent human impact (Curtean-Bănăduc A. et al., 2001; Curtean-Bănăduc A. et al., 2007) in the area: Târnava Mică River (1 km upstream Coroisânmartin, 1 km upstream Târnaveni, at Cetatea de Baltă, 1 km upstream Blaj) and Târnava Mare River (downstream Sighișoara, 2 km upstream Mediaș, 1 km upstream Blaj).

The relative abundance data analysed along the ten years of monitoring reveal an important variability in the case of this species between 2% and 58%. This variation represents a good indicator for this basin ecological status!

The protection of this species of conservative interest populations should be related with its environment protection through integrated management which should solve few identified problems: the riparian zones reduction due to the aggressive agriculture fields extension and extensive agriculture practices, constant important presence of point and non-point pollution sources; erosion and sedimentation as a result of the riparian vegetation diminishing; human disturbed hydrologic regime in some sectors; habitat loss induced native fish species populations reduction and the appearance of invasive fish species; the riverine flood plains important for this species has been drastically reduced; the habitat loss facilitates overcrowded situations which induce the appearance and fast spreading of diseases and parasites; over channelization, etc.

#### **7. The fish species present in the Annex II of the Habitats Directive (92/43/EEC) of the Natura 2000 site Sighișoara - Târnava Mare management elements.**

Based on the biological and ecological characteristics of these fish species of conservative interest of the Natura 2000 Sighișoara - Târnava Mare Site and on the identified problems in relation with this species along the 10 years monitoring activities, can be highlighted some management directions, with the goals to preserve a good conservation status of the local fish populations and the associated biota, and to induce good conditions for the fish natural biomass growth.

The actual not general compliance with the dispositions commanding the waste water management and the lack of sufficient dilution appeared to be the main reason of some of the studied area sectors. In this situation the following management actions are proposed: increasing water use efficiency through general contour meters utilization and of reliable transport pipes; the creation of a hazardous waste sites evaluation and monitoring unit staffed by biologists and ecologists; the physical and chemical norms used to characterize and manage wastewater treatment in Romania are inadequate and must be changed adding the integrated ecological tools to protect the downstream environment below wastewater works; the (real) protected river sectors must be large and dense enough to allow the natural river self cleaning capacity to be active; the healthy lotic ecosystems must be managed like an ecological capital whose interests is collected through reducing the costs for water cleaning technologies and low cost animal protein on the local market.

The present hydro technical works impact should be reduced following some main management directions: increasing the river assimilative capacity through its restoration activities; the Zetea Dam use must be based on the proper allocation of water resource; revitalization of the traditions for land protection and use; avoiding the impact of wetlands loss; restore sectors of typical lotic ecosystems.

The riverbed exploitation negative impact should be reduced through: rational/planned gravel/sand mining activity, based on exploitation quantities under the periodically riverbed regeneration rate and filtering the used of the industrial water for the minerals washing.

The riverine land exploitation should follow some main directions in this respect: determining the policies for cultivation of multi-year cultures; rehabilitation of riverine forest corridor, prohibiting access to the upper parts of the catchment areas so that spontaneous perennial vegetation could regenerate in good conditions and limit erosion damages; rotating silviculture and grazing, having regard to seasonal conditions, especially on the river adjacent areas.

To sustain the protection of the conservative interest fish species and their habitats should: their shelter from all man-related aggression; highlight the fact that a properly protection is a useful help to the economic development of the rural communities; complementarily should exist, between human society development and conservation.

In the same direction of a proper management, the following technical aspects should be taken in consideration: the implementation of the management plans should be done with the help of associations, groups of farmers, NGOs, and interdisciplinary groups of specialists; including works for improvement of forests, pastures, improvement of practices for land use, erosion control; the creation of a (functional) interdisciplinary professional watershed council; the state of the art criteria and indicators determination for monitoring the relevant physico-chemical, biological and ecological elements and structures; permanent reviewing of the management plans in concordance with the European directives.

## 8. Conclusions

The main human activities related disturbance elements of the last centuries are the river water and sediment pollution, hydro technical works and river bed mineral exploitation.

As a human impact direct consequence, the river system habitats have become in some sectors severely modified or/and degraded, the fish species of conservative interest affected by various human impacts and river and riverine biological communities varied significantly in the last 10 years.

In spite of the fact that in the studied area are considerable numbers of damaging practices and activities affecting Târnava River resources, the potential for the recovery of natural resource damages of Târnava River and its tributaries is substantial, including many possibilities to recovery them, in case of an ecological rehabilitation implementation strategy.

It is essential to take action at the right level in all human impact cases, so that the sole considerations would not be only the short term interest of industry, urbanization and agriculture.

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## Acknowledgements

*This paper would not have been possible without the essential support of the Postdoctoral school for zootechnic biodiversity and food biotechnology based on eco-economy and bio-economy, necessary for eco-sanitation – contract POSDRU/89/1.5/S/63258*

# FROM CORPORATE SOCIAL RESPONSIBILITY THROUGH CORPORATE SOCIAL RESPONSIVENESS TO CORPORATE SOCIAL PERFORMANCE – A STRATEGIC CHOICE FOR BUSINESS

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**Abstract:** *The concept of corporate social responsibility occurred at the company’s level as cause and consequence as well of a whole set of organizational shifts – integrating some global tendencies. New set of values, new attitudes and new behaviors have emerged regarding the strategic choices of business. The corporate social responsiveness reflects the actual approach each business takes in this respect, while corporate social performance is the expected result of this kind of approach.*

**Key words:** corporate social responsibility, corporate social responsiveness, corporate social performance, strategic choice

**JEL classification:** M14, L10

## 1. Introduction

The new paradigm of sustainable progress has changed the way that some firms (understand to) do business; this change includes the following: **(a)**. the firms’ understanding that the concept of sustainable development means not only costs and difficulties for them, but the efficient use of resources and opportunities as well; **(b)**. the evolution from methods of fighting against pollution based on the treatment of its effects to the use of more efficient and less polluting technologies during the entire production process and, more than that, to the attempt of integrating the sustainable development into the business development process; **(c)**. the shift from a linear approach, focused on production, to a comprehensive and systematic one, that brings together all the production processes and their consequences; **(d)**. the exacerbate confidentiality was replaced by a policy which is based on openness and transparency; **(e)**. the shift from the perception that the social and environmental problems are the responsibility of the technical departments and experts of the firm to the conviction that they are the responsibility of the entire firm; **(f)**. the lobbying policies with limitative horizons were replaced by open debates with the stakeholders (Oprea, 2005).

The concept and practice of corporate social responsibility occurred at the company’s level as cause and consequence of all the above mentioned shifts. New set of values, new attitudes and new behaviors emerged regarding the strategic choices for business. The *corporate social responsiveness* reflects the actual approach each business takes in this respect, while corporate social performance is the expected result of this approach.

## 2. Corporate Social Responsibility – a Developing Theory and Practice

Generally speaking, the concept of corporate social responsibility (CSR) describes the relationships between firms (and their businesses) and the larger society – it is a strategic approach, given its two main characteristics: prospective view and extrovert management. The general accepted subcategories of the corporate social responsibility are (Snider et al., 2003):

- general value statements – many of the companies espouse an ethical framework that guides the accomplishment of their overall mission within society (ex. a list of core values and their description);
- environmental policies – messages developed for a variety of stakeholder groups, revealing a proactive concern for the larger ecology while serving the needs of their customers; customers – messages that describe how companies provide value to their customers through a partnership with them that is designed to understand their needs;
- employees – the messages concentrate on the importance of employee development and advancement for the good of the individual as well as the success of the company;
- stockholders – the concentration of the CSR messages directed to this target audience includes two categories: the first presents an explicit statement that companies intent to deal honesty and

with integrity in all their communications to their owners, while the second describes their level of commitment to building shareholder value through the generation and marketing of high quality goods and services;

- society – this stakeholder segment is usually divided into three distinct categories: the local community (at this level, companies concentrate their discussions on community-based activities that support the places where employees work and live), nation states in which companies operate (regarding this level, companies describe their attention to national interest in culture, sports, natural disasters), and the world in general (these concerns are more universal in their declarations, and tend to focus on human rights);
- competitors – the statements describe a pledge by companies to go beyond the letter of the law and to meet the ethical demands of the country in which they operate.

A precise (and unique, globally accepted) definition of the concept is not available, because viewpoints have varied over time and occasionally were even oppositional.

- Still, Milton Friedman (1970) is the one who massively contributed to the emerging of a general theory of the corporate social responsibility, by raising questions such as: “do firms have to assume social responsibilities?” His categorical answer was that the one and only social responsibility of the firm is to increase its profits by legal means; so, if the firm uses its resources for other purposes – donations, for example – this is a gesture against its own interests, because it will lead to the decreasing of the profitability, the increasing of prices or both. With this attitude, Friedman joined the opinion of Th. Lewitt (1958) who denounced the danger of the corporate social responsibility: “just like into a good war, (the manager) has to fight with courage, bravery and, most of all, without morality” (Mercier, 2004).
- Critics of this perspective argue that firms exist to serve both their direct beneficiaries and the larger community as well: A. Carroll (1979) – who developed the most elaborated and generally accepted model of CSR – believes that the corporate social responsibility is a multi layered concept, which has four components: economic (the business’s fundamental responsibility to make a profit and grow); legal (their duty to obey the law and to play by the rules); ethical (their responsibility to respect the rights of the others and to meet the obligations placed upon them by society that ensure these rights); discretionary (component that involves philanthropic activities that support the broader community).

So, as McWilliams et al. argue (2006), “there are numerous unresolved theoretical and empirical issues relating to the strategic implications of CSR. These include defining CSR, identifying institutional differences in CSR across countries, determining the motivations for CSR, describing CSR strategies, modeling the effects of CSR on the firm and stakeholder groups, determining the effects of leadership and corporate culture on CSR activity, assessing the effect of CSR on the firm and stakeholder groups, measuring the demand for CSR, measuring the costs of CSR and assessing the current knowledge base.”

**Table 1: Selected Theoretical Papers on CSR**

Author (s)	Nature of Theoretical Perspective(s)	Key Argument / Result
Friedman (1970)	Agency theory	CSR is indicative of self-serving behaviour on the part of managers, and thus, reduces shareholder wealth
Freeman (1984)	Stakeholder Theory	Managers should tailor their policies to satisfy numerous constituents, not just shareholders. These stakeholders include workers, customers, suppliers, and community organizations
Donaldson (1990)	Stewardship Theory	There is a moral imperative for managers to ‘do the right thing’, without regard to how such decisions affect firm performance
Donaldson and Preston (1995)	Stakeholder theory	Stressed the moral and ethical dimensions of stakeholder theory, as well as the business case for engaging in CSR
Jones (1995)	Stakeholder theory	Firms involved in repeated transactions with stakeholders on the basis of trust and cooperation have an incentive to be honest and ethical, since such behaviour is beneficial to the firm
Hart (1995)	Resource-based view of the firm	For certain companies, environmental social responsibility can constitute a resource or capability that leads to a sustained competitive advantage
Jennings and Zandbergen (1995)	Institutional theory	Institutions play an important role in shaping the consensus within a firm regarding the establishment of an ‘ecologically sustainable’ organization

Baron (2001)	Theory of the firm	The use of CSR to attract socially responsible consumers is referred to as strategic CSR, in the sense that firms provide a public good in conjunction with their marketing/business strategy
Feddersen and Gilligan (2001)	Theory of the firm	Activists and NGOs can play an important role in reducing information asymmetry with respect to CSR on the part of consumers
McWilliams and Siegel (2001)	Theory of the firm	Presents a supply/demand perspective on CSR, which implies that the firm's ideal level of CSR can be determined by cost-benefit analysis
McWilliams, Van Fleet and Cory (2002)	Resource-based view of the firm	CSR strategies, when supported by political strategies, can be used to create sustainable competitive advantage firm
Waldman, Siegel, and Javidan (2005)	Theory of the firm/strategic leadership	Certain aspects of CEO leadership can affect the propensity of firms to engage in CSR. Companies run by intellectually stimulating CEOs do more strategic CSR than comparable firms theory

(Source: McWilliams et al., 2006, Available at: <http://onlinelibrary.wiley.com/doi/10.1111/j.1467-6486.2006.00580.x/full>)

Under these circumstances, and in order to set the current state of the art and to identify a comprehensive framework for the strategic implications of the corporate social responsibility, the above mentioned authors have made a review of the scientific literature in the field, emphasizing the key argument and/or results of the theoretical and empirical studies as well (Table 1 and Table 2).

**Table 2: Selected Empirical Papers on CSR**

Author (s)	Methodology	Nature of CSR Event/Action	Key Results
Abowd, Milkovich and Hannon (1990)	Event study	Human resource decisions	No consistent pattern of increased or decreased stock price
Worrell, Davidson and Sharma (1991)	Event study	Layoff programmes	Investors react negatively to layoff announcements, especially when they are due to financial distress
Clinebell and Clinebell (1994)	Event study	Plant closures	Longer periods of advance notice of plant closings result in greater losses in shareholder wealth
Posnokoff (1997)	Event study	Divestment from South Africa	Divestment enhanced shareholder value
Wright and Ferris (1997)	Event study	Divestment from South Africa	Divestment had a negative effect on shareholder value
Teoh, Welch, and Wazzan (1999)	Event study	Divestment from South Africa	Divestment had a neutral effect on shareholder value
Aupperle, Carroll, and Hatfield (1985)	Regression analysis	An overall firm-level index of CSR	There is a neutral relation between CSR and profitability
McGuire, Sundgren, and Schneeweis (1988)	Regression analysis	An overall firm-level index of CSR	Prior profitability was more closely related to CSR than was subsequent performance
Russo and Fouts (1997)	Regression analysis	Environmental performance	There is a positive relation between environmental performance and financial performance
Waddock and Graves (1997)	Regression analysis	An overall firm-level index of CSR-KLD data	CSR results in an improvement in firm performance
McWilliams and Siegel (2000)	Regression analysis	An overall firm-level index of CSR-KLD data	There is a neutral relation between CSR and profitability
Hillman and Keim (2001)	Regression analysis management'	'Social issues' CSR and 'stakeholder management' CSR-KLD data	'Stakeholder management' CSR is positively correlated with shareholder wealth creation (market value added); 'social issues' CSR is not

(Source: McWilliams et al., 2006, Available at: <http://onlinelibrary.wiley.com/doi/10.1111/j.1467-6486.2006.00580.x/full>)

### 3. Corporate social responsiveness – a way to Corporate Social Performance

As Valand and Heide emphasized, “the notion <<corporate social responsibility>> is based on a prescriptive, philosophical/ethical approach with an emphasis on a need for greater corporate responsibility and accountability to the wider society (Norris and O’Dwyer 2004). This has led to the more dynamic concept, corporate social responsiveness, by referring to the capacity and processes of a corporation to respond to social pressures (Frederick, 1994 and Norris and O’Dwyer, 2004). The foremost concern in this context is to make it possible for the company to respond to the pressure, which emerges from the socio-political-governmental environment in a positive and pragmatic manner (Norris and O’Dwyer 2004). Ackerman (1975) argues that three features characterize a socially responsive firm:

- 1) capacity to monitor and assess environmental conditions,
- 2) capability to attend to the many demands of numerous stakeholders, and
- 3) competence in design and implementation of plans and policies to respond to changing conditions” (Valand and Heide, 2005).

The theoretical discussion framework regarding the corporate social responsiveness was settled by the same Archie Carroll who defined the four level pattern of corporate social responsibility. He has also defined four strategies for corporate social responsiveness:

- reactive strategy – the company denies any social responsibility, claiming that this is an issue for governments, or trying to demonstrate that it has nothing to reproach to itself because it had obeyed to the law;
- defensive strategy – the company recognizes its social responsibility, but it tries to escape by acting with minimum effort – it relies on façade measures and image politics made to save the appearances and by avoiding to actively implicate itself into positive and costing actions;
- accommodative strategy – the company accepts its social responsibilities and strives to act in a way that would please the different influent pressure groups within society;
- proactive strategy – the company tries to overcome the accepted rules in its field and tries to anticipate the public’s future expectations – so it is doing more than some could ask for at the time being (Craciun, 2005).

The well known A. Carroll argues: “the social responsiveness movement, therefore emphasized corporate action, proaction, and implementation of a social role. This was indeed a necessary reorientation. The question still remained, however, of reconciling the firm’s economic orientation with its social orientation. (...) In recent years, the term corporate social performance (CSP) has emerged as an inclusive and global concept to embrace corporate social responsibility, responsiveness, and the entire spectrum of socially beneficial activities of businesses” (Carroll, 1991). And that is because “there has been growing recognition that profitability measures, in isolation, fail to capture the essence of an organization’s overall performance, both as a profit-seeking entity and as a member of society. (...) A fundamental truth is that business cannot exist without society and that society cannot go forward without business. Thus, business must acknowledge society’s existence and society’s growing demand for more ethically responsible business practice” (Joiner and Payne, 2002).

But, “given the wide range of interests and concerns present in any organization’s task environment, one or more groups, at any one time, probably will be dissatisfied with an organization’s activities – even if management is trying to be socially responsible. A company may have some stakeholders of which it is only marginally aware. (...) Therefore, before making strategic decision, strategic managers should consider how each alternative will affect various stakeholder groups. What seems at first to be the best decision because it appears to be the most profitably may actually result in the worst set of consequences to the corporation” (Wheelen and Hunger, 2006).

In their article dated 2003, Brenda Joyner & Dinah Payne analyzed the 1979 Archie Carroll’s framework for integrating all dimensions of social responsibility into the firm’s corporate culture and decision making processes: the Organizational Social Performance Model is comprised of three dimensions and can be visualized as a three dimensional cube, with all sets of dimensions intersecting with the others; the level of responsibility can be measured against the social issue involved, as well as the firm’s social responsiveness to these issues:

- the first dimension contains the Social Responsibility categories; these responsibilities, in order of importance to the firm, are:

- the economic responsibilities of the firm – to produce goods and services to be sold at a profit;
- the firm's legal responsibilities – obedience to societal laws and regulations, while executing economic responsibilities;
- the firm's ethical responsibilities – to meet society's expectations for conscientious and proper behavior;
- the firm's discretionary responsibilities – it encompasses the duty to carry out acts of a voluntary nature designed to provide for the betterment of society, such as philanthropic contributions or provisions of certain employee benefits.
- the second dimension of the model is represented by the firm's Philosophy of Social Responsiveness. These philosophies direct how an organization will respond to social issues:
  - first, the reaction philosophies require the firm to address social issues as a result of the application of external forces, such as legal, regulatory or social pressures;
  - defense philosophies address social issues to escape being forced into it by the external forces;
  - according with the accommodation philosophy, these firms address social issues because they exist. This represents a stride in the direction of doing the right thing because it is the right thing, rather than from some ulterior motive to further the economic interests of the firm;
  - the pro-action philosophy is one that attempts to be proactive with society: it attempts to anticipate important social issues before they are generally recognized as being important and to develop strategies for addressing these issues.
- the third dimension of the model is the dimensions of the social issues themselves. A review of stakeholders and issues in our society yields a list of issues identified by Carroll: consumerism, environmentalism, discrimination issues, issues involving product safety and occupational safety, and shareholder issues. It can be anticipated that these issues and stakeholders are not static; social issues are as dynamic as is society and the list should be considered illustrative only, not complete. In light of the Carroll model, it is clear that one must consider the existence and importance of the firm's stakeholders in the ethical decision making process (Joiner and Payne, 2002).

#### 4. Conclusions

Corporate social performance has a variety of positive and negative effects on the competitiveness of organizations. In general, these effects are much broader than the simple measure of profitability that was the main object of earlier many studies on corporate social performance. On the positive side, corporate social performance can lead to improved stakeholder relationships, enhance corporate reputation, and strengthen the business model of the firm. On the negative side, corporate social performance can lead to reputation damage, misunderstandings and wrong perceptions (Dentchev, 2004).

So, we have to agree with the business ethicist De George who argues that: "the present mandate (between business and society) is different from the simplistic mandate given to business in an earlier time. ... What is clear in the new mandate is that business must now consider the worker, consumer, and the general public as well as the shareholder – and the views and demands of all four – in making decisions. The good of all must be considered. The key to responding positively to this moral requirement is to develop a mechanism for assuming moral responsibility. Business must find structures for doing so" (De George, 1995).

## 5. Acknowledgement

This work was supported by the project "Post-Doctoral Studies in Economics: training program for elite researchers - SPODE" co-funded from the European Social Fund through the Development of Human Resources Operational Programme 2007-2013, contract no. POSDRU/89/1.5/S/61755.

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## APPROACHES AND ADVANCES IN THE USE OF THE FINANCIAL-ACCOUNTING INFORMATION IN THE DECISION-MAKING AND INNOVATIVE PROCESS

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**Abstract:** *Accounting is an aid and support for management. Accounting is not an end in itself, but a method of collecting and analysing the economic and financial data that is of use for the general and the financial management of the business unit. As a result of our research, the main objective would be to raise the awareness of the management on such issues as: separating the fiscal accounting information in the economic-financial analysis; the utility of the dashboard in the financial management of the entity; of the working capital in the analysis of the financial balance of the entity; of the intermediate management balances in the sectorial analysis of the entity; of the treasury flows when analysing the ability of the entity to generate cash; of the periodical analysis of the profitability, liquidity and solvency rates; establishing separate accounting policies depending on the purpose of the entity and leaving the fiscal aspects on a secondary position.*

**Key words:** financial accounting, financial management, decisions.

**JEL classification:** G32, M42

### 1. Introduction in the direction of the paper

The research strategy applied in this paper is subject to certain methodological aspects of our endeavour, such as: (Dumitru Zaiț, Alain Spalanzani, 2006):

- *Inductive* (experimental, quasi-experimental, observational) and deductive;
- *Comparative and non-comparative*;
- *Qualitative and quantitative*

The quality of the management activity is a vital prerequisite for companies that wish to obtain competitive advantages and to withstand competitive mechanisms. The past few years have shown that the main cause of enterprise bankruptcy is the incompetence of managers and mismanagement due to decisional errors. In a structural analysis, this factor weighs 60%, remotely followed by the unfavourable evolution of the market (with a weight of 20%), natural phenomena, fires, natural disasters, earthquakes (with a weight of 10%) and other causes (1%).

Since bankruptcy occurs as a result of the enterprise's inability to pay its debts and is triggered by the lack of liquid assets, one can fairly assume that the management of the financial activity determines the success or failure of enterprises.

Financial management could not function without information in general and without financial information in particular. Information of an economic, financial and accounting nature about the market is vital in order to know and apply the management objectives. The making of financial decisions requires the corroboration of the government economic policies on a macroeconomic level with the individual financial decisions, on a microeconomic level.

Power is a fundamental notion to be defined in order to understand the decision-making process, and the nature of the arguments that support the preservation and development of power is, pre-eminently, financial. Financial management is a series of principles, methods, techniques, instruments and actions which assist the financial decisions made when achieving organisational objectives laid out in a company strategy.

There are numerous studies worldwide that have approached various means of improving the decision-making process. The most efficient multinationals have already considered the opportunities generated by financial transformations in order to streamline the accounting functions, but they have also trained accounting specialists who would operate as business partners and assist the decision-making process in the company. The financial transformation is already a fact for many companies, thus giving them a

significant competitive advantage. The plan to improve the efficiency of the financial function is very clear, but the training of the business partners who would assist the decision making process is highly challenging.

The CIMA forum (Chartered Institute of Management Accountants) that directly oversees the improvement of decision making, warned business leaders that failure in the attempt to change the financial functions can damage competitiveness. Since world markets grant international companies access to similar resources and as the constantly increasing competition determines business processes to focus on similar standards, *the decision making* process is crucial in the chain of values, as it generates further income. CIMA supports the argument according to which a company that does not transform its financial-accounting function in order to assist the decision making process, endangers its competitive position. This argument is further supported by a large number of studies. For instance, the research conducted by this institution has revealed that there is a correlation of more than 70% between highly competitive businesses and the improvement of their financial functions (CIMA,2007).

The role of accounting in the decision making process of an enterprise has been debated in numerous speciality books and papers, among which we can mention the ones we have consulted: *Financial & managerial accounting. The basic for business decisions*, Jan R. Williams & al., McGraw-Hill, 2008; *Accounting for decision making and control*, Jerold L. Zimmerman, McGraw Hill, 2006; *Management accounting for decision makers*, Peter Attrill, Eddie McLaney, Prentice Hall, 2002; *Managerial decision modelling with spreadsheets*, Nagraj Balakrishnan, Prentice HALL, 2007; *Business accounting , an introduction to financial & management accounting*, Jill Collis, Roger Hussey, Palgrave, 2007; *Managerial accounting*, Ray H. Garrinson, & al., McGraw-Hill, 2006; *Comptabilité de gestion*, Charles Horngren & al., Pearson Education, 2006; *The accountant's contribution to new product development*, Patricia Hughes, The Irish Accounting Review (2006), Vol. 13, No. 1,47-68; *Transforming finance* de Peter Simons, și *Strategic accounting*, de Tony Grundy, Financial management Review, 2007; *Management accounting in the twenty-first-century firm: a strategic view*, Hassan Yazdifar, Strategic Change 12: 109–113 (2003), Published online in Wiley InterScience (www.interscience.wiley.com). DOI: 10.1002/jsc.628; *How top management teams use management accounting systems to implement strategy*, David Naranjo-Gil, Journal of management accounting research, Volume Eighteen, 2006, pp. 21–53.

## 2. The components of the financial-accounting information system

In a market economy, the accounting information is a tool that grants the decision power to those who hold it, even if the data is not completely accurate. As Michael Capron argued in his paper “*Accounting in perspective*”, quoting André Cibert, “*there are as many truths as recipients of the information and, as far as it excludes quality, the reductive effect of each measure is inevitable*”. Authors such as Bernard Colasse or Daniel Boussard have acknowledged the fact that “*the truth revealed by accounting is only a filter that allows the perception of a reality*”.

The conclusion reached by these studies highlights the fact that the nature of the financial-accounting information has directed the interest of various practitioners towards:

- the users of the financial statements;
- the information needs of these users;
- the information provided by accounting and the adjustment of this information to the users’ needs;
- the conceptual framework of this accounting information.

Moreover, it revealed that the information needed for the decision making process mainly originates in the accounting of the business entity, with three main reference sources:

- *rough sources*, such as vouchers, mostly intended for the internal users of the information and less for external users;
- *processed sources*, prepared by the entity and presented according to certain rules and procedures applied to the data provided by vouchers, containing information needed for the drawing up of synthesis documents;
- *synthesis sources*, providing information to external users and based on the information sources processed by the entity.

The accounting system differs from one entity to another depending on the nature of their activities and operations, on their size, volume of processed data and the information needs of the management and of the external users. The accounting system is made up of various sub-systems, among which the regulation subsystem, the professional organisation and enterprise subsystem, while accounting practices derive from the accounting system (M. Ristea, 2006).

The accounting information system has certain common characteristics to all information systems within an entity, as follows (P. Atrill and E. McLaney, 2005):

- identifying and capturing the relevant information (financial information);
- recording the collected information in a systematic manner;
- analysis and interpretation of the collected information;
- reporting the information in a way that meets the users' needs.

The size of the business entity also plays an important role in the structuring of the accounting information system. The collected interests of managers, accounting professionals and users of the accounting information generate several possible levels of organising the accounting information systems of the company, spanning between two extremes as far as complexity and range are concerned (A. Pop, 2002):

1. The organisation of an integrated accounting information system of the entity that would provide all the accounting information that the *entity* is willing to finance and diffuse; *accounting professionals* who want to and can produce and control the information that the *users* wish to access. The design of such an accounting information system of the entity is practically impossible since, regardless of the technical tools and the training of accounting professionals, there is information that the latter do not want to and/or cannot produce and control, even if the entity would be willing to finance and diffuse. On the other hand, there are economic or profitability limitations set out by the fact that entities do not wish to finance and/or diffuse all the amount of information that accounting professionals want to produce and control at a certain level of technical support.

2. The organisation of accounting information systems of the entity according to profitability criteria, structured on two circuits:

- *the public information circuit*, which encompasses the information that entities are willing and/or obligated to finance and diffuse to outside users. The production, control and diffusion of these classes of information is the concern of economic patrimony accounting.
- *the confidential information circuit*, including the information that entities are not willing to provide to outside users. The production, control and diffusion of this information only to managers make it the concern of managerial accounting.

In order to be used by an entity, the information has to meet the following requirements:

- to rapidly adjust to the changes in competitive circumstances and thus enable the access to new opportunities and reduce the vulnerable competitive spots;
- to increase efficiency and internal output of the entity, as well as the managers' productivity;
- to improve creativity and productivity of individual and group decision makers within the organisation, as this requires the provision of the adequate instruments for collecting accurate and timely information, the improved analysis of the information and of the quality of the decisions as well as the delivery, assistance and monitoring of the implementation of the management actions and decisions.

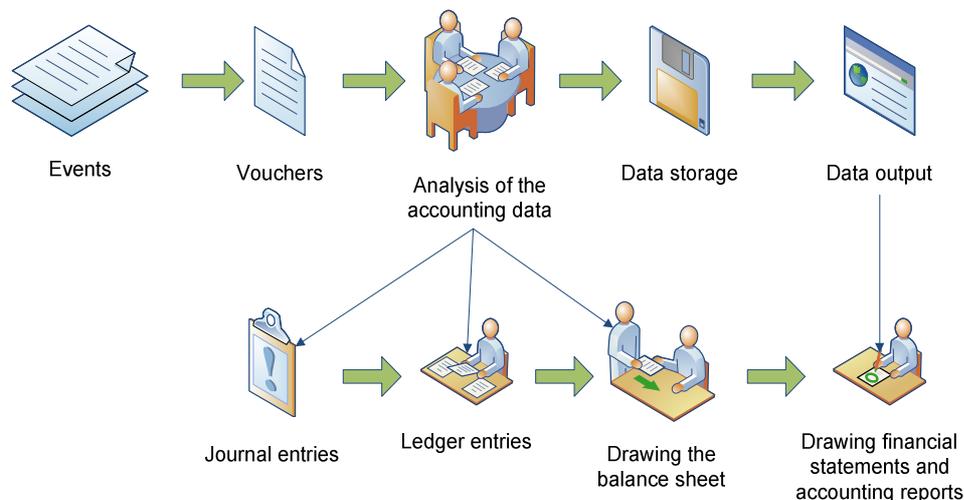
Financial accounting reports are the means used by accounting professionals when transferring the information about the financial performance of an enterprise, both to managers and to outside users. Each manager uses a set of methods that provide assistance in the decision making process. Managers are interested in the financial statements and efficiency improvement proposals that they may use as support information in laying down the decisions they must make. The ideal solution is the computer programme. The design and development of a computer system that would assist the decision making process in the financial accounting activity, is a constant process whose success depends on the proper research of financial analysis methods and models so as to generate an optimum set of indices that would assist decisional activities, as well as on the design of a flexible architecture of the system that would adapt to the organisational circumstances of each user.

### **3. Methods and possibilities to support management decisions based on financial – accounting information**

The accounting cycle refers to all the stages needed to undergo before applying the accounting methods and procedures during the accounting period. Accounting is regarded as an information subsystem that records all the economic-financial data chronologically and systematically and, after specific processing, provides information that would meet the needs of various categories of users. Accounting only analyses the facts that can be expressed in monetary terms. The stages of a classical accounting system could be understood as the preparation of the vouchers, followed by the introduction of the data and information

supported by the vouchers in journals and the ledger, the drafting of the trial balance and all the necessary adjustments and, eventually, drawing up the financial statements and sending them to users.

**Figure 1: The classical cycle of the accounting information**



Source: author's approach

In order to ensure maximum efficiency, decisions must meet the following requirements:

- to have scientific support;
- to be adopted by professionals;
- to be laid out clearly and concisely in order to be properly received;
- to be collected and sent in due time.

A fundamental role is played by the quality of communication which, under real economy circumstances, has become as important as the information itself. Communication is regarded as the basis of decision making and it occurs firstly between people, and secondly between services and departments, as well as between the enterprise and the external environment.

#### 4. The accounting cycle of operating activities

Operating activities include purchases, sales, third parties (including employees), revenues and expenditures. These activities require the following accounting circuits:

- *stock*: purchase, transfer, consumption, acquisition, sale, special operations;
- *suppliers*: receipt, payments, clearance, transfers;
- *clients*: invoicing, cashing, clearance, transfers;
- *personnel and other social liabilities*: recording debits, clearances, payments, special operations;
- *state budget*: recording debits, clearance, payments, special operations;
- *other third parties*: creating debt-accounts receivable, clearance-equalization, payments-receipts, special operations, revenue and expenditures: most of them occur in countertrade in the above mentioned accounting circuits, while others occur in investment or financing accounting circuits.

A frequent problem manufacturing organisation managers must face is whether they should produce or purchase some of the components used in assembling the product. Thus emerges the issue of identifying the costs of each alternative and their effects on revenues and expenses, as well as the selection of the most profitable choice. The factors to be considered in such an assessment are as follows (Belverd E. Needles Jr. & al., 2000):

*Manufacturing entails:*

- the need for additional machinery;
- the variable costs related to the manufacturing of that particular product;
- fixed marginal costs.

*Purchasing means considering:*

- the purchase price of the item;

- revenues from rent or the net liquid assets flow generated by the vacant manufacturing premises;
- the residual value of the unused equipment. .

A study conducted with the management of certain American and Australian companies (Foster G. & Young S.M., 1997) started with the following question: “**What are the first three priorities of your organisation at present?**”. In the order of their importance, the priorities were:

1. productivity/client satisfaction;
2. managing/controlling costs;
3. quality;
4. development.

At present, a considerably high number of enterprises develop client profitability systems to direct them more strategically towards customers. A study on the British enterprises (Innes J. & Mitchell F., 2005) has shown that 50 % of them were “engaged in customer profitability analyses and that 12% were about to do the same thing”. The benefits of a customer profitability analysis were classified as follows:

1. assistance for price policies;
2. renegotiation of customer contracts;
3. assistance in establishing sale requirements;
4. influence on client cost control.

For 60 % of the enterprises that have studied the contribution of clients to the total revenues, “the 20/80 rule checks out (i.e. 20% of the customers brought in 80% of the profit)”.

### 5. The accounting circuit of investment operations

The main characteristic of decisions is timeliness. Investments entail expenses of a certain economic value, usually in cash, at a certain moment; this expense is expected to bring economic benefits to the investor, at a certain moment in the future (P. Atrill and E. McLaney, 2005).

Investment decisions are of importance for the business entity for the following reasons:

- *There are often considerable financial resources involved.* Many investments made by an entity entail the employment of a significant part of its total resources. If the decision is erroneous, the effects on the entity can be significant, if not disastrous.
- *It is often difficult and/or costly to back out from an investment after initiating it.* Investments are often tailored to the needs of the investors. For instance, investments made in designing the headquarters of a company involved in a certain field of activity, could be worthless when sold to a company that deals in another field.

The development of an investment strategy requires the definition of the area covered by the concept “strategic management”. This will further require the anticipation of favourable situations under uncertainty circumstances. Thus, one can wonder “*How do investments alleviate a strategic situation and what is needed to further maintain this situation?*”. In order to answer this question we must take into account the division of the effects of the strategy and closely analyse the level and nature of the changes triggered.

If we focus on the nature of the changes generated by an investment process and therefore its dynamic nature, we must determine the effect of the employed investment. This effect could be that of supporting an existing situation or, on the contrary, it could generate development and economic growth.

### 6. The accounting circuit of financing operations

In order to achieve relevant financial and commercial performances, each entity must resort to strategic measures. Any such measure requires an investment programme whose employment creates a new technical and organisational framework and defines a new competitive potential of the company. Any investment programme requires both financing and long/short term capital investment.

The main problem faced by management in this field is that of:

- assessing the need for capital;
- selecting the project version for the investment to generate the most profitable outcome;
- obtaining capital in due time and at reasonable costs;
- keeping an eye on the investment throughout the project.

Financing operations are mainly designed for the capital structure of the entity with respect to the gearing, the dividend policy and the financing decisions. The treasury is directly affected under these circumstances by:

- the equity capital;

- the accumulated financial debt.

The treasury may also be indirectly affected by the profits or losses occurring in operations developed within accounting circuits of operating activities. The considered accounting circuits are those identified in the analysis of the financing sources which can be:

- equity capital: capital, reserves, subsidies;
- financial debts: bond issues, financial-banking institution loans and other loans.

The validation of the long-term investment decision requires a high degree of responsibility for at least the following reasons:

- the invested sums are always relatively high and hard to obtain;
- they are employed for a long period of time, which is why an erroneous decision can eventually endanger the company and its future;
- the expected results span across a long period of time;
- any long-term invested capital that has to be recovered requires a certain period of “waiting” which, in time, has its costs. It directly reflects in the way the average capital cost has been assessed as well as in the effects triggered by inflation.

Each of the financing sources of a company, i.e. equity or loan capital, must be remunerated. This remuneration entails some costs for the business entity, i.e. the cost of its capital. The financing of an investment project often involves the corroboration of several resources. In this case, the cost of the financing can be defined as *weighted average cost of capital (WACC)*. *It is calculated as the weighted average of the costs of various financing sources, the weights being the scope of these sources in the total market value of the company.*

Professional studies make reference to two directions in assessing the financing sources: actuarial evaluation and using the relationship existing between profitability and the risk of the securities on financial markets (Al. Todea, 2006). The *sectorial* approach is based on the principle that the present value of a financial security equals the sum of future revenues generated by the ownership of that security, updated to a profitability rate that equals the market that corresponds to the nature of that security. *The second approach* is based on the equilibrium models of financial assets. According to those models, the profitability expected by an investor from a security is directly proportionate to the risk he assumes.

## 7. CONCLUSIONS

There are numerous approaches about the complexity/difficulty of decision making processes in today's economy; some specialists suggest a new *framework* for decision making processes; they argue about *simple, complicated, complex and chaotic contexts*; experienced leaders, they say, are not only capable of identifying the circumstances in which they work, but also of adapting their behaviour to those specific circumstances.

Still, we must not generalize: in practice, managers have to deal with more than one decision and the information system provides a wide range of choices. Therefore, the cost-profit approach must focus on the collective effect of decisions made in a company. *For instance*, a complex and costly accounting information system can supply sufficient data and even applications for preparing the budget. In less complicated situations (let's say stock control), a cheap plug-in installed on a microcomputer or even a model designed by the user for a normal development environment can provide sufficient data for decision making, under economic efficiency.

Accounting is the main source of information in the decision-making process. The quality of the information provided by accounting determines the relevancy and consistency of the economic decisions made by the management of business entities.

The accounting information system of an enterprise is one of the essential elements of the economic information system as it is the main method of knowing, managing and controlling the patrimony and the results of that particular business entity. The main role of the accounting information system in the decision making process is determined by the fact that its organisation and functioning should ensure the optimum completion of the following objectives:

- to provide the information needed in decision making, both to the management of the enterprise and to third parties;
- to provide the information needed in drawing up the economic activity plans and programmes, especially in preparing the budgets of those particular enterprises;
- to ensure the chronological and systematic recording of the economic activities that bear upon the financial position, the financial performance and the treasury flow of the enterprise;

- to provide the data required in calculating the costs of products, labour and services;
- to provide the information required in the drawing up of financial-accounting statements.

Financial management, as an essential element of the general management of the enterprise, mainly performs two functions:

- planning and controlling the activity of the business entity, based on the specific financial methods and criteria;
- making and implementing financial decisions related to the completion of the goals set in the programmes, by considering the financial efficiency criteria.

The advantages of an efficient financial management are as follows:

- more appropriate control over the flows of revenues and expenses;
- knowledgeable making of the financial decisions that determine the future of the enterprise;
- supplying prospective investors with information about the financial plans of the enterprise, at any time;
- drawing up well-supported professional financial statements and analyses that take into account the internal and external circumstances affecting the organisation;
- increasing the profit of the business entity.

As a stake in the social game played by the users of the financial information, the accounting information is the outcome of the accounting activity, mainly directed at the managers of the business units.

Thus, the accounting information is a primary and essential resource for decision-making processes, used both for drawing up strategic plans of development in compliance with the organisational culture of each company, and for designing operational plans in agreement with the medium and long term development strategies.

In order to benefit from the information provided by financial accounting reports, business entity managers are advised to adopt a more transparent behaviour, instead of the very cautious and often flattering attitude that led users to get the information they needed from other sources. The confidence of the market in the management of the company will thus increase, if the latter becomes more open and also proves knowledgeable of the mechanisms of his activity and therefore making decisions accordingly.

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## MODELS OF KNOWLEDGE DYNAMICS – THE NEW LIFE CYCLE MODEL OF KNOWLEDGE MANAGEMENT

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**Abstract:** *Within the present paper we undertake a qualitative research upon knowledge dynamics and knowledge management models. The purpose of the paper is to emphasize the common characteristics of the models among the specialty literature, to analyze and correlate the differences between the models and to justify each of the models' potential. In the content of the paper we provide the analysis and interpretation of five knowledge dynamics and knowledge management models and we propose a novel subject to approach respectively a new life cycle model of knowledge management. The bottom line of the paper is that we want to show various perspectives of the same phenomena –knowledge dynamics, in order to provide comprehension opportunity.*

**Key words:** *knowledge dynamics, knowledge conversion processes, knowledge management, models of knowledge dynamics, models of knowledge management*

**JEL CLASSIFICATION:** M1, M2, M5.

### 1. Introduction

Dynamics is natural, there is only one form of its existence but there are many variations of its representation. Man has continuously tried to understand and finally control nature and the natural. As the essence of life doesn't change due to one or another's interpretation thus the kernel of dynamics doesn't change according to each representation of researchers. Consequently one may say that there is no need to strive for other representations of knowledge dynamics as there is nothing more to say but on the contrary it is those perception details that make the difference and enrich the meaning and our mission. Though we are able to understand knowledge dynamics out of a single model we need to study many more in order to comprehend the natural way it works. This may be considered even as a motivation for Sağsan when he elaborated the new life cycle of knowledge management model. The model follows the classic shape line of the knowledge management cycle but he adds some new sub-processes that are intended to enhance in-depth comprehension. Models and respectively knowledge management models may be further improved throughout details and minor specifications. There is the perspective that generalization gives credit to a model and confirms its value or validity but if we stick to the general frame there would be no more variety as there will be only one type of anything – the standard. Development implies differentiation and complexity. This is why we argue that different models should sustain the same issue but in different and particular ways. Each model may be compared to a different experience.

When we study knowledge dynamics models we mustn't focus on a single one as being the best or the right one. Each represents someone's perspective, someone's perception of the same phenomena. Each of us must rethink and remodel the models accordingly to our system of references.

### 2. Models of knowledge dynamics

#### 2.1. Nonaka's SECI model

The best known model of knowledge dynamics has its origin within the research papers of Nonaka (Nonaka, 1991; Nonaka, 1994), and afterwards was continuously developed by his colleagues/collaborative through additional contributions (Nonaka, Byosiere, Borucki, Konno, 1994; Nonaka, Takeuchi, 1995; Nonaka, Konno, 1998; Nonaka, Toyama, Byosiere, 2001; Nonaka, Toyama, 2007). Practically, the model contains three main structures: SECI model, Ba space and knowledge platform. Philosophically speaking, this model has an epistemological dimension and an ontological dimension. The epistemological dimension approaches the conversion process of explicit knowledge into implicit knowledge and the opposite, the transformation of implicit knowledge into explicit knowledge. The ontological dimension reflects the

conversion of individual knowledge into group knowledge, and afterwards, the conversion of group's knowledge into organization's knowledge, and the possible reverse actions are conversion of organization's knowledge into group's knowledge and then into individual's knowledge. Much more, the entire organization may exchange knowledge with its operational environment, conceived as an ecosystem of knowledge (Brătianu & Orzea, 2010).

This model based on the theory of the organizational resources, according to which the tangible resources were replaced by the intangible resources, and all the tangible processes were replaced by intangible processes. In fact, any company/organization contains both tangible and intangible resources and knowledge represents the complementary component of the organization's tangible dynamics. Thus, knowledge management appears like an integrant part of the operational and strategic management of the organization. The importance awarded to knowledge dynamics within the organization depends on the management vision with respect to this issue that may set directions regarding the development of knowledge base. "This also offers the focused direction towards the knowledge necessary to be created besides the existing capacities/resources of the organization, and, in consequence, determines the organization's evolution on the long run" (Nonaka, Toyama, 2007).

- SECI cycle of knowledge transfer –

The epistemological dimensioning develops into a four stage process known as the SECI cycle: Socialization-Externalization-Combination-Internalization. Each stage represents an important characteristic of knowledge dynamics. Socialization is considered by Nonaka, and afterwards agreed by his followers, as the most important knowledge transfer in the cycle because it implies the transmission and transformation of the most critical pieces of knowledge generated at individual level (Polanyi, 1983). Tacit knowledge is generated by direct experience of each individual and localize in the individual's non-rational thinking. Nonaka and Takeuchi (1995, p.8) emphasize, "Tacit knowledge is extremely personal and hard to formalize, which makes it difficult to communicate and share with others. Personal ideas, perceptions and hunches enter this category of knowledge. Knowledge also embraces ideals, values, and emotions as well as images and symbols".

Leaders use these characteristics of tacit knowledge, being capable to inspire and motivate the ones they have to lead. Socialization is an opportunity to participate and share experiences and a way to learn throughout a tacit knowledge exchange. This is the way the ones with less experience acquire lessons from the experts of the domain, through permanent observation and imitation. Socialization is conceived not only for the members of the same team or department, but also for meetings between the organization's employees and customers or suppliers. According to all these, socialization has to step across the daily activities, dialogues and exchange of neutral phrases. It has to excite the deep levels of experiences and knowledge stocks. In fact, only persons with high levels of understanding and knowledge richness are able to transfer tacit knowledge towards others. (Brătianu, 2008; Brătianu, 2009a; Brătianu, Orzea, 2010)

Externalization is an individual process through which tacit knowledge is converted into explicit knowledge. Once the knowledge becomes explicit it can be shared, disseminated and transferred towards other persons through verbal or nonverbal ways. "Among the four knowledge conversion processes, externalization is the key towards creating knowledge, because it creates new concepts, in an explicit way out of tacit knowledge" (Nonaka, Toyama, Byosiere, 2001, p. 495). Despite all these, externalization is a very good motivating process and the success of the conversion depends on the efficiency of using metaphors, analogies and cognitive models. Metaphors play a major role in developing the new concepts and theories by using the ones already acknowledged (Andriessen, 2006; Andriessen, 2008; Lakoff, Johnson, 1999). For example, using the metaphor of energy transfer, Brătianu and Andriessen suggested that externalization may be compared to energy conversion from its potential stage to its kinetic stage (Brătianu, Andriessen, 2008). Knowledge is not a finite/ranged raw material and its dynamics can't be necessarily put into a rigid mathematic formula, as in the case of energy conservation equation. Though, this metaphor is very useful to understand the fact that throughout externalization the knowledge potential becomes available for codification, dissemination, storage and spreading. The efficiency of the externalization process may be increased by education and motivation. Individuals frequently wonder why to make the effort to transform tacit knowledge into explicit knowledge, and thus giving up their statute of singular owners of that knowledge. We also have to underline that while tacit knowledge is quite fuzzy and hard to evaluate, explicit knowledge is well defined and may be easily evaluated. Thus, externalization is a process that reduces the entropy of our knowledge, because of its structuring and integration of new knowledge among the existing structure of explicit knowledge (Brătianu & Orzea, 2010). Combination is a process of creating new structures of explicit knowledge through integrating fragments of explicit knowledge within the new

integrant structures. According to Nonaka, Toyama, Byosiere (2001, p.496), „In practice, the combination implies three processes. Primarily, explicit knowledge is collected from inside or outside the organization and then mixed. Secondly, the new explicit knowledge is spread among the members of the organization. Thirdly, explicit knowledge is edited or prevailed or processed inside the organization, in order to make it easier to use.” Unlike externalization that is an individual process, the combination is a social process based on transmitting the explicit knowledge. Combination takes place within a specific organizational context, and thus is connected to the concept of ,ba’. (Brătianu, 2010)

Internalization is a process developed at individual level. Considering Nonaka, Toyama, Byosiere (2001, p.497), “Internalization is the process of converting explicit knowledge into tacit knowledge. It is tightly connected to learning by practicing. Throughout internalization, the generated knowledge is shared within the organization. Knowledge internalization is useful to widen, expand and rephrase tacit knowledge of the organization’s members”. Knowledge is internalized throughout a process of integrating among existing knowledge. If necessary, this integration shall restructure the existing knowledge. Also, this process increases the chances of the individual to participate in a socialization process and the exchange of knowledge leads to the development of a knowledge spiral. Internalization closes the cycle of knowledge creation and it is an ongoing developing process throughout the social interaction. Socialization and combination are knowledge transfer processes within a social context, while externalization and combination are knowledge conversion processes on individual level, creation of organizational knowledge is a continuous process that moves upwards on the knowledge spiral (Brătianu & Orzea, 2010).

The SECI model was used by Nonaka and Takeuchi (1995) in order to explain the way the Japanese companies were creating the innovation dynamics and contributing to building the competitive advantage. Considering all these, there are still some inconveniences/shortcomings. The first and the main one is linked to the difference between the eastern and the western perspective on knowledge (Andriessen, Boom, 2007; Gourley, 2006; Harsh, 2009; Nonaka, Takeuchi, 1995). While the occidental perspective focuses on explicit knowledge, the oriental side focuses on the tacit knowledge. At the same time the Japanese model of thinking is rather fuzzy in order to allow an interaction freedom, and to incent the social contribution to upgrading knowledge. In Occident, the managerial thinking and the communication have to be very precise as to eliminate the various interpretations like in the social interaction. The occidental management reduces systematically the knowledge spiral described by the SECI model due to its rigidity of senses/meanings. Another shortcoming is that the imposing of entropy within the knowledge flux, meaning that the knowledge flux is always pointed from the upper levels towards the lower levels of the organization, results that the knowledge spiral can’t be sustained (Brătianu,2009b; Hill, 2008).

## 2.2 Nissen model of knowledge dynamics

While Nonaka’s model of knowledge dynamics bases on knowledge conversions through social interaction, Nissen’s model bases on the idea of fluxes. The organization is a place where knowledge flows continuously towards certain directions. “As explained within this book, the concept of knowledge flows represents more than a metaphor: it explains the knowledge phenomenon and how it moves inside an organization. In the context of organizational performance, the knowledge flows follow some stages within the work cycles they influence” (Nissen, 2006). Knowledge flows should be analyzed both as space and time. Additionally, regarding the ontological characteristic, the knowledge flows evolve from individuals towards groups and then towards the whole organization. In space, the knowledge flows evolve between the various departments of the organization. Due to the fact that organizations are open systems, the knowledge flows develop also across the borders of the organization’s business framework. However, the tacit knowledge flow is slow and presents many barriers due to its nature and due to the will of protection of its owners. Comparing to the movement/dynamics in physics, we may speak about knowledge inertia and organizational forces that help overcome the inertia. In fact, the knowledge fluxes evolve only due to a pressure difference between the remittent/issuer and the receiver. This tension difference should be interpreted as a gap between the level of knowledge and the level of understanding. Spite, Nissen doesn’t explain the way the knowledge flow develops. (Brătianu, Orzea, 2010)

Nissen took as a corner stone of his model the bi-dimensional model of Nonaka, a model defined by the epistemological and ontological dimensions. Afterwards he added two more dimensions: the life cycle and the time flow. The life cycle refers to the different sequentially actions associated to knowledge flow, as: knowledge creation, knowledge exchange and knowledge use. The time flow refers to the period of time expressed in minutes, days or years of knowledge necessary to pass the knowledge from one person to another, to the organization, to a place or time (Nissen, 2006). These four dimensions characterize the whole

model of knowledge dynamics developed by Nissen. The activities within the Nissen cycle are associated to the knowledge conversions within the SECI model: socialization, externalization, combination and internalization. Thus, Nissen associates the tacit knowledge sharing with socialization, and the flow is directed from the individual towards the group. The next stage is externalization that has been associated to the flow of tacit knowledge conversion into explicit knowledge. Once knowledge becomes explicit, the knowledge flow may be visualized at a group level. The combination is associated to explicit knowledge flow from the group towards the entire organization. Here we have more activities to identify: knowledge store, extraction, codification, diffusion, re-structure and re-contextualize. In the end, internalization is associated to knowledge flow from explicit to tacit. The knowledge flows may be compared to the individual and organizational learning cycles. On the whole, the Nissen model of knowledge dynamics offers a better view of the organizational structure and fluxes, as well as it represents a work instrument that helps identify the resistance that some fluxes may come across within the organization. The Nissen model is an extended and more detailed Nonaka model because it comprises the time dimension. (Brătianu & Orzea, 2010)

### 2.3. Boisot model of knowledge dynamics

Boisot developed a more abstract model of knowledge dynamics based upon the information theory. He created the I-space as a generic domain characterized by three dimensions: codification, capture and diffusion. Codification refers to the way we shall make use of the explicit knowledge. Tacit knowledge is fuzzy/not clear and hard to formalize. Explicit knowledge may be clearly expressed and may easily be codified. In a general formulation, codification is a process throughout which we shall create conceptual categories that facilitate the classification of events and phenomena (Boisot, 1999). Codification is an individual activity that depends on the intellectual and expressive capacity of the subject. Usually, discrete events may be easier to codify than events that continuously vary. From a practical point of view, codification helps the most when we want to create knowledge data bases. Codification is, also, important in the process of developing expert systems and programs of knowledge retention. "Codification represents a selection of perception and conceptual alternatives which compete. The more these are the more time they need to end the selection and the harder will be" (Boisot, 1999, p. 44).

The second dimension for the I-space is abstraction. Abstraction acts on the structure of concepts and phenomena by reducing the concrete details and local positioning. From a practical point of view, abstraction reduces the number of categories from which we shall choose codified elements. "When it is well accomplished, abstraction allows focusing upon the causal or descriptive structures that emphasize data. These generate concepts rather than perceptions". (Boisot, 1999, p. 50)

Capture and codification are linked processes that converge towards saving the resources for data processing. Codification helps capturing the data through defining the categories and makes them easier to handle, while capturing reduces the number of categories of which borders must be correctly established.

The third dimension for the I-space is diffusion. This is a concept that defines the expansion propriety of a certain substance under the influence of other forces. In his model, Boisot considers diffusion as propriety of data and knowledge that allows them to spread among a target-population. With all these, knowledge diffusion is a natural process and when we speak about a social diffusion it depends also on the human behavior. According to Boisot (1999, p.55), "To summarize: an inferior technical level will affect diffusion and in consequence, the availability of information within a target population. A superior cultural and social level will influence absorption of information within the population and the percentage it is being transmitted and used."

I-space it is a conceptual frame that shows the way the information and knowledge fluxes within a certain group of persons or within a certain organization, regarding the three considered dimensions: capture, codification and diffusion. For example, a knowledge flux oriented towards abstraction and codification will show more availability towards a considered group.

As Brătianu and Orzea (2010) observe, this model helps us to understand easier the creation and diffusion of new knowledge among the organization and also how it functions the social learning cycle (SCL). This cycle is formed of six major phases:

- Scanning – identification of possible threats and opportunities in the outside business environment, as signals and trends. Scanning may be rapidly done when knowledge is well codified and abstract.
- Problem solving – finding solutions for identified and correctly defined problems.
- Abstraction – generalization of new codified knowledge application on a large range of cases.
- Diffusion – exchange of newly created knowledge within the group or the organization.
- Absorption – integration of new knowledge within the learning cycle.

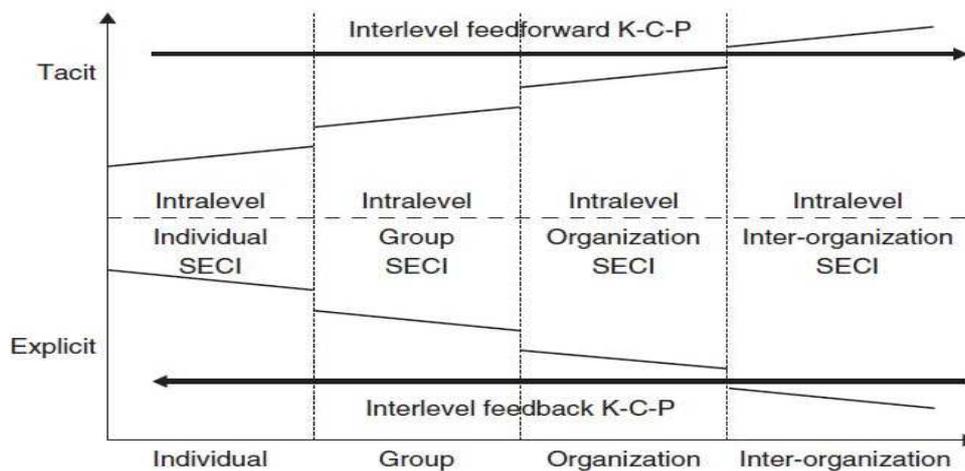
- Influencing – incorporating abstract knowledge within the practice.

**2.4. EO-SECI model of knowledge dynamics**

This model was developed by a group of researchers formed of: Gregorio Martin de Castro, Pedro Lopez Saez, Jose Emilio Lopez Navas and Raquel Dorado Galindo (2007). Practically this is an extension of Nonaka’s SECI model, taking into consideration the epistemological and ontological dimensions that they consider to be dynamically interconnected, on four different levels: individual, group, organizational and inter-organizational. Actually, the name of this model represents: E – epistemological dimension, O – ontological dimension, S – socialization, E – externalization, C – combination, I – internalization. According to the authors, the essential characteristics of this extended model are the following:

- Considers that for each ontological phase there are the four conversion processes defined by Nonaka: externalization, socialization, combination and internalization.
- Considers the knowledge dynamics according to the four processes mentioned above.
- Knowledge develops on the ontological dimension one stage at a time, without other intermediary transformations.
- Considers simultaneously two types of adjacent knowledge fluxes linked to the main up going flux, which reflects the next phase and the feedback of the entire process. These two adjacent fluxes lead to a loop.

**Figure 1. Representation of EO-SECI model**



Source: adaptation after - Castro et al. (2007)

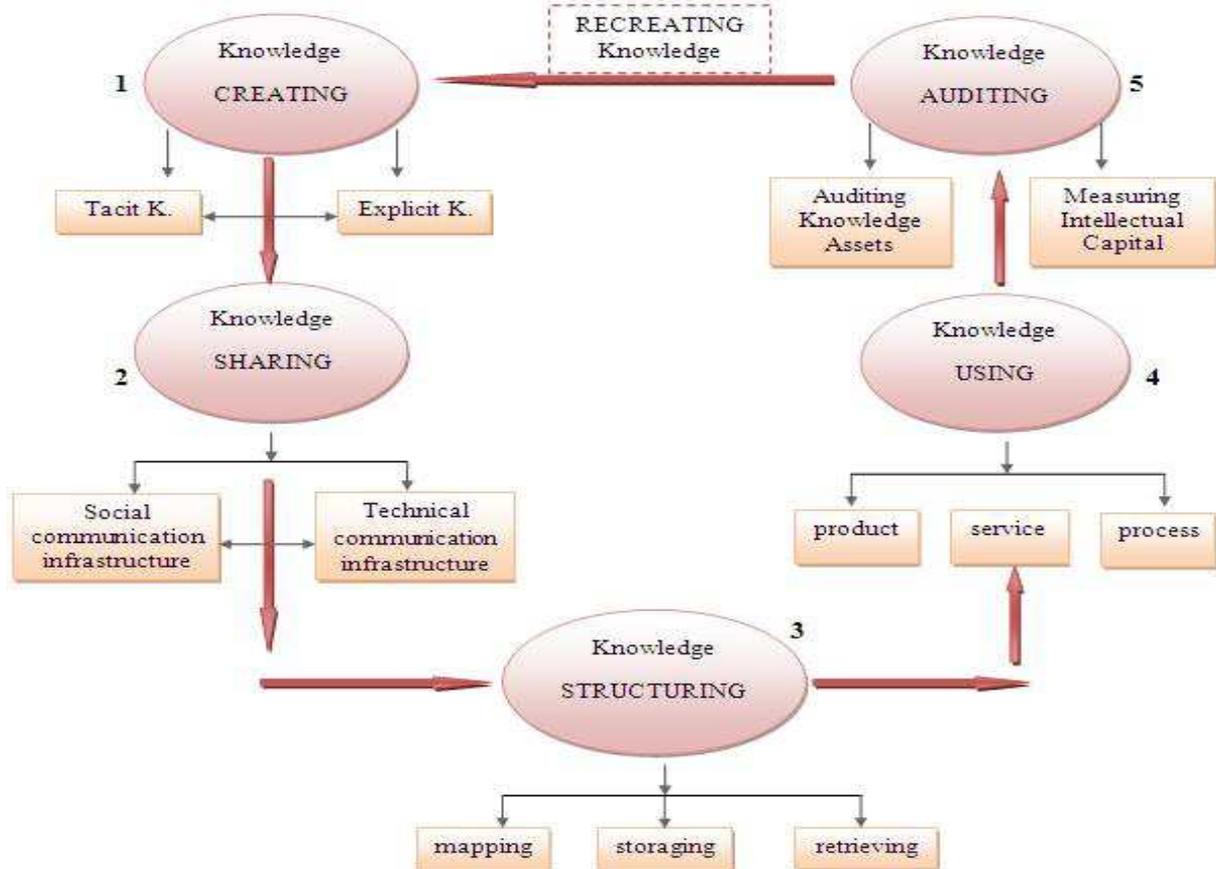
This represents a better description than the knowledge spiral presented by Nonaka and Takeuchi (1995). This model may be graphically represented within a bi-dimensional diagram. The two axes of coordinates are representing the epistemological dimension (vertically) and the ontological dimension (horizontally). Thus, there are four main ontological domains: individual, group, organizational and inter-organizational. The bottom line of this new perspective is to consider that within each of the four ontological domains exists a SECI cycle, that relates afterwards with the neighbor domains. According to the authors of this model (Castro et al, 2007, p. 61.), “The created knowledge entities are awarded learning capacities and a SECI cycle in order to be able to develop on the inside level. The SECI cycle, taken directly from Nonaka and Takeuchi (1995) researches explains the knowledge creation inside each of these entities, through 16 processes. We assert that an inside cycle of knowledge conversion takes place at each ontological individual level, thus each level becomes an entity with learning capabilities and knowledge creation capabilities”.

**2.5. New knowledge life cycle model**

The new knowledge life cycle model that was presented by Sağsan, M. in 2006 at a conference in Turkey, describes a new life cycle of knowledge, referring to knowledge management, throughout knowledge processes. The author argues the necessity of elaborating this model through the perspective that among the specialty literature there hasn’t been set yet any hierarchy of the processes thus it might be a cause why these aspects are still not completely understood inside the organizations. The model proposes a new logical and complete dividing of the knowledge management life cycle into five steps, beginning from

knowledge creation and finalizing with auditing of the knowledge fluxes and measuring of the intellectual capital.

Figure 2. The new life cycle of knowledge management model



Source: adaptation after - SAĞSAN, Mustafa (2006)

We remark that the life cycle of knowledge management model represented in the figure above wants to draw attention upon some aspects as the hierarchical order of the processes that form the whole knowledge management process, respectively: creation, sharing, structuring, using and auditing knowledge. Also the insertion of sub-processes is welcomed in order to complete the picture of the knowledge circuit and offers a more explicit perspective or more transparent one of the phenomena within the organization. This model draws attention upon the relationship of subordination between knowledge management and intellectual capacity and innovation capacity.

### 3. Proposing a novel integrative model

The idea of proposing a new *integrative model* of knowledge dynamics came out of exploring the other models by observing differences and correlating the similarities. We started from the idea of developing a knowledge dynamics model based on the 'ba' concept due to the reason that knowledge dynamics models should imply dynamic contexts. Developing the 'ba' *knowledge dynamics model* has proved to be an integrative procedure because the output is represented by an accumulation of elements, but not any kind of elements.

We can say that the 'ba' context may be metaphorically associated to a function of three variables: place, time and people. 'Ba' makes part of a dynamic system as it involves dynamic elements, dynamic relationship and itself which is dynamic by nature. The effects of this dynamic function are also dynamic. Following we shall describe our perspective and explain the logics of the new integrative model. *Knowledge dynamics* represents multiple transfers of knowledge throughout four processes of conversion: socialization, externalization, combination, internalization. We shall briefly comment on some aspects on the concept of 'ba'. It was discussed for the first time by the Japanese philosopher Kitaro Nishida and afterwards developed by Shimizu. Later, Professor Ikujiro Nonaka adopted the concept in order to develop another model for knowledge conversion, similar to the SECI model, presented in the previous section of the paper: Socialization - Externalization - Combination - Internalization. According to the philosophic approach of Professor Kitaro Nishida, 'ba' represents a context that "harbors meanings". (Nonaka & Konno, 1998)

Thus, we may consider that ‘ba’ is a shared space within which knowledge creation is enhanced. (Bejinaru, 2010)

Figure 3. The dynamic nature of ‘ba’

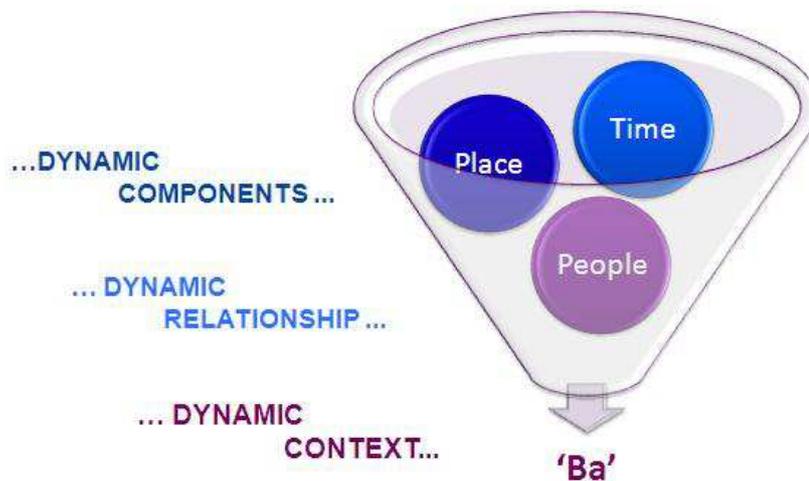
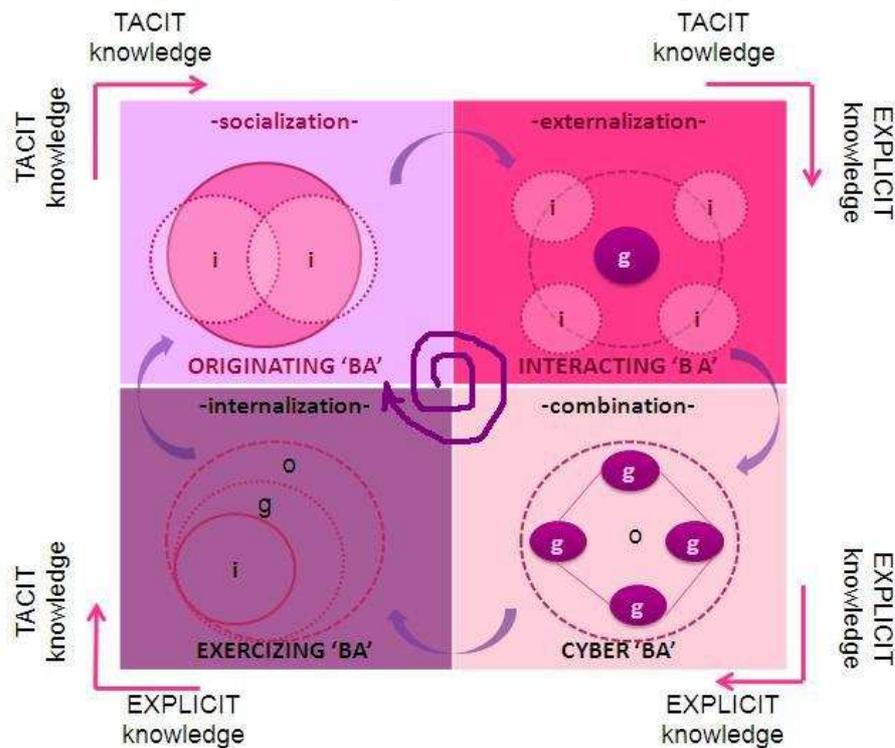


Figure 4. The new integrative model of knowledge dynamics



Source: adaptation after Nonaka, I. & Konno, N. (1998)

The compatibility between knowledge and ‘ba’ resides in their dynamic nature. Ba is like a context within which lay the prerequisites for a new life –new knowledge. Accorsi and Costa say that according to Nonaka, Toyama and Konno (2000) “knowledge creation is a continuous, self-transcending process through which one transcends the boundary of the old self into a new self by acquiring a new context, a new view of the world, and new knowledge”. They believe that knowledge is created through interaction between individuals or between individuals and their environment. These authors proposed a model of knowledge creation, combining three elements: 1) the SECI (socialization- externalization-combination-internalization) process; 2) the emergence of ba (a context to share knowledge); 3) knowledge assets (inputs, outputs, and a moderator of the knowledge-creating process). The authors also believe that these elements must interact with each other organically and dynamically. (Accorsi & Costa, 2008) This partially describes our approach. We present below the representation of our integrative and dynamic model in order to continue the analysis

on the issue. This model that we called –the integrative model of knowledge dynamics- is incorporating all key elements (knowledge tacit and explicit), processes (S-E-C-I) and dimensions (space-time-people). We consider that better management may be achieved by better definition of elements, by better systematization and better designing of goals. Within this model the central role which is an integrator role is played by the space – the ‘ba’.

#### 4. Conclusions

Connecting knowledge with business administration is rational and there is a logical subordination of the former to the latter. Discussing dynamics and business administration is practically a systemic approach, as you can't separate the two but only to largely discuss them in turns. We consider that any knowledge dynamics model may be adapted to a business administration process in order to improve the outcomes. The choice has to be done basing on the context, basing on the resources, basing on the instruments, basing on the actors and according to the approached issue. Business administration has very much to do with dynamics. We believe that the business management process hasn't found yet its standard form and maybe there will not be any because nowadays business management is characterized by change, flexibility, adaptability, movement, or in a word - dynamics. Sometimes the scientific and rational approach can't explain the essence of processes that may reside in the talent or skills or innovation of managers that need to be further studied.

The kernel of knowledge dynamics is considered knowledge creation, but we mustn't stick to this aspect. Knowledge dynamics means flow. Controlling or managing the dynamics of knowledge may be metaphorically considered the supreme competitive advantage for any business organization.

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## THE INFLUENCE OF EMOTIONS ON THE DYNAMICS OF THE NEGOTIATION PROCESS

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**Abstract:** *It is expected that emotions will affect the negotiation process. Most studies on the influence of emotions in the negotiation process focused on the effect of the negotiator's own emotions on the process. However, what the negotiating partner feels is equally important. When it comes to negotiations, trust in the other side is a prerequisite condition for emotion to influence the negotiation process and the visibility enhances this process. Emotions contribute to the negotiation processes by signalling what the other side feels and thinks and can prevent commitment to destructive behaviours. It can also indicate what measures should be taken: positive affective signals that the approach is adequate, while negative affective signals that behavioral adjustments are necessary.*

**Key words:** *negotiation process, emotions in negotiation process, positive and negative affectivity, negotiation styles*

**JEL classification:** *M1, M2, M5*

### 1. INTRODUCTION

In this article, we discuss how emotions influence the course of negotiation. Emotions play an important role in developing relations between the negotiators and it also facilitates or impedes coordination of strategic trades. These features show an interaction between information processing and expressing emotions: intentions are a part of the expressed statements and the nonverbal gestures that are made. They are understood as part of an expression game that emphasizes the interaction dynamics. They are also understood in terms of organizational contexts applied in negotiation process.

An overview of the literature draws attention to few key points, but also extends the themes proposed by their authors. This article is trying to provide a basis for an ongoing research agenda on emotions in negotiation. An increasingly popular subject in current research is how emotional expressions influence the course of negotiation and related interactions. Negotiation is a form of social exchange, which seeks to bring parties with opposing objectives and in competition with each other, to an agreement of cooperation. Most negotiators try reaching an agreement with others and strive for an agreement serving his ends. This dual focus is reflected in a process that consists in negotiating and solving problems. Much literature and research focuses on ways which perform these activities effectively. These activities are viewed largely as factors that prevent the execution, preventing the successful coordination. Expressions can transmit useful information about preferences, they can report also dislikes or malicious. If emotions are advancing or not a negotiation or improving / treating a relationship depends on a variety of processes' and contexts' variables.

The study of emotions has long been neglected in the literature, focusing on strategy and information processing. This emphasis is more prominent in the dominant paradigms that have guided much of the research, including game theory and decision making, behavioural approaches and concepts which could have substantial emotional content, have been described mainly in terms of strategy.

### 2. THE DIFFERENCES BETWEEN EMOTIONS AND INTENTIONS IN THE NEGOTIATION PROCESS

Negotiation researchers continue to focus primarily on the work of two emotions: happiness and anger. These and other emotional states have been studied in psychology. Starting with the identification

made by Darwin (1872) of emotional expression processes in animals and humans, researchers have searched for how different emotions are transmitted through speech and nonverbal behaviour, especially in facial expressions. List of primary emotions of Woodworth (1938) was the basis for studies designed to isolate expressions for each state. These emotions are: happiness, surprise, fear, sadness, anger, disgust / contempt, and interest.

A question in many of these studies is whether these states are universal or culturally specific emotions (Ekman, 1972). For researchers in negotiation, an important question concerns the connection between emotions and intentions. Research on non-verbal indicators of deception had explored this connection (Ekman and Friesen 1974; DePaulo et al. 1980). The honest and deceptive intentions were found to be associated with emotional states such as confidence, stress and interest (Druckman et al 1982.). Each of these states is indicated by specific facial expressions (and body). For example, the ones who try to deception someone indicates confidence in defending their positions through more vigorous shaking of the head and hands folded rocking motion; trying to escape a problem is accompanied by feelings of stress and deviant is indicated by frequent glances towards the other person, an honest intention is accompanied by feelings of interest or involvement and is indicated by frequent leg movements and increased frequency of speech. These correlational findings indicate a connection between emotional states and intentions. It also highlights the possibilities of diagnosis (decoding) and management (coding) in negotiation and other similar types of social exchange.

Connections between emotional expression and negative or positive emotions and opportunities to mislead the negotiation are made by several studies (O'Connor and Carnevale 1997; Olekalns and Smith 2007; Steinel and De Dreu 2004). A paper by (Van Kleef et al., 2006) is researching anger in conflict situations. A key finding is that anger feelings promote competition or aggression in the conflict. However, the effects of these feelings for the other opponent vary from one setting to another. Settings compared by the authors are laboratory tasks with different structures and interdependent, with optional results and number of different parties in conflict. These tasks include ultimatum bargaining negotiation, the prisoner's dilemma, the dilemma of resources (fixed pie) and involving coalition negotiations. An interesting question is when anger is mutual and it encourages concessions from the other side. Studies on negotiation suggest that there may be two processes at work. One, mutual anger, can operate through an emotional journey. Furthermore, the granting of a concession can operate on a strategic route. A path to follow seems to depend on a number of variables involved. These include the relative power of the negotiators and justification of anger: strong opponents (including those with attractive alternatives) were intransigent when their opponent expressed anger unjustified. Thus, anger may backfire in some circumstances. When performing the ultimatum bargaining negotiation, anger may increase the results if negotiator perceived limits on anger are high. Anger also contributes to the perception of higher limits (or aspirations). However, expressing one's anger may backfire if the opponent can convince you that the small offers presented are actually quite high. Another variable is moderating the consequences of a rejection. When the consequences are small, anger does not lead to concessions. Thus, in the ultimatum bargaining negotiation when the limits are considered low, the consequences for rejecting the offer are high and deception is largely excluded. It is less likely to work in multiple situations. Several studies show that expressing anger prevents the formation of coalitions that would maximize the results for members.

According to Van Kleef (Van Kleef et al., 2006) anger is beneficial in producing favorable results when:

- (a) is directed to the task, rather than the person,
- (b) the other party is regarding anger as justified,
- (c) the relationship between negotiators is interdependent,
- (d) expressing the anger has informational value,
- (e) negotiators adopt a strategic approach that encourages the use of expressions as information that can help coordinate,
- (f) the anger has fewer opportunities to cheat.

As mentioned above, strategic information may come from verbal and non-verbal emotional expressions of the sides. Based on this summary of findings, the authors raised the question: When it pays to express your anger? The answer is: Where the parties are interdependent, when are using strategic expressions, and when anger is seen as justified. A number of directions for further research are then suggested, including studies for other emotional expressions in the negotiation process.

The three experiments made by Van Kleef addresses the interesting question of whether there was a difference in receiving numerical or verbal information from a negotiation opponent (Van Kleef et al., 2006).

Their findings show that there is a difference. In the first experiment, negotiators made larger concessions and have had smaller requests from a tough opponent when negotiator gave only emotional verbal responses. In the second experiment, negotiators made larger concessions and have had smaller demands from the respected opponents than those missed, but only when they responded to emotional verbal statements. And the third experiment, larger concessions and smaller demands were made to the partners with a nice (rather than untidy) look.

Again, this only occurred when opponents have provided emotional verbal responses, (rather than numeric). These results raise questions about the validity of many negotiation experiments that unlike real negotiations are based almost solely on numerical data. Usually in the real world context, negotiators engage in verbal discussions where numerical information is sometimes used to support arguments and offers. One explanation for these findings, that the authors offer is that affective information makes people more sensitive to social cues. This is consistent with results from studies of analytical versus intuitive information processing: the processing of intuitive increase a person's sensitivity to the environment. However, a couple of limitations can be found. One of them is that intense emotions such as felt and expressed emotions in high-stakes litigation can have opposite effects. Similar with the effects of cognitive-over-applied, individuals that use largely the emotions can become disconnected from reality and may experience an emotional overload. Non-verbal communication of affection may have different effects on negotiators than verbal communication. This is due, at least in part, to the ambiguity of interpretation of nonverbal expression: the same expression can be interpreted as sending a tough or less tough message.

At the heart of this issue is how emotional information - the verbal or nonverbal types - are used to assign intentions to others. Acting on functions, negotiators can change their own behaviour, which in turn can influence the other's strategy. Each negotiator may interpret the roles of management interpretation (decoding) but also the impression (encoding). Carnevale (1986) integrated decision-making models with models of emotional states. He wonders if the negotiators emotional states influence the impact on the Framework Decision. Specifically, he tests an intriguing proposal, if positive affectivity may change the points of reference for negotiators and if it can change the well-known framing effect. Based on evidence that increased positive affectivity and optimism creates strong expectations of success, he argues that for negotiators who are experiencing positive affectivity, earnings will prevail losses. On this basis, he said that the negotiators will happily make fewer concessions rather in a gain frame than in a frame loss. Subsequent experiments demonstrated, first, that happy negotiators are more cooperative. They do more concessions and make more integrated offers to the other party. Importantly, it also shows that the framing effect can be reversed under the influence of positive affectivity: while negotiators with neutral emotions were more resistant to making concessions in case of loss framework, negotiators who shows positive emotions was more resistant in making concessions in accordance with a win frame.

Continuing the theme of contextual sensitivity, Kopelman and Rosette (2006) wonder if there is cultural variation in how negotiators respond to strategic display of emotions. Unlike other papers in this issue, Kopelman and Rosette focus on the strategic (intentional) expression of emotion, rather than real emotion. These authors stated that negotiators are more likely to accept the offers when they are accompanied by expressions of positive emotions, with the condition that these positive emotions are culture specific. They argue that, for emotional expression to be effective, it must be congruent with cultural values of the other parties. This implies that the expression of positive emotions will be effective if the other party values the harmony while expressing negative emotions will be effective when the other part focuses on the system of offers and counter offers ("bargain").

In their first experiment, Kopelman and Rosette show that in Asia negotiators are more likely to accept offers that are made in the context of positive emotions than those made in the context of negative emotions. In the second experiment, they show the contrast to the impact of strategic display of emotion in a culture that emphasizes harmony (Hong Kong) to one that emphasizes honesty and says it bluntly (Israel). This experiment reproduces the findings of the first experiment (with Asians), but, contrary to these assumptions the authors show that Israeli negotiators are indifferent to an offer even if accompanied by expressions of positive or negative emotions.

Taken together, the items listed above provide an interesting set of problems for further research of emotions in negotiation. First, we can expect that other studies to examine emotions such as surprise when expectations are disappointing, sadness when alternatives are unattractive and dependency increases, shame when the loss of honour is involved or when negotiators are proud, and when interest or involvement increases the stake. Secondly, the interaction between emotion and cognition has an exciting range of research challenges: for example, how negotiators use emotional information to develop or change strategies.

Dispositional affectivity, similar mood, or personality trait is a general tendency to respond to situations in ways that are predictable and stable. This feature is expressed by the tendency to see things in a positive or negative affectivity. Individuals with positive affectivity tend to perceive things through a "pink lens", while people with high negative affectivity tend to perceive them as through "black lens".

The level of dispositional emotionality and feelings affect behaviour immediately and often unconsciously, and its effect may be extended (from several weeks to several months). Numerous studies show that there is a correlation between dispositional affectivity (both positive and negative) and the important issues in psychology and social sciences, such as personality, culture, decision making, negotiation, psychological resilience and ability to cope with events stressful in life. Therefore, this topic is important both in researches in social psychology but also in researches that involves organizational psychology.

### **3. CONCEPTUAL DISTINCTIONS BETWEEN EMOTION AND MOOD**

Besides dispositional affectivity, there are other concepts to express negotiators emotions, such as mood or discrete emotions. These concepts are different regarding dispositional affectivity, although there is a connection between them. Dispositional affectivity is different from emotion or affection, as a personality trait while emotion is a general concept for people's subjective responses in certain situations. Emotion includes the overall responses (positive or negative emotions) and specific responses (love, anger, hatred, fear, jealousy, sadness, etc.). The power of emotions that a person feels can come from its level of dispositional affectivity.

Dispositional affectivity is also different from the mood, because mood refers to a general feeling that usually tends to be diffused and not focused on a specific issue or object. Although the mood is typical, is not a personality trait. However, positive affectivity may explain why a person is generally in good mood, because positive affectivity means to see the world in a good light. The same is true for negative affectivity, which may explain why a person has a bad mood because negative affectivity means to see the world in a darker light.

In general, although researchers disagree on how emotions and dispositional affectivity should be classified, a common classification of emotions implies that each emotion is a combination of pleasure (positive or negative) and stimulation. For example, emotion is a combination of high pleasure and stimulation, while calmness is a combination of pleasure and low incentives. Dispositional affectivity also is a combination of pleasure and stimulation. In accordance with the classification mentioned above, there is a known and common organizational model used in psychological research for analysis and classification of dispositional affectivity, which was developed by Watson and Tellegen (1985). Researchers argue that there are two dimensions of dispositional affectivity: positive affectivity and negative affectivity and that each person has a certain level of affection both positive and negative affectivity. Therefore, according to this model and contrary to intuition, positive affectivity is not the opposite of negative affectivity, but a different aspect of it. According to Watson & Tellegen (1985) are these two quadrants that pivot causing positive affectivity and negative affectivity of a person.

- Positive Affectivity - describes a person who tends to be cheerful and energetic, and experiencing positive mood (such as pleasure or well-being) on a variety of situations. People who have low levels of positive affectivity tend to have a low level of energies and melancholy. The high level of positive affectivity is the extent to which an individual feels energetic and excited, while low positive affectivity is the extent to which an individual is feeling sad, without energy or tired.

- Negative Affectivity - describes a person's tendency to be stressed and upset, and with a negative view of himself in time and in different situations. It is important to understand that low levels of negative affectivity are perceived as positive traits because these are people who are more calm, serene and relaxed. High levels of negative emotionality is the extent to which an individual feels anger, irritability, nervousness or fear, while low levels of negative emotionality is the extent to which an individual feels calm and serene.

### **4. EMOTIONS' CONTEXTS IN NEGOTIATION**

Several previous studies have pointed to the importance in negotiation process of emotional expressions such as happiness and anger. Both emotions can be socially-induced and can lead to mutual expressions (McIntosh 1996). Positive feelings were shown to have beneficial effects on negotiations. Even when feelings are induced by the simplest method, negotiators indicate that they have increased confidence in their judgments, had more creative approach to problem solving, positive results were expected and offered more concessions (Baron 1990, Carnevale and Isen 1986, et al. Kopelman 2006).

However when positive emotions are induced, as flattery, negotiators may become reluctant to flatterer intentions. When flattery is seen as manipulative, it can turn against the one who applied (Baron 1990). The anger can have positive or negative effects on the negotiations if is used to indicate how confident is related to a problem regarding the fairness of the proposed distributions or procedures, or possible consequences of continued intransigence. The key is to distinguish between anger directed towards the task and the anger directed towards another person (Daly 1991; Jehn 1994). For example, a negotiator can direct attention to possible unfair distribution induced by a proposal (task) or a person intention to operate unfairly or with too selfish intentions. Improved relations have been shown to result from the process of obtaining cooperation and mutual beneficial results (Druckman 1998; Olekalns and Smith 2005). An important issue in positive emotional expression is identifying criticism in the process of building and maintaining social ties (Shiota et al 2004.). Dunn and Schweitzer (2005) show the relationship between positive emotions and perceived confidence.

In addition, negotiators who displayed positive emotions in an interactive simulated dispute were more likely to include instructions in agreements for future business relationships that increase joint outcomes (Kopelman et al., 2006). On this basis, it is easy to conclude that positive emotions should facilitate collaboration and the impact of emotional expressions appears to be context sensitive. For example, recent research indicates that power manifested and affect interacts in negotiation outcomes (Anderson and Thompson, 2004) and their behaviours (Anderson and Galinsky, 2006; Olekalns and Smith, 2007, Van Kleef et al., 2006).

Tiedens and Linton (2001) found that emotions associated with certainty, such as happiness and anger can be differentiated from those associated with uncertainty, such as surprise. A possible consequence is that these different shades of emotions (positive vs. negative) create certain expectations when negotiators are optimistic, happy. They are also creating pessimistic expectations when negotiators are upset. As a result, happy negotiators anticipated that the other party is qualified and that a settlement is likely to occur. The authors conclude that cooperation is an appropriate strategy. On the other hand, negotiators anticipated that upset and difficult negotiations cause disinterest and withdrawal from the negotiation process (Forgas, 1998; Knapp and Miller, 1985; Van Kleef et al., 2004).

Stereotypes influence expectations about emotional expression. Consistent with the stereotype of a female style of negotiation, more emotional, most of us expect that women experience and express a wider range of emotions than men. The two exceptions to this general expectation refer to expressions of anger and pride, both of which are seen as more typical in men than in women (Kray and Thompson, 2005).

Research indicates that negotiator's emotions do not necessarily affect the negotiation process. Kray and Thompson (2005) suggested that there are two conditions for emotional affect, both related to the ability (presence of environmental or cognitive disturbances) and the motivation:

1. Identification of the affect: requires high motivation, high ability or both;
2. Determination that the affect is relevant and important for the judgment: requires that the motivation, the ability or both are low.

Emotions are expected to affect negotiations only when one partner shows high level of emotions and the other shows low level. When both ability and motivation are low the affect will not be identified, and when both are high the affect will be identified but discounted as irrelevant for judgment (Albarracin D. & Kumkale, G.T., 2003). A possible implication is, for example, that the positive effects on negotiations will be seen only when either motivation or ability are low.

Most studies on emotions in negotiations processes focus on the effect of the negotiator's own emotions on the process. However, what the other party feels might be just as important. When it comes to negotiations, trust in the other party is a necessary condition for its emotion to affect, (Van Kleef et al., 2007) and visibility enhances the effect (Carnevale, P. J., Isen, A. M., 1986). Emotions contribute to negotiation processes by signalling what one feels and thinks and can thus prevent the other party from engaging in destructive behaviours and to indicate what steps should be taken next: positive affects signals to keep in the same way, while negative affects points that mental or behavioural adjustments are needed (Barry et al., 2004). Partner's emotions can have two basic effects on negotiator's emotions and behaviour: mimetic/reciprocal or complementary (Butt et al., 2005). For example, disappointment or sadness might lead to compassion and more cooperation. In a study by Butt, (Butt et al., 2005) which simulated real multi-phase negotiation, most people reacted to the partner's emotions in reciprocal, rather than complementary, manner. Specific emotions were found to have different effects on the opponent's feelings and strategies chosen:

- *Anger* caused the opponents to place lower demands and to concede more in a zero-sum negotiation, but also to evaluate the negotiation less favourably. It provoked both dominating and yielding behaviors of the opponent.
- *Pride* led to more integrative and compromise strategies by the partner.
- *Guilt* or *regret* expressed by the negotiator led to better impression of him by the opponent, however it also led the opponent to place higher demands. On the other hand, personal guilt was related to more satisfaction with what one achieved.
- *Worry* or *disappointment* left bad impression on the opponent, but led to relatively lower demands by the opponent.

## 5. DECISION MAKING PROCESS AND THE EMOTIONS IN THE NEGOTIATION PROCESS

### 5.1. Emotions and the decision making process

When we are dealing with interesting and important cases, it was found that people who have a high level of positive affectivity make a thorough cognitive and efficient process and therefore their decision making process is more efficient, flexible, creative and innovative. It was also found that positive emotionality facilitates creativity, cognitive flexibility, finding new answers, openness to new information, etc. This stems from the fact that positive affectivity approach encourages problem solving and looking for alternatives in order to obtain an appropriate result. Finally, it was found that high levels of positive emotionality do not encourage risk taking, although not facilitate negotiation processes, and improves the outcomes of negotiating "face to face" in order to reach an agreement.

Using emotion effectively in negotiation involves understanding the emotions and feelings of the people you are negotiating with in order to project your influence. So you need high levels of intuition, and good influencing skills. For example, you and a strong competitor are pitching your services to the same client. You cannot offer a better service or lower price than your competitor. However, your organization invests some of its profits in charitable projects. So, part of your negotiations includes a presentation on how some of the income from this deal will be used to help your chosen charity. You use a storytelling approach, including real life examples of how your organization has benefited charities in the past, and highlight the projects that the income from this particular deal will help towards.

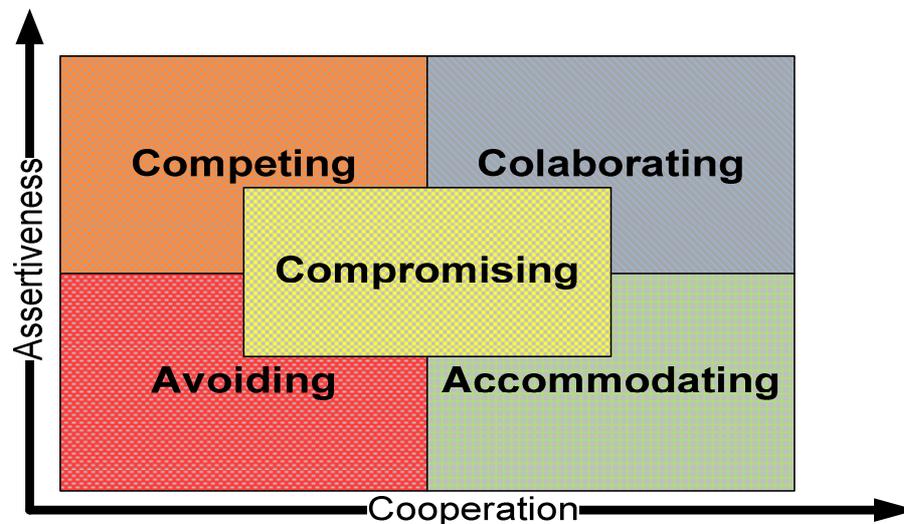
Obviously, using emotion in negotiation can be risky, and you need to have a good understanding of the people you are negotiating with for it to be successful. For instance, the example above wouldn't be effective for an organization that only cared about making the biggest profits. Therefore, emotion is typically used by highly skilled negotiators who have high emotional intelligence and empathy with other people.

### 5.2. Emotions and the negotiation process

When individuals negotiate, it was found that high levels of positive affectivity were related to the optimistic views on future performance, planning and using strategies of cooperation and better results in terms of the agreements were made, both in personal negotiating (rather formal) and in the group negotiation (formal). It was also found that positive affectivity is more likely to increase the use of strategies, to improve cooperation and negotiation results, even if only one of the negotiators presents the characteristic of positive affection (Saner, 2000) and increases the desire to agree about the offers, and such behaviour is changing as a result of this state. It was shown that a high level of positive affectivity was related to the desire to make a compromise, to find creative solutions, using strategies of cooperation, to use less cheating and have better outcomes in negotiation processes. Contrary to the findings on positive affectivity was found that high levels of negative affectivity were related to the use of competitive strategies and perform more poorly in terms of the agreements that were made. It was also shown that a high level of negative affectivity leads to more problems addressing the competition issues, leads to smaller offers, rejection ultimatums and lower gains from the process of negotiation and minimal desire to continue a cooperation strategy in the future.

Management theorists have developed and suggested a range of options for handling organizational conflict. Figure 1 outlines the various components of the Conflict Resolution Grid, which is the result of widely accepted research presented by Thomas and Kilmann.

Figure 1. Based on Thomas-Kilman Conflict Mode Instrument



Based on conflict management model presented by Thomas and Kilman ([www.kilman.com](http://www.kilman.com)) we can identify a network of emotions that arise in conflicts during the negotiations. This network of emotions is formed of five styles of managing conflict situations based on these two dimensions: assertiveness and cooperation. Assertiveness is an individual motivation that allows people to achieve their own goals, and cooperation assesses willingness to enable or assist the other party to achieve their goals. Any of the five styles of resolving a conflict in the negotiations might be appropriate depending on the circumstances and emotions of individuals involved.

1. Avoiding style of negotiations. *The avoidance style* features low characteristics as assertiveness and cooperation. In other words, a negotiator who adopts this style is not very cooperative in helping others to achieve their goals, but he does not seek intensely his results. Original problem, conflict or the situation is never directly addressed or resolved. However, avoidance behavior might be appropriate where the problem is perceived by the negotiators to be trivial.

2. Competing style in negotiations. *Competing style* approach to negotiation is also known as win-lose style. A negotiator who uses this style, characterized by high assertiveness and low cooperation, tries to reach his results at the expenses of other parties. This approach may be appropriate when a swift, decisive action is necessary, as is the case during emergency situations. This approach can also be used when faced with unpopular actions, such as reducing the costs during a crisis period.

3. Accommodating style in negotiating. *This style* reflects a high degree of cooperation. A negotiator who uses this style runs own objectives in background to allow others to achieve their goals. This behaviour is suitable when negotiators realize that they were wrong or when a problem is more important than the other side who adopt this style. This style of approach to negotiations is important to maintain relations between the parties.

4. Compromising style in negotiation. *This style* is characterized by moderate levels of both assertiveness and cooperates. Compromise generates suboptimal results. This behaviour can be used when the objectives are of equal importance to both parties when both parties have equal power, or when it is necessary to find a temporary solution, in very short time. This style should not be used when there is a complex problem that requires an approach to solving problems and not delaying the problem.

5. Collaborating style in negotiating. *This approach* has high values of cooperation and assertiveness and it is often described as a win-win scenario. Both sides are working creatively to achieve objectives and desired outcomes of the parties involved. *Collaborating style* is adequate, when negotiated problems are complex and creative approach is required. The disadvantage of this approach is that the negotiation process requires genuine effort by all parties involved and may require a longer time to reach an agreement.

## 6. CONCLUDING REMARKS

Of the five modes described in the matrix, only the strategy employing collaboration as a mode of conflict management breaks free of the win-lose paradigm. Instead, strategic considerations for managing conflict according to varied circumstances were identified. For instance, in a conflict centered on bids by two

alternative suppliers, the best choice might well be a competing strategy with a winner and loser. After all, the objective in such a situation is to win the contract for one's own company. In most cases, winning the contract can be accomplished only at the expense of the competing supplier, who by definition becomes the loser. However we must always keep in mind the further relations with our supplier who signs the contract with us because if the negotiated price is very close to his *Batna*, any minor changing in his production cost will take us in the position to resume negotiations or to stop working with him. That does not mean that we should always seek the best supply solutions in the market.

However, a competitive approach almost never works well in interpersonal conflicts between colleagues in organization. Unlike the case in which we are dealing with competing suppliers, in colleague's case, both the winner and the loser has to go to work together. Indeed, in many negotiations within the organization, a little more accommodating strategy may allow individuals to strengthen their negotiating position in future. In such situations, accommodating can be seen as a way to win by losing. For example, a manager may choose to give in a situation of an employee who is experiencing considerable stress as a means of motivation. Similarly, an individual might choose an accommodating strategy to balance the negotiation when his counterpart has already had to give up its most points. A successful negotiator in a win-loss situation that fails to make efforts to balance results may cause to the other party a reaction of lack of commitment or an open resistance.

Even the traditional approach of conflict avoidance has its place as an occasionally acceptable strategy. While conflict avoidance has justly been the subject of considerable condemnation, it can be rather useful in allowing both parties to cool off or in buying time until all the facts of a matter have been gathered. A manager might choose to avoid an employee in the throes of an emotional outburst, for example, until the employee has had sufficient time to calm down.

Finally, compromise is often a useful strategy when dealing with relatively small concerns. This differs from an accommodating strategy, in which the conceding party finds an issue unimportant that the opposing party considers comparatively important. A manager might enlist a compromise approach most effectively when both parties consider the issue to be of moderate or little importance. In such cases, compromising saves both parties the time required to employ problem-solving techniques to address the fundamental core of the conflict.

While these approaches have their place in the negotiations strategies among to be chosen, the collaboration style in the negotiation process is most beneficial for most types of conflict management. In this style, the conflict itself acts as a bargaining tool. Negotiator uses the conflict to guide the negotiating parties to address what, in essence, are the obstacles that the organization is facing and who actually are the reason for negotiation. Through a collaborative behaviour, the conflicting parties direct creativity to find innovative answers to problems. Collaboration as a way of handling the negotiation and also is an attempt to channel conflict in a positive direction, allowing the negotiator to use conflict and the emotions arising from it as a tool to achieve the objectives of the organization. In other words, this method of handling emotions in the negotiation act less as an intervention in the negotiation and more like a real negotiating process management.

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## LOGISTICS REVERSE MANAGEMENT, CHANCE OPPORTUNITIES FOR SUITABILITY TO CONTEMPORARY COMMERCIAL PATTERN

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**Abstract:** *This article is based on an analysis regarding the globalize trade environment, giving a neo-vision on strategies that require the current global conjuncture. In addition, we are currently in a position to give such answers that arise during the reverse supply chain, upstream and/or downstream. We think that right now are required a series of new strategies and mechanisms to overcome the obstacles on the current organizations way in order to be turned into a real support on the scene of this new trend of the XXI century respectively direct and reverse logistics management.*

**Key-words:** reverse logistics, distribution, sustainability, globalization, management

**JEL classification:** M01

### Methods and materials

Course to reach this level it is require a set of direct costs and / or indirect that certainly gives a new strategic dimension (Axelsson, Laage-Hellman, Nilsson, 2002) at those who are responsible to this issue corresponding inverse distribution.

We ask once you arrive at this level if this approach finds its place in the equation of sustainable competitive advantage. This would impose in our vision to orient our attention to the need to operate chains of costs to be piloted in a transparent and efficient distribution throughout the channel which are already involved in this process (Barry, Girard, Perras, 1993).

In fact, through this we imagine the translation from the traditional management to a sustainable macro-micro custom area (Hauschild, Wenzel, Alting, 1999) concerned the logistics channels. It is understood by this that we want an escape from the primary concept of SCM (Supply Chain Management) that is found in the French version as the MLI (Management Logistique Intégré), into an area of a neo-NSCM (niche supply chain management). This proposed orientation finds its new guidance to ensure a managerial approach able to increase the quality of results that behave in the upstream and downstream value creation chain, in parallel with an operational customize their reverse logistics niche segments of the SRI market.

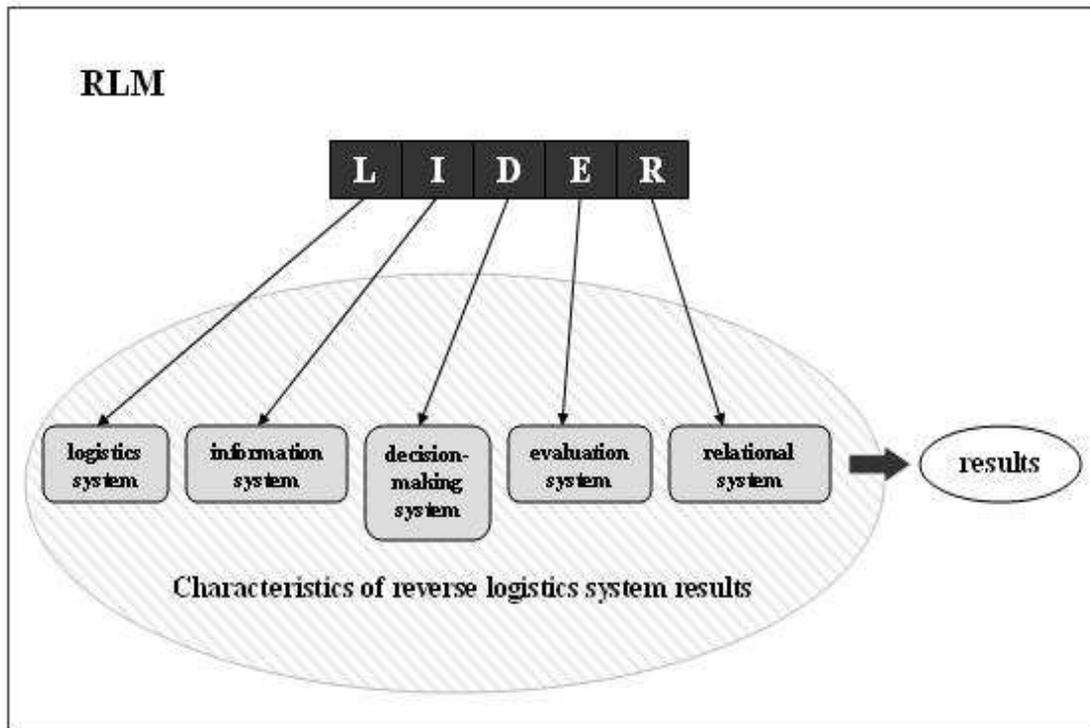
We appreciate that ensures a strong interface between course participants converging towards a sustainable especially effective materialization of complex organizations operating in the field found in the portfolio. The XXI century business template can not be superimposed on a period which has been led by traditional management principles and generalized leverage and structure principles mentality. This is all the more strongly contradicted by the reality of a globalized world tentacular which must increasingly take account of unexpected information that visibly affect any scripts and/or marketing forecasts.

During its evolution, experts and practitioners have speculated new areas of applicability of the management, both in science and especially in economic theory, so that its practical usefulness scope gradually expanded, maintaining active economic thinking in trying to find spectacular new challenges in the field at the end of this millennium, given the increased capacity development and adaptation to very different conditions and environments, which actually increases its special attractiveness.

This approach requires a neo-course approach IORM type (inter-intra organizational relationship management) able to demonstrate a proactive sporty looks at information transfer chains, both in theory and especially practical. To do this requires providing a synthetic base able to absorb financial reports (Hurkens, Van der Valk, Wynstra, 2006) as well as strategies and tactics directly related to control information so as to insure a continuous LARS (logistics analysis and reporting system).

From here we understand that RLM (reverse logistics management) must converge to a mentality in a uniform manner incorporating the past experiences with the current and/or future niches or opportunities so as to derive a LIDER type mechanism, efficient in terms VAC (Value Chain Analysis) and implicitly TCO (Total Cost of Ownership).

**Figure 1. LIDER type proposed mechanism focuses on five strategic organizational systems**



In fact, this principle is already tolerated and even developed in the area of the U.S. (over 30% of returned electronic products intended for resale retail) and at the present at the Europe area. Moreover, it talks about the rise of CELI (commerce électronique pour la logistique inverse), which clearly requires a modern guidelines specific to this growing CCU (buyer-consumer-user) satisfaction. Here is located the correct positioning problem of a strategy which should address to a new vision in order to obtain a differentiation of how to meet the NPA (needs, preferences, expectations) of modern CCU.

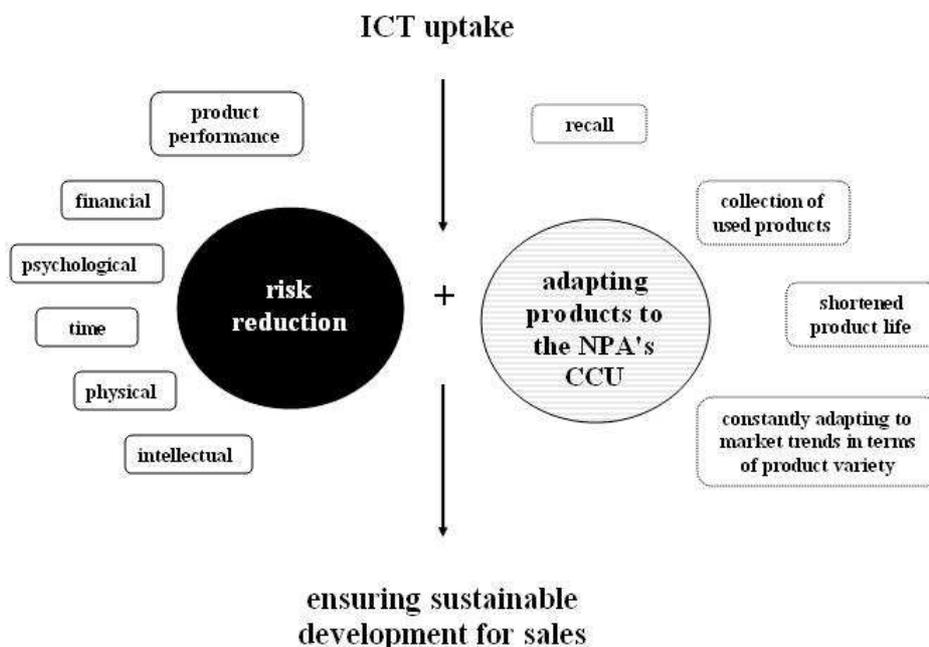
As the entire configuration of economic and social activities has expanded beyond the nation-state regulations, there are a number of sides gradually apparently surprising and interesting: new challenges players must type aroused the government monopoly, the emergence of multinational corporations, markets global financial, non-governmental organizations, criminal organizations and international terrorist networks, etc. In these circumstances, experts consider that the problems of this century are mainly global and national minimum, thus urgently needed global rather than national settlement.

Thus, the scope outlined in the new realities of international economic relations have led some analysts to assert that the present world economy is moving gradually towards a new globalization model, based on the network, thus causing obvious transition from a system of interdependence focused mainly on classical forms of trade towards a new and complex immaterial interconnections.

By this we mean the ability to actually store information as a complex axis (Nagel, 1998) that all procedures related to returning the product by current CCU (the manufacturer has the capacity to test the reliability of the products to the requirements of modern CCU, causes defects, which puts him in a position to work shifts and/or subsequent adaptations designed to align market reactions (Pacha, Colin, 2000) and a pilot sustainable distribution of the product cycle in question) in parallel with a depletion of environmental pollution, collection, containment and respectively recycling products).

From here you can easily reach another stage of placing the importance of reverse logistics in the context of the EFS (economic-financial-social) crisis (Dumitraş, Roşu, 2010b) specifically for the 21st Century, according to the figure below:

**Figure 2. Placement pattern of reverse logistics in the current EFS crisis**



Phenomenon of reverse logistics actions (recall, waste, reusing materials from the recycling, re-commissioning of the products as a result of repairs and/or remanufacturing) should follow a trend matching opportunities, risks and pitfalls of globalization in order to reach level of intake with non-priority CCU items, so that both the logistics of the production cycle and to eliminate losses in a favorable way, resulting in profits in direct correlation with the fairness and cost-benefit and/or cost-utility rationality.

By this we mean of course that it is imperative to confront the vital necessity of absorbing the baggage information and know-how transmitted by ICT (Fleischmann, Krikke, Dekker, Flapper, 1999), in conditions that should not remain without significance the fact that the majority of current commercial information system of enterprises (especially SMEs) do not allow them to monitor, manage and provide a database related issue of reverse logistics (Vollmann , Berry, Whybark, 1997) and the connections it implies and requires the same time the market.

This warning must be treated quickly to organizational and managerial level, especially where those issues can be found both inside and outside the company is responsible for the production of commercial products (Nagel, Nilsson, Boks, 1999) and then the factors responsible for their course until the final and / or intermediary CCU.

We certainly think the maintainability of a pattern information capable of supporting information flows upstream and/or downstream value creation chain, which is registered then performed and the results reflected general and/or summary by the profit and loss and / or commercial trade organizational balance. The problem at this level is achieved (Fleischmann, Krikke, Dekker, Flapper, 2000) in favor of charging related effects that massification and standardization information. How and how far it can be organized, archived and managed quantitative and qualitative information volume to reflect in a transparent approaches the reverse logistics corresponding SWOT. This consideration leads us, conditionally, at the necessity of implementing STPOS (strategic, tactical, operational, proactive, synergistic) decision, able to harmonize the insurance and especially the mechanism for implementing a reverse logistics of third Millennium adapted screenplay (Krikke Van Harten, Schuur, 1998). As such, neither could it sees the lack of de facto existence of a barrier type filter to properly disseminate transport issues, maintenance, inventory, production planning, etc.

If we think that we are required to focus increasingly GL (green logistics), as a translation from the TL (traditional logistics) behavior, then focus the analysis steps towards past, present and future of reverse logistics is a goal that future generations can not afford to miss it by the actions of contemporary generations. This mechanism is not neo-utopian thinking but he wants a corollary of the evolutionary path corresponding rationalization of rules, regulations, rules, laws such as GEL (green economic landscape) to be based on

pillars of NIFM (new information flows management) which clearly requires compliance with a tandem-charge short term opportunity-axis reactivity (Pacha, Bacchus-Montfort, 2002).

Thus, in a responsible manner will not reach an agreement on the neo-guidelines, it will materialize in operational practice, an amendment by systemic factors passive nature of criminal responsibility eco-business. Also this organization will be marginalized in future trade negotiations and chains scene entrepreneurial activities which will actually lead to a loss of real CCU and/or potential as long as they would become co-responsible for choosing their future. In addition, EIL (Eco-integrated logistics) raises the standard commercial management, specifically requiring the development of ICN (information cooperation network) so that, over time, resulting in an effervescent synergy of organizational know-how, managerial, in able to contribute effectively to the completion of recovery PBP (piece-by-piece) of the entire commercial site package (parts, raw materials, packaging).

While optimizing Supply Chain has been a long-distance competitive advantage, globalization has altered the customary pragmatic, especially against the backdrop of delivery requirements and reduce the time frame in which the product must come in possession of CCU, the emergence of concepts innovative interventions that limit the traditional home field, are required option value-added transportation solutions to be able at the same time be convenient and risk factors or fortuitous conjunctures impossible to predict at any given time. Therefore, even if one or another of the instruments is becoming increasingly unpredictable, the reasoning remains anchored to the primary organizational priority level of progress known: gaining and maintaining performance, rationalizing costs, optimize product quality both from a conceptual point of view and in terms of indicators of sustainability, maintenance, safety, utility behavior.

Instead, it becomes increasingly obvious that the near horizon for reverse distribution forms will gain new levels of confidence in the logistics strategies, as long as the consumer millennium is surrounded by a more extensive package attractive commercial offers, in the context of the the pattern of crisis (Red, Santa, 2010) today still tends to manifest itself in the sphere of commercial business. Moreover, the current international context in which the spirit of Arab riots become a negative factor in oil price pressure especially recommended acceleration managerial-entrepreneurial vision for environmental issues and enabling proactive aspect of the elements, strategies and tactics in a position to maximize the integration of reverse logistics operations in the global logistics channels long term, however, directly reflected the level of GSRL (green sustainable reverse logistics).

Finally, we find it appropriate to consider that a happy way to overcome the current crisis on their own land EFS chess 21st century globalization (Dumitraş, Roşu, 2010) is the ingestion of NICT (new information and communication technologies) in order to course to achieve positive economic commitments to the future image of organizations that have customers in their portfolio. In return their geopolitical scene will appear clearly outlined tasks towards eco-responsibility EFS, while assimilation of STMM (strategies and tactics for marketing management), able to optimize the reverse logistics flows in a consistent approach to modern business practices.

## Conclusions

The role of this research lies in the importance given to primary focus on information flows and relationships that are interrelated and / or reverse logistics related steps (Bloemhof-Ruwaard, Fleischmann, van Nunen, 1999) which, at least in Romania, have a limited level energy released in the local market.

Unfortunately, this is a worrying indicator directly linked to lack of consistent information on the one hand (Kokkinaki, Dekker, van Nunen, Pappis, 1999) directly targeted on this subject of great impact on the current international scene, and secondly the degree itself low correlation between some management directive that clear and transparent strategies and tactics that require situational default.

From here we tried to imagine the reasons and arguments for the state bringing their end products to their point of departure or any others directly related to the goal of recovering their value as evidenced in the behavior of modern CCU. For this we found that reverse logistics (Wu, Dunn, 1995) should translate to more and more natural resources within the cycle in a circular process which closes the circuit products in a responsible manner both for present and future generations

In our opinion, this feed-back not only to optimize the satisfaction level of NPA CCU sites so as to derive new parameters sustainable (Brebănu, Borlea, Roşu, Şanta, 2010) focus on cost-value results axis. So the name itself is justified LI (logistique inverse) or RL (Reverse Logistics) (Carter, Ellram, 1998), without creating even the slightest amount of confusion, given the complementarities between the two terms only and not overlap terminology, as there is a tendency to generalize theoretical and practical.

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## MULTINATIONALS FROM EMERGING ECONOMIES WIELD INCREASING INFLUENCE ON THE GLOBAL ECONOMY

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**Abstract:** *The paper deals with the recent expansion of multinational firms from the developing world and their growing influence upon the global production and trade. Released from the straightjacket of their home countries tight regulations, a great number of companies from emerging economies have embarked upon a vast internationalization process, largely based on outward investment and the setting up of affiliates overseas. The process is complex and seemingly inexorable.*

**Keywords:** emerging economies, multinational enterprises, foreign assets, driving forces, acquisitions

**JEL Classification:** F23

### 1. Introduction

The decades-long commitment of many developing countries' governments to exacerbated protectionism (through imports substitution, high import barriers, discriminations against foreign companies etc.) wound up rendering companies in the respective countries ill-fitted to withstand international competition, vulnerable to foreign markets' whims and unable to generate high-enough revenues to foster economic development. In such a context, companies from developing countries not only were in a sorry state relative to their western counterparts in terms of international competitiveness but there were few incentives and means for them to internationalize.

Beginning with the second half of the 1990s a number of emerging economies that had traditionally hosted foreign investors gradually became sources of foreign direct investments themselves. A growing number of companies headquartered in these countries have steadily expanded internationally, climbing up, slowly but decidedly and somewhat stunningly, international rankings. Consequently, the respective countries became home to full-fledged multinational companies (MNEs), capable to compete against western multinationals on the world markets. Shedding some light on certain peculiar aspects of this process constitutes this paper's main goal.

### 2. Driving forces

Empirical studies so far have not revealed elements that should push the emerging markets multinational enterprises (EEMNE) s' expansion outside the incidence of the conventional theory of foreign direct investment and multinational firms. The dynamics of the said process can be explained, fairly well, with the aid of the existing conceptual framework.

The difference between EEMNEs and developed countries multinational enterprises (DCMNEs) in this respect, resides in the relative importance attached to certain determinants, depending on the firm's position on its domestic market, financial and marketing potential, international competitiveness and capacity to internationalize its operations. Among the host of reasons that induce firms to internationalize their operations, three are probably most noteworthy: exploiting comparative and competitive advantages on foreign markets; responding to pressures from domestic and international competition; enhancing the firm's technological capabilities, market power, value and efficiency. These determinants and their incidence on EEMNEs' expansion will be briefly examined below:

Firstly, exploiting comparative and competitive advantages on foreign markets is closely related to the export-led growth strategy, so suggestively depicted by Bhagwati (1988, p.63). The export performances scored by the NIEs during the 1980s and the 1990s are indeed a strong indicator of their industrial potential and growing ability to compete with western rivals, even in high-technology domains. The novelty of the 2000s is that comparative and competitive advantages underlying the NIEs' exports are now being exploited

preponderantly through outward foreign investments thus falling, basically, under the incidence of the OLI framework. However, as Aulakh *et al.* (2000, p.343) emphasized, conditions are now different, meaning that firms find it hard “to compete in the global marketplace solely on the basis of comparative cost advantages in labor and natural resources”. This type of edge cannot secure the competitiveness level that is required in the confrontation with DCMNEs on the international arena.

According to UNCTAD (2006, p.147), EEMNEs most valuable advantages derive from three main sources i.e. “technology and expertise ownership”, “access to home country resources and activities”, and “production process capabilities”. Technology and expertise ownership (including brands, marketing and managerial skills etc.) as well as production process capabilities are endogenous to the firm; such advantages can be exploited by EEMNEs in industries that are resource processing-based. Access to home country resources and activities is an exogenous factor; it is particularly important in resource-based industries.

Secondly, globalization has compelled firms throughout the world (and implicitly, from emerging economies) to adjust in order to cope with increasing pressures from both domestic and international competition. Domestically, firms are grappling with shrinking market shares after the removal of trade barriers and other discriminating measures against foreign competitors. The tinier the country, the more harshly are domestic firms squeezed by foreign competition. This explains, at least in part, the extraordinary expansion, ever since the 1980s, of firms headquartered in tiny countries like Hong Kong, Taiwan and Singapore. Globally, competitive pressures have prompted firms in emerging economies to internationalize their operations before contenders from other emerging economies do it, lest they jeopardize positions held on foreign markets or their ability to enter such markets. Speed and firm action are therefore critical.

Thirdly, firms that internationalize their operations, with or without capital investments aim to enhance their technological capabilities, market power, value and efficiency. According to empirical evidence, EEMNEs have expanded preponderantly through merger with or acquisitions of foreign firms (or chunks thereof), making less use of green-field investment or joint ventures. The extent to which mergers and acquisitions (M&A) by EEMNEs have been successful in attaining the most coveted goals (technological upgrading, asset augmenting, increase in value and efficiency etc.) is a controversial issue. “When the Chinese state-owned enterprises do go abroad, they are in search of technology, but they are not doing well through acquisition”. (Rugman 2008, p.136) One must nonetheless note that in the case of DCMNEs, debates around M&A results are no less animated: most authors agree they generally yielded mixed results. Although research studies so far are in favor of the hypothesis that M&A activities do create synergies and augment firm’s assets and value, “in reality, data show that acquirers typically fail in their acquisitions”. (Kale 2006, p.140) Capron and Pistre (2002, p.781) rightly point out that “acquisitions are a mixed blessing for the shareholders of acquiring firms, even when they create synergies”.

### 3. Directions and strategies

International statistics and empirical observations point to domains and geographical locations that are most intensely targeted by EEMNEs and concomitantly, domains and locations that are still, if not avoided, hardly accessible to them. In principle, domains and geographical locations are correlated with driving forces and motivations: EEMNEs tend to invest in those particular domains that allow them either to explore or add to their comparative and competitive advantages; correspondingly, they tend to locate their foreign affiliates on those markets that are likely to best respond to their marketing policies. Thus EEMNEs tend to invest preponderantly in the following domains: motor vehicles; electrical & electronic equipment; computers and related activities; oil/gas extraction, refining and distribution; telecommunications; chemicals & pharmaceuticals; food & beverages; mining & quarrying; metals & metal products; transport & storage; non-metallic mineral products; textiles and apparel; diversified. From among the untapped or hardly tapped domains by EEMNEs, being less accessible to them for various reasons, one could mention: wholesale and retail trade, media and business services.

As per geographical locations, empirical evidence show that EEMNEs’ expansion mostly occurs at regional level. Data in table 1 show that between 2003 and 2006, EEMNEs’ holdings of foreign assets increased, on average, by 157.6 percent, three fold the DCMNEs’ increase (50.3 percent) in the same interval. Yet at the same time, the latter had a much higher average degree of trans-nationalization and internationalization (6.11 percent and 0.47 percent respectively) than the former (3.7 percent and minus 3.1 percent respectively). These results are compatible with Rugman & Doh’s findings (2008, p.149): according to data, they note, most of the firms from emerging markets were home region-based in 2004, and the situation did not changed sensibly in the next years.

**Table 1 – Foreign assets, trans-nationality and internationalization indexes for most representative DCMNEs and EEMNEs by domain, during 2003-2006 (\$ bn. and %)**

	Foreign assets		TNI		II	
	2006	'03-'06 (%)	2006	'03-'06 (%)	2006	'03-'06 (%)
<b>I. Motor vehicles</b>						
dca Honda Motor (Japan)	76.2	43.5	0.82	10.0	0.58	- 18.7
dc Volkswagen (Germany)	91.8	58.8	0.57	4.1	0.65	- 6.7
eeb Hyundai Motor (Korea)	19.5	1,047.0	0.26	1.5	0.67	- 12.1
ee Kia Motors (Korea) <sup>c</sup>	6.7	71.7	0.40	3.8	0.93	17.2
<b>II. Electronics/equipment</b>						
dc General Electric (US)	442.2	70.8	0.53	9.8	0.70	- 6.4
dc Hewlett Pack. (US)	37.6	17.1	0.59	7.5	0.90	7.5
ee Hon Hai Precision (Taiwan)	7.6	171.4	0.55	0.2	0.87	11.5
ee Acer (Tai)	3.0	150.0	0.72	6.1	0.73	9.1
<b>III. Oil/Gas</b>						
dc Royal Dutch/Shell (UK/NL)	161.1	43.2	0.70	- 1.8	0.56	7.2
dc Exxon Mobil Corp. (US)	154.9	32.6	0.68	1.9	0.80	3.6
ee CNPC (China)	6.3	57.5	0.02	- 0.4	0.07	- 86.7
ee Petrobras (Brasil)	10.4	33.3	0.15	0.1	0.95	- 6.9
<b>IV. Telecommunications</b>						
dc Vodafone Group (UK)	126.1	- 48.2	0.85	- 0.1	0.23	- 12.3
dc Telefonica SA (Spain)	101.8	204.7	0.69	22.1	0.80	13.2
ee Singapore Telecom. (Sing.)	18.6	3.9	0.67	24.5	0.95	18.8
ee America mòvil (Mexico)	8.7	1.1	0.47	- 2.7	0.48	- 26.5
<b>V. Food/Beverages</b>						
dc Nestle (Switzerland)	66.6	62.4	0.83	8.9	0.93	- 1.0
dc BritishAmer. Tobacco (UK)	19.8	11.2	0.66	- 0.2	0.77	8.7
ee Fraser&Neave (Singapore)	2.6	100.0	0.60	4.9	0.40	- 13.4
ee Gruma SA de CV (Mexico)	1.4	40.0	0.60	1.6	0.16	- 6.7
<b>VI. Mining/quarrying/metals</b>						
dc Alcoa (US)	19.7	52.7	0.54	7.9	0.60	4.7
dc Anglo-American (UK)	30.9	43.0	0.70	7.7	0.39	1.4
ee Metalurgica Gerdau (Brasil)	4.0	100.0	0.53	14.1	0.53	18.0
ee Vale do Rio Doce (Brasil)	14.9	380.6	0.37	- 3.4	0.32	3.6
<b>VII. Diversified</b>						
dc Procter & Gamble (US)	64.4	93.3	0.59	0.7	0.81	- 0.1
dc Unilever (UK/NL)	34.4	20.2	0.79	14.5	0.66	5.5
ee Hutchison Whampoa (H.K.)	70.7	19.6	0.83	10.9	0.92	11.2
ee Barloworld (S. Africa)	2.5	31.5	0.42	- 9.3	0.69	19.5
Average growth (dc)		50.37		6.11		0.47
Average growth (ee)		157.68		3.70		- 3.1

<sup>a</sup>firms from developed countries; <sup>b</sup>firms from emerging economies; <sup>c</sup>the data refer to the year 2004.

Source: UNCTAD - "The world's top 100 non-financial TNCs, ranked by foreign assets" and "The top 100 non-financial TNCs from developing countries, ranked by foreign assets", 2003-06. Percentages were calculated by the author.

Strategies are correlated with the targeted domains and locations. As stated earlier, the majority of EEMNEs were, at the outset, exporting firms (some of them, quite successful) that subsequently embarked upon FDI-based strategies, basically oriented in two directions: exploiting existing assets respectively augmenting total assets. Assets exploitation is closely related to EEMNEs' possibilities of turning their competitive advantages to good account; this can be achieved by seeking foreign markets for products and services that are already supplied domestically or by transferring production to foreign locations, where factors (mainly labor) can be procured at lower costs, in order to increase efficiency. Consequently, asset-exploitation strategies applied by EEMNEs in their international expansion through outward FDI should be deemed to follow prior export-strategy patterns. However, this is not the case. While in the exporting business, as findings by Aulakh *et al.* (2000, p.342) suggest, developed country markets responded much better to cost-based strategies whereas product differentiation strategies turned out to be more successful on developing country markets, in the outward FDI business things happened the other way around: EEMNEs are laying greater stress on non-price competitiveness factors when investing in developed countries, while paying greater attention to price competitiveness factors when investing in developing countries. (Makino *et al.* 2002, p.407). The explanation is straightforward: in the exporting business, since firms from emerging economies are known to possess a labor-cost advantage over their developed countries competitors, customers on developed countries' markets will expect products and services from developing countries to be cheaper (or much cheaper) than those produced in the west. By contrast, in the FDI business, EEMNEs that invest in developed countries will try to reach at a par with western firms in terms of product quality, branding, customer service etc., so that price competitiveness will be a secondary priority.

Unlike asset-exploiting strategies, which fit theory predictions well enough, EEMNEs' asset-increasing strategies is marked by certain aggressiveness, which is due to their eagerness to accumulate technology, know-how and managerial expertise as fast as possible. In so doing, they aim "to tap into foreign pools of knowledge, be it technical (research clusters), managerial (introducing international standards of managing), or market-driven". (Hauser 2008, p.137) Luo & Tung (2007, p.481) use the term "springboard behavior" to describe EEMNEs' struggling "to overcome their latecomer disadvantage in the global stage via a series of aggressive, risk-taking measures by proactively acquiring or buying critical assets from mature MNEs to compensate for their competitive weaknesses". Other authors, e.g. Makino *et al.* (2002, p.407) are even more categorical, suggesting that "many EEMNEs have gained access to established brand names, novel product technology, and extensive networks of distributors, typically via aggressive acquisitions of DC firms in the host countries". However, their insistence has not always been rewarding: empirical evidence show that many such deals failed, partly or completely, for various reasons (including intercultural clashes) and brought in disappointing returns.

While accelerating the globe coverage, EEMNEs seem nevertheless to neglect or utterly ignore the principles of the so-called "Uppsala paradigm" according to which, the engagement in each country must be looked upon as "a matter of knowledge development"; each step outwards means "the firm learns something new", which constitutes "the basis for another step later on". (Johanson, Vahlne 2003, p.6) No less important is the relation-specific knowledge, especially in business networks building. (Johanson, Vahlne 2009 p.1416)

#### 4. Conclusions

EEMNEs' asset-augmenting strategies seem to conceal an undeclared wish to burn stages, with the aim to speed up the process of building global networks and catch up with their Western contenders. By leapfrogging stages, the networks EEMNEs are building will be more fragile than those built by DCMNEs; consequently, their internationalization process will be likely to advance more slowly relative to their growth in quantitative terms.

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## THE IMPACT OF THE GLOBAL CRISIS ON THE ROMANIAN IT FIRMS' STRATEGIC BEHAVIOR

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**Abstract:** *Our paper emphasizes the competitive landscape of software industry which was highly affected by the crisis as all the other sectors. Our analysis started from the global perspective of this industry, revealing the strategic behavior of the major IT players from worldwide in the context of the crisis; in the second part, our approach was concentrated on the Romanian software and IT services market and we highlighted the crisis impact on their business strategies.*

*Romanian IT firms which are able to face the crisis effects are characterized by a market-driven thinking that is more focused on customers than competitors. Understanding customers buying criteria is essential in highly competitive software markets, while designing and using a Competitive Intelligence tool will help their management teams to find the best strategic options in view to improve the market position. In this way, we consider that the Cultural Intelligence pattern that we developed and discussed in the last part of the paper can be a powerful strategic tool for the IT project managers.*

**Keywords:** crisis, globalization, software industry, competitive intelligence, customers buying criteria

**JEL Classification:** M15, M21

### 1. Overview of the crisis' influence on the global IT industry

Recessions separate winners from losers. While overall profit levels fall within an industry, there can be great variation in economic performance from company to company. Markets consolidate as outperformers strengthen their positions, while underperformers drop out. (Rhodes, Stelter, 2010)

The crisis has presented major challenges for the global partnerships within IT industry but it has also brought with it new opportunities for strengthening them. In this context, the software companies have the advantage to going global as their products can be digitally compressed, easily translated and distributed remotely with little need for significant infrastructure investment.

Most of the work in software development occurs in the initial coding, not in development or production. The lead time to market in the IT industry tends to be short, while the capital investment requirement for software development is relatively low. (Burk, Lemley, 2009)

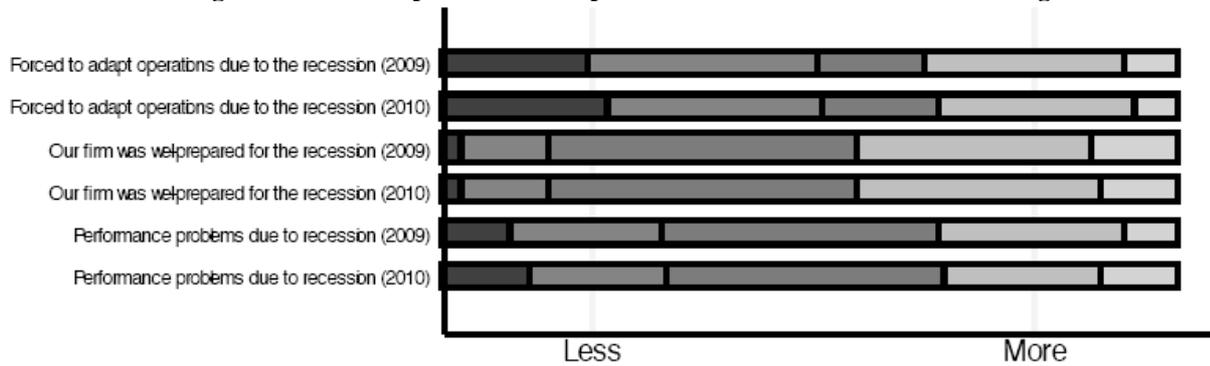
IT industry is profoundly affecting all causes of crises and generating new threats. Fighting these crises in the information age must continue to address how information is managed, but it will not be used properly in the future unless business understands the changing communication environment. (Moore, Seymour, 2006)

The results of the recession impact on global IT industry can be visualized in figure no. 1: 34% of companies report that they have adapted operations in response to the recession, which now stands as a "final verdict" of the recession's operational level impact with miniscule change from last year. Also a relatively low number of firms — that is, 15% — consider that they were poorly prepared for the recession. 32% responded that the recession has explicitly caused problems in their financial performance apart from other causes. Furthermore, these differences could not be distinguished from random noise that to some degree is always a natural part of this kind of survey research. The recession has clearly had many impacts inside IT firms, but on the other hand, greater share have apparently been able to continue operating much like before the recession.

Another trend of the global IT industry in the context of the global crisis is related to the increased demand for open-source platforms and software. IT decision makers need to fight the financial crisis and they need a more efficient solution for critical enterprise system. As IT costs grow and the economic crisis

puts pressure on global IT budgets, open source becomes irresistibly attractive to developers and IT decision makers who are being asked to do more with a whole lot less. (Burkhardt, 2008)

**Figure no. 1 - Perceptions of the impact of the recession on IT firms at the global level**



Source: <http://www.softwareindustrysurvey.org/ReportFinland2010.pdf>

Despite the worst recession since Second World War, enterprises and small and medium-sized businesses alike show no signs of pulling back on business intelligence (BI) software adoption and investments, according to a survey by Forrester Research. Of the more than 1,000 North American and European companies surveyed, 68% said they have or are in the process of piloting, implementing or expanding BI software deployments. (Kelly, 2009)

Smart companies are implementing ERP systems to better position themselves for business growth and scalability when the economy does recover. Although there is never a good time to implement ERP, a downturn is as good a time as any. There are often more internal and external resources available to help implement ERP effectively, which isn't always the case when the economy is booming and companies are busting at the seams. Many companies are confronted with declining sales during this economic downturn. In this context, ERP functionality such as CRM and sales force automation can help companies sell more effectively to better confront the economic crisis. (Kimberling, 2009)

Current trends in IT outsourcing suggest purchasers continue to outsource in a downturn, and in doing so seek ever more value-orientated contracts. For example, offshore delivery centres such as India and Russia, as opposed to UK-based outsourcing providers, are becoming increasingly attractive because they remove the need to transfer staff, in addition to the obvious cost savings they represent. Multi-sourcing – the simultaneous use of a number of suppliers by one buyer to support one business function - brings an opportunity to drive discounts during a multi-bidder procurement phase and increase competitiveness across suppliers beyond contract signature, although this does present governance and integration challenges. (Holland, 2008)

The global financial crisis temporarily reduced the pace of IT outsourcing as witnessed by the relatively slow growth rates experienced in the first few quarters of the year 2010. Even though IT outsourcing got a boost, the characteristics of outsourcing certainly changed. The decision makers at the customers were under heightened pressure to deliver maximum value. As a result, alternate pricing models became the norm. The once popular Time & Material contracts gave way to either outcome oriented deals such as the Risk & Reward Fixed Priced contracts or the more transparent and easily measured Unit of Work deals such as the Transaction/Ticket based contracts. The IT services firms now were contractually obliged to make their delivery lean and predictable. Besides arming their sales team with new financial models and with incisive analytical tools to help win deals, they had their corporate strategy function work over-time on finding new ways to maintain their slow growth. (Tambi, 2010)

We appreciate that the main contributor to the economic comeback of the global IT sector is the role played by business infrastructure software in enabling companies to manage the recession's effects. Organizations facing contradictory pressure to reduce costs, increase efficiency, implement new strategies and effectively deal with industry consolidation are turning to a flexible and agile IT infrastructure to deliver business performance.

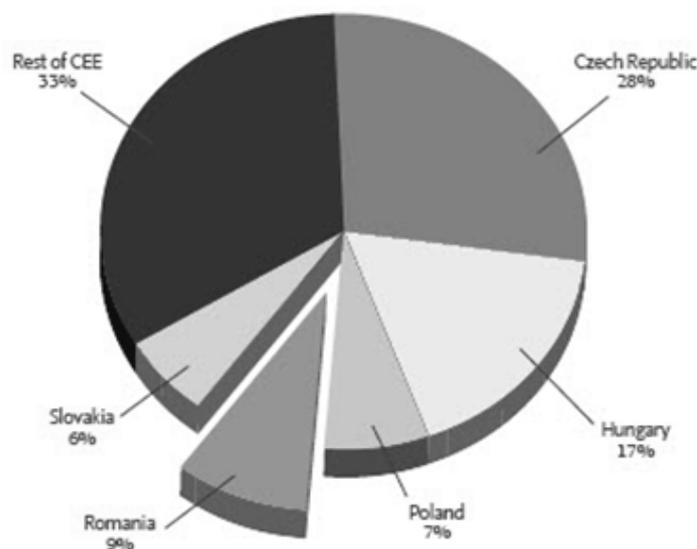
## 2. Strategic behavior of the Romanian IT companies during the economic downturn

The financial and economic crisis has found Romanian IT industry in a development stage, but still immature in what concerns the customization of the offer, with an increasing cost of the high-skilled IT specialists. The last two years were characterized by a high pressure on prices, a strong competition between IT vendors especially on the public projects launched during the recession. The demand on the Romanian software and IT services (SITS) market is still infrastructure-focused, which leads to high market shares for the companies involved in the design of integrated information systems.

In this context, the companies' managers paid more attention to infrastructure-related functions (support, data integration, consulting services, and flows' optimization) and allocated few resources to the acquisition of the complex application systems as ERP, CRM, BI etc.

Romanian software and IT services market succeeded in gaining market share within Central and Eastern Europe Region, if we take into account a report of a famous consulting company. (figure no. 2)

**Figure no. 2 – Romanian software and IT services market in the context of Central and Eastern Europe Region (2010)**



Source: Pierre Audoin Consultants Report, <https://www.pac-online.com>

We remark an increase of the customers' needs based not only on the technology, but on specific business processes. In the period 2007-2008, the outperformers were the IT companies involved in partnerships with large private firms – most of them with foreign ownership – and able to provide high added-value services to them. On the one hand, the large projects developed by the most important players from all the sectors in Romania boosted the software and IT services market, but, on the other hand, the medium businesses represented the most competitive and challenging market segment for both international and local IT providers.

The period 2009-2010 is characterized by the increase of the IT projects implemented in the public sector. The preference of public organizations to be involved in relationships with few IT companies with strong political influence tensioned the situation on the software and IT services market.

The ERP systems market knows in the last period little recovery, in terms of investments in sectors such as manufacturing, retail, services or utilities; other sectors like banking, insurance and telecom focused their IT expenditures especially on CRM systems.

Most IT companies, especially SME's, decreased their staff in order to keep the costs as low as possible. In the same time, the wages in the Romanian IT industry reduced significantly for the employees paid in foreign currency, due to the fluctuations of the exchange rate and, in this situation, the brainware effect occurred again.

Not all the IT providers were influenced by the economic downturn; the crisis revealed several attitudes in their strategic behavior: price attacks, decrease of the marketing budgets, operational cost cutting,

staff layoff, orientation towards up-sales to traditional customers, EU funds accessing, penetration of international markets, etc.

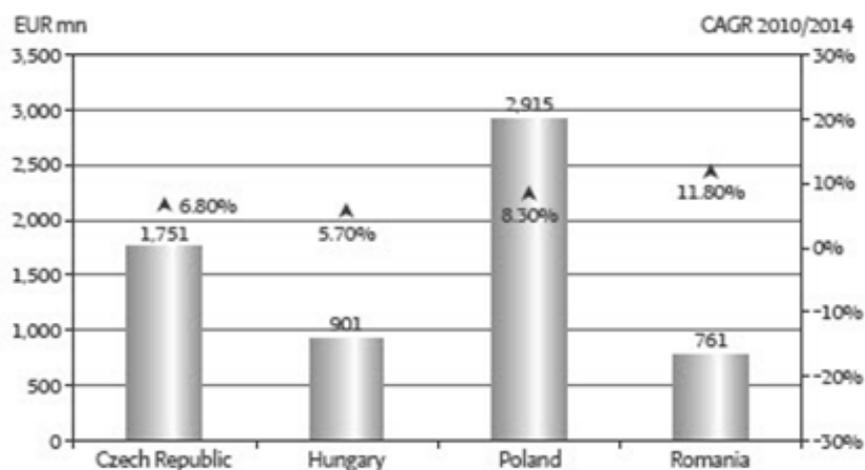
We emphasize two examples of Romanian IT outperformers which improved their performances during the recession period.

Siveco, the biggest software developer on the local market increased its turnover in 2010 with 20% in comparison with 2009, due to the entry on new international markets, implementation of projects using structural funds in e-learning, e-agriculture, e-health and signing new contracts. Its manager stated that the business strategy focused on a balance between revenues sources minimized the risks associated to the concentration on certain segments

Softwin, the developer of the most known high-tech product from Eastern Europe – BitDefender, performing its activities in Bucharest as headquarter and in the subsidiaries from Germany, Great Britain, Spain, having more than 200 corporate clients in Europe and USA and more than 40 million users in 180 countries, reported on its website an average annual increase of 30% during the global crisis period.

The short and medium term forecasts for the Romanian software and IT services market are optimistic, as it is revealed by a report published by Pierre Audoin Consultants, a global market research and strategic consulting firm for the Software and IT Services Industry, which helps IT vendors, chief information officers, consultancies and investment firms by delivering analysis and advice to address a range of growth, technology, financial and operational issues. (figure no. 3)

**Figure no. 3 –The forecasted development of the software and IT services markets in the Central and Eastern Europe Region (2010-2014)**



Source: Pierre Audoin Consultants Report, <https://www.pac-online.com>

The outsourcing projects are more and more requested in the Romanian IT market and will provide significant sources of revenues for the specialized providers. The passage from customized software development toward standard packages will also represent a growth driver for the IT market.

Under all these circumstances which characterize the strategic behavior of the IT players, we appreciate that Romanian software and IT services market is preparing to enter in a period a slow growth period.

### **3. Design of a competitive intelligence tool in view to improve the market position of the Romanian IT firms**

In the context of the high competition and crisis pressures, a Competitive Intelligence tool based on customers buying criteria could bring a lot of benefits to the Romanian IT companies' managers. The better understanding of the customers' needs by means of a customers buying criteria matrix provides many opportunities to increase the sales. If a software vendor doesn't know its customers' needs, its marketing efforts won't be able to convince them to buy its solutions.

Competitive Intelligence is ethical, timely and useful value-added information on customers, competitors and other stakeholders in the competitive environment. The main reasons for monitoring

competitors are: predict their next actions, exploit their weaknesses, undermine their strength and undercut their opportunities.

The planning of a competitive intelligence tool based on customers buying criteria requires the identification the attributes that matter for the customers, while its development is based on company expertise and customers feedback. The main sources for determining the criteria which will be included in the competitive intelligence tool are represented by the market researches, customers’ interviews, professional institutes, consulting services and marketplace analysis that validate the competitive framework intentions.

The competitive intelligence pattern that we propose in this paper comprises a set of eight customer buying criteria in order of their priority that we consider relevant for software vendors. We used an Excel sheet for the information included within this tool in order to take advantage of its customizable viewing options. (figure no. 4)

**Figure no. 4 – Example of a Competitive Intelligence assessment tool customized for software developers (own contribution)**

<b>Competitive Intelligence Assessment Tool</b>				
<b>Customers Buying Criteria (priority order)</b>	<b>Competitive force for each criterion</b>			
	<b>Competitor 1</b>	<b>Competitor 2</b>	<b>Competitor 3</b>	<b>Competitor 4</b>
Software compatibility with the business operations	HIGHER	MEDIUM	LOWER	MEDIUM
Customization capacity to the business needs	MEDIUM	HIGHER	MEDIUM	LOWER
Cost of software acquisition	HIGHER	LOWER	LOWER	LOWER
Cost of software maintenance	MEDIUM	MEDIUM	HIGHER	HIGHER
Flexibility of payment options	LOWER	LOWER	MEDIUM	LOWER
Ease of upgrades	MEDIUM	HIGHER	LOWER	MEDIUM
On-line technical assistance	HIGHER	MEDIUM	HIGHER	LOWER
Free trial or demos facilities	LOWER	HIGHER	LOWER	MEDIUM

The pattern emphasizes the competitive force distributed on each criterion of four main competitors of a software vendor; by taking into account the positions on the assessment scale of the competitive force (lower, medium or higher), the management team of the IT companies can classify the competitors and reconsider its overall business strategy. The ratings in our example are assigned based on an evaluation of the support for each capability provided by the competitors. The information about competitors’ ratings must be the result of market researches in view to reveal the ethical aspects of gathering data about competitors from competitive intelligence perspective. The company’s own ratings should follow an approach where the contributing teams come from all the departments. For each sales leads, the sales representatives can identify quickly the opportunities associated to the offer in comparison with the competitors. In this context, the Competitive intelligence tool based on customers buying criteria aligns the sales strategy to the market driven approach by emphasizing the individual customers’ requirements and expectations.

The benefits of the implementation of a competitive intelligence tool from customers’ perspective are transposed in a better identification of the criteria that really matter for them; in the same time, the customers can decide if the solution proposed by an IT provider fits to their business needs. From the company’s perspective, the use of a Competitive intelligence tool based on customers buying criteria allows checking the efficiency of the relevant customer-centric approach and may lead to the creation of innovative software solutions that will increase the competitiveness by means of a better differentiation from the competitors.

**4. Conclusions**

Software industry was less affected by the recession than several other industries. ICT services—which software industry is a part of—performed overall better than ICT manufacturing, which is mostly due to computer services and software sub-sector performing relatively well. The crisis determined the companies to capitalize their resources on new technologies or leverage existent technologies in new markets. As a recession reaction, investing more in marketing was weakly related to lower revenue

development. Our interpretation of this reality is that many IT companies turned to a marketing focus out of acute necessity. In other words, this strategy was employed more as a strategic defensive measure rather than a decision to use the recession as an opportunity to gain market share.

The global recession requires that IT companies carefully plan investments, resources and projects. We consider that the most important strategies that must be developed by the IT firms in view to resist and develop in a challenging business environment are based on the review of the product development strategy and acquisition strategy, the attentive selection of the employees which are hired, the optimal allocation of the marketing efforts, the transformation of key customers in partners which can promote the company's image and its positioning for the next upturn.

In our opinion, the implementation of competitive intelligence tools provides the opportunity to identify the new trends in customer behavior and an enhanced customer interaction. A better target market selection, the analysis of the competitive framework and the understanding of the needs that really matter for customers may lead to the improvement of the market position that was highly affected by the economic downturn.

We recommend to the Romanian IT managers to assess the benefits of implementing a knowledge sharing culture system which will promote the competitive intelligence resources and to develop focused actions which are capable to identify any IT market trend changes that can be transformed in business opportunities.

## 5. Acknowledgements

*This work was co-financed from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/1.5/S/59184 „Performance and excellence in postdoctoral research in Romanian economics science domain”.*

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## MOTIVATION IN TOURISM VOCATIONAL TRAINING IN ROMANIA. AN INTRA-REGIONAL RESEARCH

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**Abstract:** *The present paper has as aim to analyze the perception of tourism employees concerning vocational training, striving to clarify some questions as: are the employees motivated to participate to vocational tourism trainings, do they consider these training helpful for their career? which is the motivation for attendance to a training programm. In order to be sure that the answers will be representative, we applied the questionnaires in three representatives destinations of Romania, and the results can be used in order to design the future educational policy within these areas.*

**Key words:** skills, training need analysis, training programs, human resources

**JEL classification:** I21, J24, J28

### 1. INTRODUCTION

Tourism is a specific social and economic phenomenon of modern civilization, firmly anchored in society and, therefore, influenced by its growth. By its comprehensive content, tourism train a wide human and material potential, with important implications for economy and society and international relations.

Tourism has the features of a distinct field of activity, being a part of the national economy (like some authors appreciate), a field that fit by his features in the tertiary sector

Successful and sustainable development of tourism depends not only by the tourist facilities and attractive landscape, but also by the competitive and quality services. Hospitality and tourism sector exist for people, people that provide services to people.

Being one of the most competitive economic activities in the world, tourism requires understanding, professionalism, commitment, organization and a efficient strategy for human resource development.

Hospitality and tourism sector also means facilities and services. Competitive services can be provided only by well-trained and specialized staff ( personnel) , with a proper attitude, with a correct mentality, appropriate behaviour and proper performance.

Creating a trained and skilled workforce requires training, basic education and vocational training courses, as well as continuous trening (life long learning), and practical work. Hospitality in the modern sense of the term, involve visitors requirements satisfaction and skills to meet and even exceed the expectations of visitors. If the expectations created by marketing activity and tourism promotion can not be satisfied due a lack of skilled employments, tourism can not have a sustainable development.

Skills in terms of hospitality services sector, both professionally and at the behaviour level, are still underdeveloped and require special attention in the coming years. Also, the improvement of the attitude and mentality about services is an aspect that need urgent attention. The level of competence in hospitality and tourism sector is low due to the lack of performance standards, adequate and update labor standards and appropriate educational and training standards.

The organized activities for services from the hospitality an tourism sector are not yet well developed. The specialized and professional training courses organized for the hospitality domain, in order to prepare the people to obtain a job in this area, are almost inexistent and tourism courses are integrated in vocational highschoools and universities.

With few exceptions, non-institutional training continue at the work place, but in the services sector are almost inexistent. Some of the international hotel chains have their own internal training programs by the company level, but their results have a small impact due to relatively large migration of staff.

## **2. TRAINING PREMISES. RESEARCH ON ANALYSIS OF NEED FOR TRAINING IN THE FIELD OF TOURISM**

Continuous training aims at providing knowledge necessary for adults in order to have a job and to develop their own professional careers. In this regard special emphasis should be placed on formulating a policy area, based on national consensus, obtained as a result of social dialogue.

The formulation and interpretation of adult training policy must take into account a number of key elements such as quality assurance training, widening access to this type of training and ensuring transparency of examination and certification.

A characteristic of adult vocational training is that it relies on the knowledge and skills acquired earlier in the education system. The specifics of this type of training does not allow equivalence at the level of education obtained in the educational system and, consequently, does not permit entry to a higher level of education than the one had at the start of training courses for adults.

### **2.1 Methodology**

Organization of the training modules is based on an analysis of individual training needs, but also on the needs of employers as defined in national or sectoral level and taken by the training providers, as well as on analysis of the demand for training expressed by the labor market. Analysis of these needs and the analysis of demand for professional training in tourism create the goal of this study, and they have been identified through various methods and instruments.

Organizational training needs analysis is conducted using appropriate methods - SWOT analysis, observation, documentary study, a questionnaire survey, interview-based survey.

Not all problems of a company can be solved by or through training activities. If, however, solving the problem requires also carrying out such activities, then we must followed several steps described below. The need is not a wish, it is the gap between "what is" and "what should be". Identifying training needs is a complex process that tries to discover these differences and to propose those for which training is the solution. The method used was survey based on questionnaire.

The research on the actual need for training in tourism in the three counties involved (Suceava, Neamt, Maramures) has been conducted going through several stages:

#### **2.1.1. Setting the problem – to be investigated**

**The primary endpoint of the study was the analysis of demand for training among employees and employers. To get a clearer picture and more detail on this subject, have been followed a number of specific issues.**

In a general form, it refers to:

- Development of human resources and adapting to specific changes of the economic restructuring process in Romania
  - The main factors of influence (both those who favor and those who block) the participation in training programs
  - Employees access to training opportunities
  - Characteristics of training programs that meet the needs of employers and employees
- In essence, to conduct a process of identifying the training needs **means to gather information to support decision of choosing the training programs to solve the existing problem.**

#### **2.1.2 Defining the population investigated**

For this research, the survey basis consists in persons involved in tourism activities, employers or employees of structures/organisations providing tourist services, accommodation facilities, catering facilities or travel agents.

To achieve a survey basis to meet effectively the objectives of this research, we compiled a database for each county in each part (Maramures, Neamt and Suceava) containing accommodation structures, catering and travel agencies and specific data about them that relates to:

- Tourist unit type
- Classification category

- The size of the accommodation or catering expressed in number of seats
- Location
- Contacts

The database was built as a starting point in selecting subjects to be included in the population investigated in this research. For this analysis, we wanted to be involved both employees (which are the main characters in tourism activities) and employers (owners or managers) who have a key role in organizing tourist activities, their views on training of their own employees being a term of reference.

### **2.1.3. Selecting the data collection methods**

For this research we chose the interviewer as a key factor or the main way to collect and register information. Of course, there were instances where respondents preferred the method of self-managing registration.

To operate the research that we proposed, we turned to multiple-choice investigations, which can be grouped into two broad categories:

- a. Oral survey - the questions are supposed to be read sequentially, to which subjects give oral answers, answers recorded by the operators.
- b. Indirect survey (through self-questionnaire) involves using the mail – questionnaire (in this case **electronic questionnaire**) that was sent to the tourism companies from the database created.

Unfortunately, in the case of this research, the response rate for indirect survey was extremely low, which is why the main method to collect information needed for research was the direct survey.

### **2.1.4. Creating the questionnaire**

In this case, three types of questionnaires were developed: addressed to the employers in the hotel and catering establishments, to the employees of the hotel and catering establishments secondly, and then questionnaires for travel agencies (which can be used both to employers and employees).

#### ***The questionnaire addressed to the employers covered the following issues:***

- The need to attend training programs
- Degree of satisfaction with training programs
- Constraints related to training programs
- Presence of significant changes in the structure of employment
- Degree of participation in training courses, both in personnel management, as well as executive staff
- Categories of knowledge and skills targeted by the training programs
- Criteria for selecting staff to attend the training programs
- Skills needed for employees in the future

#### ***The questionnaire addressed to the employees covered the following issues:***

- Matching professional skills in relation to the specific activity developed
- Interest in training courses
- Perceived need to participate in training courses
- Participation in training programs
- Degree of satisfaction with the training programs attended
- Constraints on participation in training programs
- Categories of knowledge and skills that employees consider that they should develop further on

### **2.1.5. Setting the sample investigation**

Statistical data from the end of 2009 reveal the following situation which occur in all three counties, in terms of active population, employment and number of employees in the tourism sector:

- The three counties are experiencing a high unemployment rate, 9% in Neamt and Suceava counties and 7% in Maramures.

- the employees number from the tourism domain is very down, even if each county has a high tourism potential. For every county from this research, the employees from the tourism represent 1.43% of the active population from the Maramures county, 1.12% in Neamt and 1.54 in Suceava.

Is noteworthy the fact that tourism has a temporary character in each county, and that an important part of the accommodation and public alimentation units have temporary employees.

We also can appreciate that a great part of the accommodation units, like pensions or touristic vila, with a low capacity of accommodations and which are administrated by the owners, are organized from the juristic point of view as familial enterprises and don't use employee in the touristic service activities.

When we applied our questionnaire for this research, an important fact was the delimitations between the employer and the employment, in special for the touristic hostel manager.

#### **2.1.6. Processing the information from questionnaires and prepare data for analysis**

After the questionnaire is applied, the researcher must do the following activities:

- sorting: select the data that are truly relevant; the control of the data is important for the accuracy and fairness of the results
- organization: data organization in accordance with the study domain and in an accessible form;
- Classification: sorting data or meeting them in some meaningful categories;
- Cataloging: quantify the responses of the investigated issues, in conjunction with selected categories.

The analyze and information interpretation represent an important stage of the research process.

Electronic processing of the collected information was performed using SPSS software package. In this phase, an important role was played by the activity of quantifying the responses to the open questions and the introduction of information from the questionnaire into the computer, for final processing.

### **3. CONCLUSIONS REGARDING RESEARCH RESULTS**

As a summary of the results obtained after the analysis of training needs in the counties of Maramures, Neamt and Suceava, we can draw several conclusions that could provide a wealth of information in the field of vocational training for tourism in Romania. Given this information, the training policy can be adjusted to current market requirements and to training needs of prospective trainees.

With reference to the main questions contained by the three questionnaires used in research, we can formulate the following conclusions

#### **1. Concerning the experience within the employers**

In what concerns the employers, the main share is held by those with a broader experience (6 years), namely 45% from total interviewed persons. This is explained by the fact that most of them are running their own business and do not use staff to fill in senior management positions. That is the situation of tourist guesthouses, both in urban and rural area. Also, large hotel executives are people with a long experience and they achieved best know how by working in same companies or other companies in inferior or similar positions.

For employees, the share is held by those with an experience medium, between 1 and 6 years, representing a 68% percentage. Discussions with employers revealed that labor mobility in the tourism sector is very high, due to job offers of companies from abroad (especially on the European market) more attractive as level of salary, even if they allow employees, in the many cases, to move forward in profession.

In terms of travel agencies, the situation is similar as in the case of accommodation units, so the share is held by junior employees (10% have less than a year experience) and those with medium experience (65%) among, the difference of 25% (people with experience of more than five years) is covered by the managers of travel agents.

#### **2. In what concerns the studies**

As a general assessment, we conclude that the overall level of preparedness of the respondents is very high, 47% being graduate and 12% having university postgraduate training. 32% of respondents have high school certification, and the lowest percentage, of 2% and 7% being held by people with minimal training (occupying positions of cook or maid).

#### **3. In terms of interest for further training courses**

75% of people in travel agencies, 51% of employees in hotels and catering companies and 83% of employers responded positively to this question. One can conclude that concern for the continuation and completion of studies is very high for employers and those of travel agencies, fact motivated also by the professional training held, which facilitates access to various training programs and material possibilities of such high profession.

#### **4. In terms of the type of courses taken in addition to studies**

This question gave respondents the possibility of multiple answers, standing out as key areas of study, in addition to basic training, courses in Management, computer science courses, foreign languages, rules of hygiene and environmental protection and quality service.

We appreciate that some of these courses are mandatory, such as hygiene and safety rules at work, legislation governing the activities in hotel and catering establishments. The legislation also starts in the classification of accommodation establishments of tourism requires holding the patent, a specific qualification i.e (tourism manager for the hotel and catering establishments and tourism pension administrator in case of tourist guesthouses). Finally, in case of travel agencies holding a certificate is mandatory for that travel agency if aims to receive the operating license from the ministry.

Also at this point of discussion is important to note that tax rules impose agents to have cash register, so that the employers have turned most often to specialized management software, both to facilitate the work of employees, but also for a rapid and accurate information on tourism benefits and revenue records.

### **5. Quality of training courses attended in addition to vocational training.**

Most respondents (97%) said it was satisfied with the quality of courses completed, only three people (among employers) were dissatisfied and the reasons that they have mentioned were:

- formal courses
- formal courses and no students
- a training system that is not in place.

### **6. Type of training subjects that would be interesting for the future**

This question gave respondents the possibility of multiple responses, so we are able to present the following chart out of the statements and options.

### **7. Motivation to continue training**

It is a chapter in which we shall consider three different categories of respondents; this question provided multiple answers too

- The travel agencies have delivered following answers:

	Frequencies	Percent
To improve my performance at work	14	70.0
To obtain a more advantageous position in the company	1	5.0
For personal fulfillment	7	35.0
Others : Labor market mobility	1	5.0

It can be said that the main motivation for this professional class is to improve their performances in the workplace (70%), which denotes a high degree of satisfaction with their position in the company and a concern regarding the level of preparedness for profession (35% explained their personal fulfillment).

- among employees in hotels and catering establishments were recorded following answers:

	Frequencies	Percent
To change my job	15	28.3
To improve my performance at work	35	66.0
To obtain a more advantageous position in the company	18	34.0
Because I was forced to participate	5	9.4
For personal fulfillment	8	15.1
To have a qualification	1	1.9

And in this case the share is held by the motivation toward the improvement of performance at work (66%) plus a desire to obtain a more convenient position within the company (34%) or, to others, the desire to change the workplace (28 %). Personal fulfillment for this social category has a relatively low percentage (15%).

- Among the employers have made the following responses:

	Frequencies	Percent
To change my job	1	3.4
To improve my performance at work	19	65.5
Because I was forced to participate	2	6.9
For personal fulfillment	13	44.8

In this case too, the major share is held by the motivation to improve performance at work (65%); personal fulfillment is the second most important (45%). Overall, one can appreciate the desire of all respondents to improve performance at work, as main motivation for further training.

**8. Obstacles that hamper the access to professional training improvement**

Also at this chapter will interpretate three different categories of respondents.

- The travel agencies have delivered following answers:

	Frequencies	Percent
Courses schedule	5	25.0
Distance, travel expences and time investment	2	10.0
Lack of study spaces	1	5.0
Lack of tools for learning	1	5.0
Lack of time	15	75.0
Course content is not tailored to the needs and expectations	2	10.0
Others: Duration of the course is too large for the type and quantity of information presented	1	5.0

Lack of time is the firs obstacle (75%), followed by the courses schedule.

- among employees in hotels and catering establishments were recorded following answers:

	Frequencies	Percent	
Courses schedule	22	41.5	
Distance, travel expences and time investment	17	32.1	
Lack of study spaces	1	1.9	
Lack of tools for learning	1	1.9	
Lack of previous studies	4	7.5	
Lack of support from company management	14	26.4	
Lack of time	26	49.1	
Course content is not tailored to the needs and expectations	4	7.5	
Others	Courses must be updated to the current customer requirement	1	1.9
	Lack of money	2	3.8
	Limited financial possibilities	1	1.9
	Financial and social situation	1	1.9

And in this case lack of time has the largest share of the answers (49%), followed by a short course schedule (41%). It is important to note here that in which regards the employees, travel distance and the cost for traveling to access the training programs has a fairly high proportion (32%) and lack of support from management companies is a factor not be neglected (26%). There have been explicitly mentioned reasons related to poor financial situation of employees, so we appreciate that for this social category, providing the free appropriate training programs may be the only solution and an opportunity to be taken seriously by the employees as well as by the employers.

- Among the employers have made the following responses:

	Frequencies	Percent
Courses schedule	11	37.9
Distance, travel expences and time investment	7	24.1
Lack of time	17	58.6
Lack of motivation	2	6.9
Course content is not tailored to the needs and expectations	8	27.6

Lack of time (59%) is again one of the most important factor that hamper the acces to continuous and improved professional training, followed by the courses schedule (38%). It is important to retain the fact that 28% of the employeeconsider that the courses are not adapted to the requirements and expectations of the students

### 9. What are your expectations on training courses?

It is an open question, but unfortunately not all the respondents answered. This is why we consider that the received answers can bring important informations about expectations regarding future potential trainees and training programs.

- The travel agencies have delivered following answers:

	Frequencies	Percent
Didn't answered	11	55.0
Gathering a lot of theoretical and practice informations	1	5.0
Deepening knowledge in tourism	1	5.0
Knowledge improvements	3	15.0
A better performance at my job	1	5.0
To become an excellent touristic guide	1	5.0
The courses must pe updated, adapted to the labor market (to become interactive)	1	5.0
An appropriate time schedule for those who work	1	5.0

- among employees in hotels and catering establishments were recorded following answers:

	Frequencies	Percent
Didn't answered	32	60.4
Courses must be adapted to the market requirements	1	1.9
Courses must be adapted to the requirements of professional practice	1	1.9
The improvement of quality labor	1	1.9
Improving the professional knowledge to accomplish more effectively the job duties	1	1.9
To improve my performance at work	1	1.9
To improve my professional performance	2	3.8
Obtaining a qualification which could help me to fill a better post	1	1.9
Professional Training	1	1.9
The courses to be outside the work schedule	1	1.9
To gain more knowledge in the field of tourism	1	1.9
To gain new knowledge	1	1.9
To assimilate all the information and put them into practice	1	1.9
To complete my current training	1	1.9
To learn something new, useful in practice	1	1.9
To gain a new qualification	1	1.9

- Among the employers have made the following responses:

	Frequencies	Percent
Didn't answered	17	58.6
Courses adapted to current trends in tourism	2	6.8
Courses to be in the weekend and also must be an online platform to find the content of courses	1	3.4
Improving knowledge and professional skills	1	3.4
Improving the professional performance	1	3.4
Courses must have a practical part	1	3.4
Interactive courses	1	3.4
Updated courses	1	3.4
Intensive courses	1	3.4

### 10. What is the profession in which you want to qualify / retrained?

This question was addressed only to the employers from the services units, both hotels and tourism agencies. Această întrebare a fost adresată doar angajașilor din unitățile prestatoare de servicii, atât unitățile hoteliere, cât și agențiile de turism. A situation of the answers is found in the table below.

	Frequencies	Percent
Cook	7	13.2
Waiter	4	7.5
Room maid	9	17.0
Receptionist	12	22.6
Tourism pension administrator	19	30.2
Technician in tourism	21	34.0
Tourism guide/agent	23	18.9

At the end of this study we can say with certainty that the interest of tourism service providers for training is very high and that potential students/trainees have very high expectations regarding training courses. Even those who have already a qualification still want to improve their performance skills in the workplace and are aware that this is a key factor in providing quality tourism services. Employers, on the other hand, would like to have the possibility to recruit staff already trained, not to invest time and financial resources for employee's training. However, they are willing to make these efforts, because the quality of the services will ultimately lead to their business success.

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## METHODOLOGICAL ASPECTS OF THE ENTROPY-VALUE THEORY MODEL IN BUILDING THE NEW KNOWLEDGE-BASED ECONOMY

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**Abstract:** *The purpose and objectives of this article are focused on the presentation of the methodological issues of the entropy-value theory model representative on the mechanism to obtain the value in building the knowledge-based economy. Given the entropic losses generated today by the economy and society and the environment processes, we propose to apply the model of the entropy-value theory model to the construction of society and knowledge economy. Changes in society and economy have made the mechanism for obtaining value to enter into difficulty drawing in this situation the entire society. The productivity of this mechanism is reflected in the way of building tools, in the evolution of society, in the diversity of the economic and social activities, in affecting the environment, in the social and political events in the world.*

**Keywords:** entropy-value theory model, knowledge society, knowledge economy, substance, energy, information.

**JEL classification:** B41

In preparing the society for the transition to the knowledge-based organization, or to the information society, a dominant role is that of the economical science. *The human society has focused through the scientific creativity, the technology innovation, the access to the resources we need for life in the abstract content of information!*

The overall model regarding the mechanism for obtaining and managing the value is meant to encompass the most important paradigms of the entropy-value theory. This general model imposes the idea that the value is the result of complex processes of transformation, preservation and transfer reunited in dynamic stages of production, consumption, liquidation. The production, consumption and disposal processes are present in all systems of the mechanism employed to obtain the value, of economical (microeconomics, macroeconomics, world economy) as well as environment and society type.

### **Principles of construction the entropy-value theory model**

**One main idea relates to building the model in accordance with the requirements of the general laws of nature (conservation and entropy laws) and the identification of the contribution of all the systems engaged in obtaining value.** From this general pattern will emerge the responsibility of all the economic, social or environmental systems for obtaining value and to manage and preserve it, in a greater proportion, in the economic cycle. The systems involved are: the environment, the national society (the macro subsystem), the global company (with the world economy subsystem), and the microeconomics (with the economical systems in a state of production and consumption, respectively that of the producer and consumer).

**The mechanism of production and management of the entropy-value** has its own procedures for self regulation in the case of price deviations from the actual value. The entropy-value theory model takes into account the formation of physical, social and financial forms for value and also the contribution of the four general factors engaged in the mechanism for obtaining value: the environment, the society and the business system in the state of production and in the state of consumption.

The models contains all the included schemes, are useful both for understanding the phenomenon studied, and for decisions to optimize production process and management of value.

**Rules for building the model of the mechanism of obtaining value, represented by the solutions that solve major cases of the phenomenon or of the theory paradigm:**

1. Expanding the concept of business system to cover both the classical elements (manpower, facilities and business objects) and new elements (information and undertaking domestic environment) and external system elements, the environment and society.

2. The material elements of the system are united and driven on the basis of the genetic information contained in eco field surrounding the enterprise system.

3. The integration of the mechanism for obtaining value range of the general laws of nature, causing the company around the eco field in conducting the phenomenon of production value, a phenomenon which is not only a potential entropic transformation process.

4. Value, considered as a particular form of low entropy or energy (economic potential), flows through the human society, distributed and difficult to remember in the economic cycle. Any inadequacy in the system will transform and being reserve the products or services, make a smaller or larger part of it to rejoin the general flow of the nature, going out of the business circuit and social value.

5. In the mechanism for obtaining value, there are important the economic processes such as production and consumption, both natural processes of the environment and specific processes to the social life.

6. The law of the mechanism for obtaining value conditions quantitative the business processes, as well as the specific processes of social life and the processes of recovery and environmental protection.

7. The physical form is the result of transformations and conservation value governed by the laws of nature, it reflects the result of the struggle of interests between the factors involved in the mechanism for obtaining value.

8. Value, whose objective support remains low entropy (the economic potential), has a fluctuating character, being changeable quantitative in time and space, as a result of the dynamic balance of forces involved in the mechanism of value factors (the laws of nature, individual and social group interests, changes in the monetary standard for measuring value).

9. Existence value implies a process of production, consumption, production, otherwise we can not talk about value, but only preserved the economic potential in various intermediate forms (*product or service*).

The economic potential stored in the product (in the seed of the business) can not change the value if the product hasn't gone through a stomach of a process of consumption and then, in the form of services not found a favorable ground in a new production process .

Law of entropy-value requires that economical processes (production, consumption, distribution, exchange) and specific processes and recovery of human society and environment protection to be conducted within the economic potential attracted - turned - preserved in the economy during continuous chain of actual processes of production - consumption - production.

Is it a sense of value in the present mode of existence of living matter, the mode of action of man, consciously or unconsciously? Given that value is directly linked to the desire of living matter remains far from equilibrium, to remain alive!!! the question must be addressed.

According to the Professor Paul Bran, "Physical form of value, under the guise of economic potential, has been the ultimate goal of all the human existence". He says: "**The law of entropy-value** acted permanently, calling into question the existence of every individual and society and its forms of organization".

### **Developing a sense of value and knowledge based education**

*When a sense of value has not acted correctly and on time, or all human society has not given up or "grapes are too high" submitting an effort over one that will be removed from those grapes, the destructive effect, the sanction of law of entropy-value has acted in full!*

It is needed to develop a sense of value, to develop an education based on intimate knowledge of the mechanisms of acquiring and managing value in human, business, economics, society, environment systems "to recognize that are too high are sour grapes". To go further, a living organism or a human society must rely on the energy value contained in the products and services that were able to produce, or to attract them through various actions, correct or incorrect, in this system.

If in the stages of waiting the potential has an use outside of the business processes, the fate of that system is cruel. He will enter a phase of large fluctuations, with the risk of falling towards equilibrium or drastic restructuring.

The limits of the system will allow the will leave many unused information removed from the physical, social or economic reality by science and technology. Leonardo da Vinci's engineering will not find a medieval application in the structure of the economical activity system. Social force, bringing together production and consumption processes that started in the yard and feudalism, could not provide an effective circuit for the circuit and increasing value.

### **The new way of organizing economic activity**

Partial ownership on employment and on earth showed signs of fatigue or had undermined the principles of organizing the economic activity in cities and industry training. Growing strength of the energy producing tools like the steam engine will attract attention to them, changing the subject property in land and labor force, the means of employment.

Through **the entropy-value theory** point of view, his admonition was nothing but the principle stated by us, respectively the fact that when is value in society means not stopping the production potential in stocks, but a continuous process of transformation. If we want a sustainable society, the potential of the product must pass quickly through the process of consumption and, further, to re-conserve in a production process.

The hunger for low entropy will also drive the modern form of the economical system to attract violent form of potential, the war. The modern society affected by these conflicts, but also by the increased pollution, by the restructuring access to resources through the collapse of the colonial system, he will come in a range of fluctuation. At the bifurcation dotted by the two world conflicts, the world has split in two, each part having its own way. The social and political organization form is the solution to stop the fluctuation and find a new inner order.

But reality has shown that the fluctuation is due mostly to the lack of economic potential, of value. If through the political and social change is not achieved an increase in the canned and preserved products and services in society, then the peace of that living system is of short duration.

The theft of low entropy, allowed exponentially through the excessive mechanization of the mechanism of obtaining of value has led to the environmental degradation, to the depletion of resources in the vicinity of potential. The “manufacture” of potential, using plants and animals is in danger - without this we can always remain a source of material, energy and information. Under these conditions, a new working principle should be the mechanism for obtaining value in the human society.

The basic condition for the postindustrial society functioning should be - to ensure a large enough economic potential to enable a faster pace of life, a prosperous society for more than five billion people, all done on the basis of an attraction of matter and energy from the environment tempered by the current situation and based on an enhanced attraction information. With this program we will try to get to the information society through the narrow opening of the restrictions they impose on the general laws of nature and their economic alternative: **the law of entropy-value.**

*The current crisis is preparing a new civilization, a new social life, a new bio-material business, an enterprise in which information is a priority item. The **entropy-value sense exists in every living system**, including at the company level, therefore the entropy-value theory brings severe restrictions in the conduct of economic processes in the form of action of the entropy-value law. This law requires the economical processes, and some processes in society and environmental protection and restoration to take place within the economical potential preserved during the economical processes.*

The objective character makes violations to be severely punished, whether individual, firm or human society. If in these systems does not work a sense of value, then the system falls within the state of fluctuation and is moving towards a bifurcation where is put the question of survival or extinction by restructuring the system in order to obtain and manage value in other circumstances, more effective and more efficient.

The economical potential level attracted and processed depended on the ways to attract (labor, science and technology, geographical discoveries, war, etc.), the ways of organizing and equipment of the economic processes (property force, technical equipment, management) and how have been distributed and used the useful results, products and services.

The productivity of this mechanism is reflected in the way of building tools, in the evolution of the society, in diversification of the economic activities and social services, in affecting the environment, in social and political events in the world. Through the effects on a system as complex as society, the TVE model checks out, its main paradigms managing to restore, in large, the walking of the society in the arrow of time. **This model allows us to prefigure the future economic aspects of the human society, postindustrial or information society - knowledge society!**

• *The contribution of the forces in nature, society and economy in operation the entropy-value Model Theory*

*Put into production status, our system produces the event of extraction material, energy and information and of processing  $s + e + i$  to make the product. This result, obtained after processing is implemented in substance information using energy.*

*The contribution of acting forces. **The force of nature**, under its general and special laws to decrease the level of each form of matter, will cause this process is nothing to gain, nothing to be lost, everything will*

change. So says the law of conservation of matter. Because the system is open, the law of entropy that occurs will cause the product to contain only part of the inputs, the loss makes that the index of entropic transformation to be below one. The **force of the consumption** imposes the structural arrangement of the three components: substance, energy and information, as required by consumption. Under the influence of this force is emerging the product with the use-value, but also as value.

**The force production**, put into action by service to the previous consumption contributes to the extraction of  $S + E + I$ , from nature and the components of the system and their union in accordance with the requirements of consumption.

The living system in the state of consumption will still be under the influence of forces of nature and the society, the events that will take place will be subordinate to the laws of nature and society as a whole, the forces of dissociation of the elements and forces that hold united substance, energy and information in the product.

Secondly, in the system appears the restore power of the elements and the forces of the system. The passing of the system through these biosocial states creates a state of flux in which the forces of specific to the consumption state influences production, and the specific forces of the production status orders the system in the state of consumption. Systemic thinking will contribute to the structural changes of the economic activity in the primary activities, aimed at removing the substance from nature and society, energy and information. **According to the law of conservation of matter, a transformation in our reference system (solar system)** - transformation even if it is deliberate of man - presumes equality between what goes and what comes out of that transformation. Hence, the definition of value that relationship does not correspond to reality, being inherent the anomalies in explaining this reality and the negative effects form leading the economic activity based on this paradigm.

**Therefore we need a theory based on knowledge.** Not accepting these changes, the labor theory of value has left behind the economic reality. The savings that have been guided by its principles have become uncompetitive, as price and quality and damaging the environment and society. The anomalies and their seen effects, are sufficient to demonstrate the need to abandon that theory and creating a knowledge-based theory of value, to replace Marx's theory about the value based on labor.

• **The physical support for value in the entropy-value theory is analyzed as follows:**

- Including the economic life in the broadest and comprehensive ontological framework that is offered by science and that is the framework of the general laws of nature.

- Because in the economic processes, as in the social and the natural ones, the outputs, the actual results are always equal to the inputs, and so we deduce that the outputs are merely transformations of inputs.

- At the base of the low entropy-value theory is the entropy is the degree of organization of the three forms of existence of matter.

- The simple systems with a low level of organization have high or positive entropy, while in the extreme are the organized complex systems containing low or negative entropy. The physical carrier paradigm of value is the low or negative entropy that the thinkers give the concept of potential.

The potential significance - is the degree of organization of the primary components of matter, of a simple or complex system, which makes it attractive to be consumed by a living system.

**TVE** extends the consuming and producing processes. The role of information in the practical application of the requirements of low entropy-based value theory is that the concrete-historical reality, in which the developed ideas have to come to life, is that of the modern society based on information, that of the knowledge-based information society. How to activate a system that far from equilibrium? How is to be studied and managed in this case a biosocial and a cybernetic system?

At the microeconomic level, as a biosocial system, the organization includes dynamically and functionally the labor force, the fixed capital, information as intangible assets and the environment.

The main change produced in the approach manner of value refers to treating problems of obtaining and managing value in the widest possible framework under the current scientific knowledge: *the general laws of nature framework*. Since all the systems in which take place the processes that are engaged in obtaining the value are open systems (environment, society, economics, enterprise), they meet the requirements of the law of entropy, according to which *the transformation is achieved with losses, the useful results for these systems being smaller lower than the inputs.*

**Conclusions**

- The Entropy-Value Theory presented in the Professor Paul Bran vision leads us to a further development of the economic science that must be well substantiated by the economic and social reality.

- From the man to the environment, from plants and animals to tools, from physical labor to the scientific and educational work, the contribution to achieving the value and the right to receive a portion of economic outcomes.
- In the economic and scientific research reform area it is necessary to create a disciplinary matrix. The matrix of the eco field blurred the central government power, the external market, radically changing the structure on the components of production and distribution, in favor of the distribution potential, for the environment, social, cultural and educational institutions.
- The changes are not only obvious, but also demanding, and they must enter into the thinking and behavior of all. Making these changes contributes to reducing the economic benefits of individuals and institutions and draws them for their contribution to achieving increased value.
- Changing the informational matrix from the eco field is possible also through evolutionary change. It involves changes in the force of property, in the domestic market forces, through development and diversification of the competition and the consumer protection, in the power of the micro management, by making an administrative leadership in the modern management, in the force of the company through the development of political structures, cultural institutions, the educational, social. How can the evolutionary change be made by itself, through the gears of a society educated and favorable to the reform.
- According to the law of conservation of matter in nature (and hence the economy and the society, these being part of nature, in its broadest sense) nothing is lost, nothing is gained, **everything changes!** For business processes, and for those in the environment and society, that the outputs (results) are always equal to the entries, these results are *only transformations of the inputs*.
- The economic activity includes *the visible behavior of the biosocial enterprise system* determined by the processes of the mechanism of obtaining value, natural processes, social processes, economic processes within the enterprise is engaged in under the impulse of internal and external forces of this system.
  - The Entropy value Theory Model will play an important role in changing managerial behavior. A change in the managerial behavior refers to reconsider the mechanism of processes involved in obtaining value. In the managerial decision, along with decisions of economic processes type production and consumption, are also involved the environment processes and the society processes.

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## THE SOCIAL RESPONSIBILITY OF ANTREPRENORIAL ENVIRONMENT FOR THE SECURITY CULTURE

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**Abstract:** *The continuous change of our world determined the reduction of the role of state in economy. Assuming that the survival and welfare of the community greatly depend of the involvement of every economic company in corporate social responsibility actions, in this paper I will propose and argue for a new adaptive strategy to the contemporary social conditions: the inclusion of security issues in the field of CSR actions undertaken by firms. An important step in this direction is to change their own behaviors and attitudes by generalized hiring of security experts and by creating a security culture among the employees.*

**Key words:** corporate social responsibility, intelligence, security culture, economic performance.

**JEL classification:** M14

### 1. Introduction

Corporate Social Responsibility (CSR) has become a priority in the contemporary world, primarily because of the way the society had evolved. The present-day globalization requires the interdependence of individuals, communities, and ideas. All these changes had as a natural consequence the reduction of the role of the state in economy, trade liberalization and international financial transactions, and also the emergence of transnational corporations. The changing of the attitudes towards clients has increasingly reflected in the way every individual was able to rest his case and to ask for the best products and services according with the best global standards.

In this context, the social involvement of economic corporate is an effective way to compensate the logistic inability of the state to solve such problems of society. The emergence of the notion of “corporate social responsibility” was facilitated by the social pact between the community and businesses, based mainly on mutual trust, cooperation and mutual dependency (Wartick; Cochran, 1985). Therefore, according to modern approaches the company is equated with a citizen. The same way a citizen has his rights and obligations, each company acquires “corporate citizenship” and therefore has benefits and responsibilities.

Although I do not express a complete agreement with the idea that the economic environment has the capacity to solve the major social problems of humanity as poverty, conflicts, population growth and so on, I concord with the contemporary idea that firms have significant human and material resources that should be directed to the community and used by its members.

Regarding the fundamental, serious problems of humanity, there is a perception that they can not be solved by singular individuals. This is why they do not feel responsible discussing such issues. Still, in the same way the individual's lack of response makes him partly responsible for a harm, the inactivity of a collective group of people should make the people belonging to that group responsible for the evil which they ought to prevent it.

### 2. Corporate social responsibility: a definition

Social responsibility is a relatively recent issue studied by social sciences, but the interest in this subject is growing. However, to date there is still no agreement on what constitutes CSR. The literature highlights sometimes dissonant position of the specialists.

Broadly speaking, CSR objective is to solve social problems, i.e. those situations which represent a gap between reality and an imagined ideal society (Pounds, 1969). According to G. Hardin (1968), social problems are caused by the selfish behavior of individuals, which is repeated on the long term.

The European Commission has tried to answer the question “What is CSR?” Using the answers to a questionnaire applied to a group of over 250 associations, organizations and private companies, unions and civil society, they conclude that CSR is the way a company operates within its legal system and regulations established by the society in accordance with universal human rights. A. Carroll (1979) argues that corporate social responsibility is measured by the degree to which management decisions conform to the needs of the community in which they operate.

In a publication of the World Business Council for Sustainable Development (WBCSD), CSR is defined as follows: “corporate social responsibility is assumed by the continuing commitment of companies to behave ethically and to contribute to economic development while improving the quality of life of employees and their families, local communities and society in general.” (*apud* Holme; Watts, 2000).

Critics highlight the dimension of the concept of CSR, but also some negative aspects of its implementation. Among the most important is the diminution of shareholders power, of their property rights over their own business, the weakening of the overall corporate strength and on the long term – the changing of the very essence of capitalism. CSR has been criticized from the perspective that being exported to foreign communities by multinational companies it can legitimate values and approaches that are not in the interest of the poor and marginalized people.

The discussion about the limits of CSR can not ignore a famous statement of Milton Friedman (1970): “Social responsibility of business is to increase their profit.” According to the author, the only economic entities' responsibilities are to pay state taxes and their salaries. The supporters of these ideas has as their main argument the fact that studies have failed to identify a correlation between CSR activities and the performance indicators of firms.

Beyond the regular European discourse regarding CSR, its practices evolve differently from country to country, depending on the economic and social specificity of each region. The literature include “the Scandinavian model of CSR” which is characterized by the fact that the state plays the role of welfare provider, harmoniously combining the development based on capital items with a generous social security system. A representative country in this regard is Norway, thanks to its commitment to the struggle for peace, poverty and environmental destruction. Recent researches show that, for instance, the United Kingdom, too, attaches importance to ethical issues and moral conflicts arising from the practice of CSR. In the Nordic countries, CSR programs are particularly targeted by environmental problems, while in southern Europe there is a greater interest in diminishing social problems.

### **3. Corporate social responsibility and economical performance**

The degree to which social expectations regarding business ethics resonate with the ethic of the economic environment depends on the comparison of social norms of firms and their conduct and also from the society's expectations compare with what corporate managers consider to be legitimate social demands. On the other hand, the connecting of personal interests with moral principles allows long-term development of the company, because, although an immediate profit leads to a lower capital, on the long term it produces a durable one: the reputation capital.

The literature includes antithetical ideas on this topic. Some specialists (Low; Yeats, 1992; Lucas et al., 1992) are appalled by the manner in which multinational companies exploit lenient laws of some foreign countries, while others emphasize the existence of a strong correlation between internationalization and social responsibility (Bansal; Roth, 2000; Christmann, 2004).

In time, social responsibility has proved positive effects for the socioeconomic field: for individual actors engaged in certain activities and the community at large. For example, in countries that encourage cooperation and trust between the actors and that emphasize the human and social capital there is the highest prosperity (Waddock; Graves, 1997).

The difficulty to distinguish positive from negative effects of CSR explains why the studies regarding the relationship between CSR and financial performance are both contradictory and inconclusive. Recent studies have identified a strong correlation of these variables (Waddock; Graves, 1997), no correlation (McWilliams; Siegel, 2000) or a negative correlation (Wright; Ferris, 1997). For example, Margolis and Walsh (2003) monitored over 95 studies and found that 42% did not indicate any correlation. They also noted that the economic usefulness of CSR occurs when consumers are especially interested in social issues. It was also empirically shown that CSR activities are not sufficiently well known by the consumers (Sen; Bhattacharya; Korschun, 2006).

Ellen, Webb and Mohr (2006) found that, when choosing a company, 34% of people say they would avoid buying a product or a service from a company perceived as being unethical, 16% seek information about its business practices and 50% did not intend to purchase a product or service from a company that is not consider socially responsible. In general, consumers have positive attitudes towards the company if it is involved in CSR activities.

Of course, the existence or inexistence of a correlation between social responsibility and various economic indicators can be determined by many variables. Beliveau, Cottrill and O'Neill (1994) showed that

the relationship between CSR and profit varies both from an industry to another but also according to the organizational performance indicators.

Although there are many arguments that favor the hypothesis that CSR covers its own costs (Carroll, 1991) because it eliminates the reasons that lead skeptics to seek the approval of a more drastic legislation, eliminates disputes or reduce their costs and facilitate easier access to funds from NGOs and other governmental agencies, the literature reflects a lot of contradictions within results of empirical research in this field.

Even in the context of global economic crisis, CSR remains a priority for consumers: 77% of them say that it is very important for companies to keep their social commitment within the communities in which they operate. On the other hand, only 38% of the interviewed managers by a complementary study intend to spend similar amounts during the crisis (Burson Marsteller).

A report issued by the Ethical Corporation points out that only 71% of managers said that the results of impact studies affect their business strategy. Also, 67% consider that their companies “measure the social and economic impact of their economic activities on the communities in which they operate”, and 69% of respondents said they conducted themselves studies on the impact that their decisions had on the community.

A conclusion of the previous controversy is difficult. Instead, I will present the conclusion of the study of McWilliams and Siegel (2001): they showed that when analyzing the activity of two companies of a comparable item and size, one performing social responsibility activities and the other without this kind of social involvement, they each get similar profits. The first one invests more, but earn higher incomes, being preferred by consumers, and the second one has lower costs, and also lower incomes. Considering in the same time the issue of stakeholder groups' interests, we can conclude that the more we broaden the perspective, the greater impact the socially responsible firm will have.

#### **4. Social responsibility of Romanian business and the need for security culture**

Compliance with ethical principles in business has led to the shaping of the concept of “moral capitalism” based on values such as respect for human dignity, respect for consumer choice, elimination of immoral activities. As shown before, “the corporate citizenship” entails a moral obligation of companies to behave according to ethical principles of community they belong to, to fight against social degradation, to protect the culture of the community and to encourage education.

After the Revolution of December 1989, Romanian business was in the position to adopt the market economy model, and companies had to become more competitive and more interested in achieving profit in the context of many economic hardship: serious problems inherited from the communist infrastructure, pollution, obsolescence of industrial machinery and equipment especially in energy, mining and metallurgy. In such a context, the Romanian managers, still influenced by the mentality of the past, were in a difficult situation: should they spend money to gain profit or to be socially responsible?

But lately the concern of Romanian business environment for the multiplication of such CSR initiatives is notable. Government statistics show that investment firms in corporate social responsibility activities were over 10 million euros each year. However, most of the money was spent for donations or sponsorships in the fields of social assistance support for charitable associations, the financing of scientific projects or research, in education or environmental protection and not real CSR programs.

In 1973, Daniel Bell warned that the principal driver of change towards a “new techno-economic order” would be information and knowledge. We all agree now with this statement. So everybody support actions that contribute to a better implementation of quality education so that the people's training to be more suited to community needs.

As a proof of maturity of Romanian society in this regard and in full agreement with the changes occurring in the international security environment and the commitments assumed by Romania in the perspective of European integration, some institutions of higher education have introduced in their curricula themes that address frontal or tangential the problem of community survival, especially security issues.

Michael Goodman and Sir David Omand (2008) consider that academic knowledge is hard to convey in the governmental area. Such disciplines such as military history, history of intelligence, international relations, social sciences, and critical thinking is part of the required education of every security practitioner, but also of any common member of the community.

My hypothesis is that specialists should discuss security issues related to education and also to socially responsible activities of business. Unfortunately, the previous analysis of CSR concept made clear that security issues is rarely included in the list of socially responsible activities.

Therefore, along with meeting the need for accurate information, the possibility of specialization in security studies and intelligence is at least as important because represents the foundation of the culture of security and intelligence for the civil society. An efficient civil society must be innovative and ready to adjust itself so as to ensure a correct proportion between public interests and the sphere of private interests.

From this perspective, I consider that the worldwide realignment regarding the importance of intelligence services which is reflected in new strategies of national and international security is nonrandom. The present need for security becomes more acute in the context of an unmanageable information bombardment in the modern era. Providing security is very difficult to achieve in the absence of a social framework that allows the contribution of each social actor (individual or organization). The issues of security and intelligence, as areas that provides tools to collect relevant information and to provide tailored intelligence products, already enjoys a new dimensions, which is the contribution of civil society. Because of this reality a new type of individual and community behavior has appeared on the social scene – the one that is characterized by social responsibility.

Based on Allesandro Politi's ideas, Leslie Donovan (2005) referred to the concept of "intelligence volunteer", considering that to encourage citizens to be cautious and attentive to issues of national security becomes a public good of a democracy. Of course, such efforts should be designed to protect citizens and not to get political or social control. The author also underline the fact that people are influenced by the preconceived idea that cooperating with authorities in providing information is equal to denunciation, betrayal, espionage or subversive action. In his opinion this is the most important barrier to take the quality of "intelligence volunteer". Therefore, this obstacle is located primarily in the individual psyche of citizens and it is determined by their value system.

Also, in many countries, ordinary people do not grant security the same value the politics did. Milton Rokeach has empirically shown that Americans, Canadians, Australians tend to grant a minimum value to the national security. Having in mind Maslow's theory regarding the hierarchy of needs and also the widespread perception that people greatly value their security, such a finding is highly counterintuitive. According to Abraham Maslow (1943) people want to meet primarily the needs of food, water, shelter and, subsequently, of security. Only the fulfillment of these needs will enable the individual to feel as belonging to a community. Therefore, this lack of theoretical concordance should be considered additionally.

Also Stuart Surlin and Barry Berlin (1991) found that Americans and Canadians put national security on the 18th place in their hierarchy of values. Similar values were found among American and Japanese pilots and among the employees of the National Aeronautics and Space Administration. In these circumstances the question is why the national intelligence agencies and policy makers do not set up an educational program to change the idea that ordinary citizens can live their lives without having to look after the security of the community they live within.

As long as people feel unable to influence national security, they will not be able to take appropriate actions when needed. In this regard, psychologists have emphasized the importance of self-efficiency, namely the belief that one is able of an adaptive response to danger according to his capacity to achieve his own objectives. As Louis Pasteur said "chance favors the prepared mind". A population that lack security self-efficiency is composed of poorly trained individuals in terms of enhancing the value of relevant information they encounter and of acting in accordance with those information (Donovan, 2005).

## 5. Conclusions

The evolution of the last two decades has decisively shaped the contemporary society, with major effects on the security of individuals. Its consequences and costs were frequently considered to be above the threshold of acceptance and adaptation of a contemporary man who is set to expect more and tolerate low costs.

The identification of the problem and its remodeling through proactive measures must be a priority of everyone. In this paper I argued for the idea of assuming social responsibility in the security field – so that is every manager and businessman to be aware of security threats and also to include such activities in their proactive actions. Also, security experts should be involved in every performing firm and also all the employees should have a proper knowledge on security problems.

I appreciate that the labor market in Romania offers concrete opportunities to include, such human resources and expertise in a near future, especially as our country is a member state of NATO and EU. I believe therefore that the growing of expertise in research, the development and innovation of national security sector respond to Romanian society's needs and constitutes one of the greatest challenge our society faces.

## Acknowledgement

*This work was supported by CNCSIS-UEFISCSU, project number PN II-RU 64/2010.*

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## 2009 VERSION OF 9004 STANDARD – THE ROAD TO SUSTAINED SUCCESS OF THE ECONOMIC ORGANIZATION

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**Abstract:** The purpose of this paper is to develop necessary processes for an economic organization, to achieve sustained success in an ever-changing and uncertain environment. Sustained success can be obtained through a strategic planning of quality, as ISO 9004:2009 standard recommends.

*Establishing as organizational objective “obtaining long term sustained results” involves not only customers’ satisfaction, but also other interested parties satisfaction that can ensure financial resources and also the prestige of economic organization.*

*Achieving customer satisfaction can lead to increased market share by winning new customers. In addition to revenue growth by adding quality, quality management efforts can also reduce costs by improving processes’ quality.*

**Key words:** *sustained success, strategic planning of quality, objectives, environment evaluation*

**JEL classification:** L2

### 1. Introduction

Nowadays organizations evolve in a highly dynamic environment. To adapt to this environment, organizations must emphasize their customer orientation.

The “customer- driven company” concept has turned into “customer-driven quality”, which involves a proactive approach for customer satisfaction, Prisecaru, Constantinescu (2010).

Usually, proactive approach, as management orientation, involves long term decisions, and for this reason the proactive approach of customer and other interested parties satisfaction becomes feasible with a strategic planning of quality, as recommended by ISO 9004:2009 “Managing for the sustained success of an organization – A quality management approach”, standard, paragraph 4.2: ” An organization's environment is ever-changing and uncertain, and to achieve sustained success its top management should:

- have a long-term planning perspective,
- constantly monitor and regularly analyse the organization's environment,
- identify all its relevant interested parties, assess their individual potential impacts on the organization's performance, as well as determining how to meet their needs and expectations in a balanced way,
- continually engage interested parties and keep them informed of the organization's activities and plans,
- establish mutually beneficial relationships with suppliers, partners and other interested parties,
- competing needs and expectations of interested parties,
- identify associated short and long-term risks and deploy an overall strategy for the organization to mitigate them,
- anticipate future resource needs (including the competences required of its people),
- establish processes appropriate to achieving the organization's strategy, ensuring that they are capable of responding quickly to changing circumstances,
- regularly assess compliance with current plans and procedures, and take appropriate corrective and preventive actions,
- ensure that people in the organization have opportunities for learning for their own benefit, as well as for maintaining the vitality of the organization, and
- establish and maintain processes for innovation and continual improvement.”

By a proactive approach, an organization can prevent errors and costs, and does not repair the errors, Constantinescu (2005).

Establishing as organizational objective “obtaining long term sustained results” involves not only customers’ satisfaction, but also other interested parties satisfaction.

For this purpose, the more important is increasing the level of customer satisfaction in order to ensure financial resources and also the prestige of economic organization.

Customers have an important role in defining requirements as inputs. Monitoring customers’ satisfaction involves evaluation of information on customers’ perception, if the organization has satisfied customer requirements, Prisecaru, Constantinescu (2010).

The organization must ensure that customers’ requirements are determined in order to achieve increased customer satisfaction.

Achieving customer satisfaction can lead to increased market share by winning new customers. In addition to revenue growth by adding quality, quality management efforts can also reduce costs by improving processes’ quality.

## 2. Sustained Success and Strategic Planning of Quality

An organization must anticipate customers’ requirements and this requires an adequate strategic planning.

According to ISO 9004:2009 standard, “To achieve sustained success, top management should adopt a quality management approach”.

An organization that aims obtaining long term results, is aiming sustained success, which can be achieved only through long-term planning. And long term planning involves managerial decisions which are possible only by strategic planning.

Strategic management process consists of 6 important stages Rue, Holland (1989):

- evaluating external environment and also organization’s strategic capability,
- defining organization’s mission,
- establishing objectives,
- formulating strategy,
- implementing strategy,
- evaluation and control.

On the other hand, ISO 9004:2009 standard recommends in paragraphs 5.1 and 5.2:

„5.1 To achieve sustained success, top management should establish and maintain a mission, a vision and values for the organization. These should be clearly understood, accepted and supported by people in the organization and, as appropriate, by other interested parties.

5.2 Top management should set out the organization's strategy and policies clearly, in order to get the mission, vision and values accepted and supported by its interested parties. The organization's environment should be regularly monitored to determine if there is a need to review and (when appropriate) revise the strategy and policies. In order to establish, adopt and sustain an effective strategy and policy, the organization should have processes to:

- continually monitor and regularly analyse the organization's environment, including its customers' needs and expectations, the competitive situation, new technologies, political changes, economic forecasts, or sociological factors,
- identify and determine the needs and expectations of other interested parties,
- assess its current process capabilities and resources,
- identify future resource and technology needs,
- update its strategy and policies, and
- identify the outputs necessary to meet the needs and expectations of the interested parties.

These processes should be established in a timely manner, with any necessary plans and resources being provided to support them.

The formulation of an organization's strategy should also consider activities such as analyses of customer or regulatory demands, its products, its strengths, weaknesses, opportunities, and threats. A defined process should exist for the formulation and review of the organization's strategy.”

In order to satisfy these requirements, the organization should monitor the external environment, and this involves collecting information that helps appreciating changes in direction of the trends identified in the formulation of the strategic plan.

Also, the internal environment must be monitored, and the best way to monitor the internal environment so as to cover the entire range of internal processes, is to introduce necessary indicators for

monitoring function implementation according to strategic management theory. In this case also results that a long term planning is necessary, and this means approaching quality objectives as quality objectives.

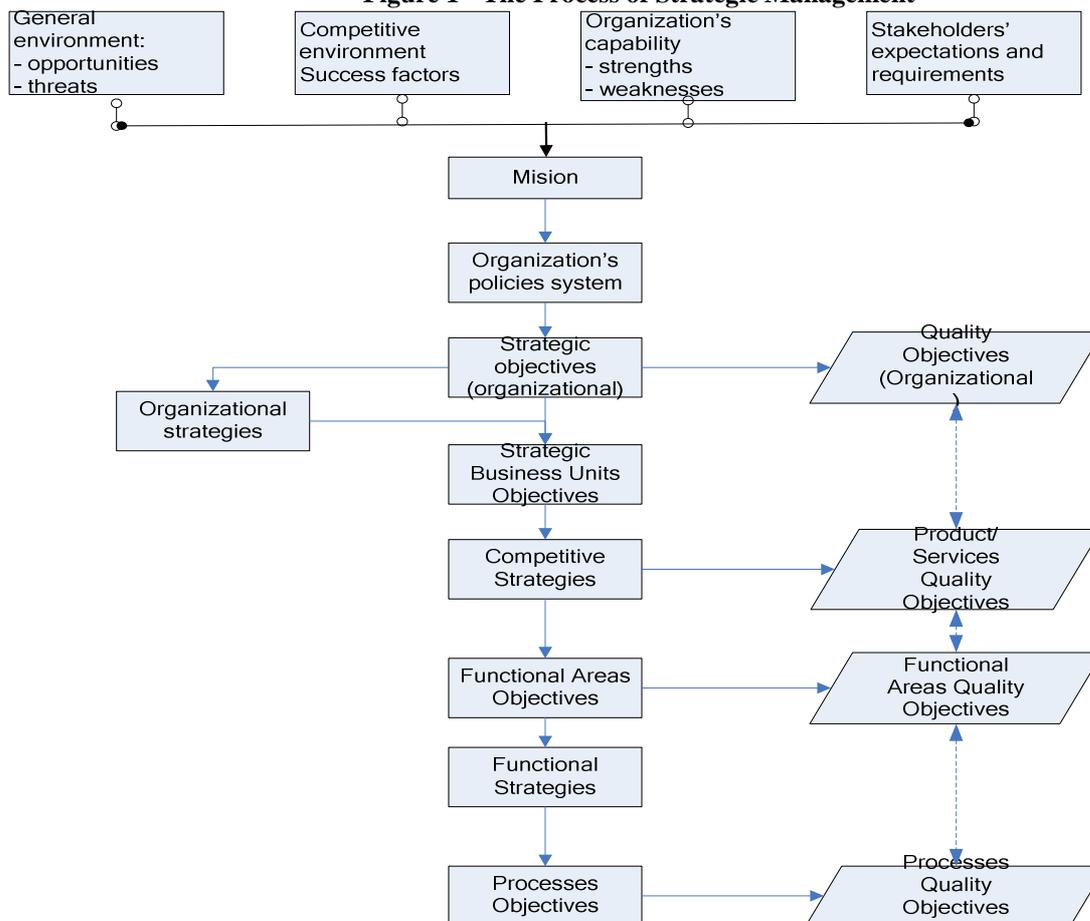
Strategic management study lays a lot of stress on monitoring and evaluating opportunities and threats through the organization’s strengths and weaknesses.

Three of the most important advantages brought by this strategic management, Mintzberg, Lampel et al (2003) are:

- A clearer direction towards the organization’s strategic vision;
- A better focus on what is strategically important;
- A better understanding of an ever changing environment.

The standard requires policies and strategies at organizational level, because the policy gives guidance and adopting the policies requires the adoption of guidelines by top management. According to these resulting guidelines, key areas for results and then objectives are established and afterwards, strategies are developed.

**Figure 1 - The Process of Strategic Management**



Source: (Constantinescu, 2005)

The flowchart, presented in Figure 1, completely responds to ISO 9004:2009 standard’s requirements.

Strategic quality planning can be accomplished by developing a classical management process, in a way that allows solving issues such as, Constantinescu (2005):

- How the organization’s quality objectives are integrated in the strategic objectives;
- How quality objectives can be identified on different organizational levels;
- The accordance between the organization’s quality objectives and the product related objectives;
- How quality objectives are identified at the department process level so that product quality objectives are accomplished.

The flowchart presented in Figure 1 with the arrows going upwards, can help us verify if quality objectives are correlated with the organization’s objectives.

The quality objectives at product level can be seen as improvement opportunities which become improvement objectives.

In order to establish quality strategic objectives it is necessary external and internal environment evaluation, as ISO 9004:2009 standard recommends, paragraph 5.2.

The purpose of this evaluation is to identify strategic factors – external and internal, which will determine the future of the organization.

Using the derivation mechanism, from possible strategies it can be derived the targets that can be achieved, ie the objectives, and in particular are identified key areas for establishing objectives, so the nature of the objectives (key areas for results).

Therefore, the first step to establish organizational objectives is to establish “key areas for results”. However, solving this problem requires, however, the external environment and organization's strategic capability evaluation.

## 2.1 External Environment Evaluation

External environment resides in evaluating a number of external variables which will be seen as threats and opportunities depending on the organization's capability to react Wheelen, Hunger (2000).

These variables may represent general influences from the socio-cultural, economic, political and technologic environment or other factors related to the industry in which the organization competes, Rue, Holland (1986).

Before an organization begins formulating strategies, it must assess the external environment to identify possible opportunities and threats and internal environment for strengths and weaknesses. Environmental assessment represents monitoring and evaluating information from internal and external environment by the key people in the organization.

The external environment consists of the general environment in which opportunities and threats can be identified and the competitive environment (industry situation evaluation and competition analysis) from which an organization can identify the critical success factors.

Process steps for evaluating the environment are:

1. Defining the boundaries and the relevant components of the general and competitive environment;
2. Research and forecasting – information for environment trends;
3. Information interpretation – transforming information into assumptions;
4. Environment analysis.

The general environment represents the general trends that have an indirect influence on the organization.

General environment may include the following components:

- economic: that govern the exchange of materials, money, energy and information;
- technological: that generate inventions to solve problems;
- political: that allocate power and provide laws and regulations that constrain and protect;
- sociocultural: governing values and customs of society.

These include those elements or groups that indirectly influence the organization: government, local communities, suppliers, competitors, customers, creditors, trade unions, interest groups and trade associations, Rue, Holland (1989). The evolution of these factors influences the activities of the organization.

Here are some general environment variables:

- economical: interest, money supplies, inflation rate, the level of unemployment, price level, , energy costs etc;
- technological: the government's expenses for research-development, patent protection, new products, new technological developments, productivity improved by automation etc;
- political: antitrust regulations, environment protection laws, taxes, oversea commerce regulations, attitude towards foreign companies, employment and promotion laws, government stability etc;
- socio-cultural: lifestyle changes, carrier expectations, population growth rate, life expectancy, birth rate etc.

An organization's external strategic factors are those key environmental trends that are thought to have a medium and high probability event and a medium and large impact on the organization.

These trends of the environment are considered organization's strategic factors that can be appreciated as opportunities and threats and they are considered in formulating strategy.

## 2.2 Competitive Environment Evaluation

The competitive environment represents all organizations and forces that interact directly with the organization and the industry that it belongs to.

Competitive environment analysis requires: industry and competitive analysis.

As for industry analysis, one must take into account its structure and tendencies and then decide whether the industry is attractive in the long-term.

The elements that make a difference for attractiveness can be: the existence of opportunities, competition intensity and different positions on the life curve of the industry.

Stakeholders' most important groups such as suppliers and customers can also be examined.

An industry is actually a group of organizations which produce or provide similar products or services.

To evaluate the competitive environment it is necessary to predict the forces to be exerted by those outside the organization's environment, and intensity of these forces.

The research and forecasting of the environment must be done by obtaining information:

- in-out: necessary information for functional areas that are sensitive to environment changes;
- out-in: unselected information.

The responsables for obtaining the information can be:

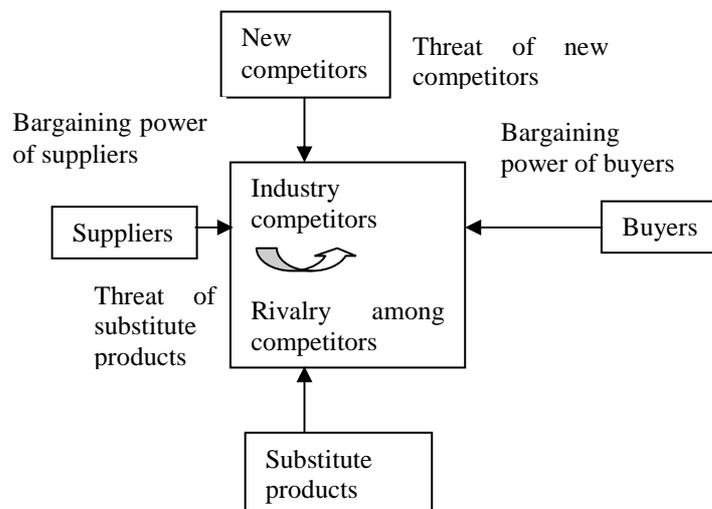
- organization's top management;
- other managers who are directly connected with the outside;
- specialized personnel.

Available sources can be:

- specialized publications;
- own forecasts.

In order to define and research the competitive environment for an organization it is necessary to identify the components and the information related to them.

**Figure 2 – Forces Driving Industry Competition**



Source: (Porter, 2005)

Porter (2005) has developed a classification system to identify the major forces for trends analysis and to capture interdependencies between forces of the competitive environment. Understanding how these forces act provides a basis for identifying threats and opportunities in the competitive environment. These factors include:

- suppliers;
- buyers;
- potential new competitors;
- substitute products;
- key competitors.

This model, developed by Porter (2005), does not specify how the process of competitive environment evaluation is developed. He has a great contribution to strategic management theory, but for

those who master very well this theory, because he highlights only the forces and not a method for identifying or evaluating the strength with which they interact.

If an organization has to evaluate the competitive environment, it has to obtain the adequate information regarding:

- Buyers force:
  - Services/products requirements,
  - Quality requirements,
- Dynamic pressure created by suppliers:
  - Resources price,
  - Delivery conditions,
- Threat of substitute products:
  - Products/services,
  - Quality,
  - Price.

We accept the fact that possible competitors can always appear, and that only information that the organization has is: "Is there a new competitor?"

As for key competitors, it is very important for an organization to know how they will react to the forces created by the others from outside, especially suppliers and customers, in order to have the adequate information when establishing the competitive strategies.

- Market position and trends,
- Profitability,
- Financial strength,
- Service range,
- Technological sophistication of facilities and equipment,
- Know-how and unique patent,
- Patents and copyrights,
- In-house capability in the research and development process,
- Research and development staff skills in terms of creativity, quality, reliability,
- Costs.

Industry evolves because the forces are in motion, which creates incentives or pressures for change.

Change forces types can be:

- The change of long term industry growth rate can cause inputs or outputs, and thus, the change of balance between offer and demand and competition change,
- The change of buyes categories and / or the use of products causes changes in:
  - Demands for services,
  - Demands for distribution channels,
  - Product / services lines,
  - Capital demand.
- Product, services and processes innovation,
- Legal reglementations,
- Cost and efficiency changes,
- Industry structure changes.

So to have a better picture of the organization's capability, critical success factors must be identified.

Critical factors for success are environmental requirements to which the organization can respond.

They are also major determinants of financial and competitive success and can be regarded as milestones in building strategy and can create competitive advantage if adopted, or even superior solutions to those of competitors.

Questions to which the organization must find an answer are:

- What does the environment wants?
- What should the organization do?

From industry and competitive environment analysis the conditions in which the organization should act must be identified. These conditions can be interpreted as competitive environment requirements. If it is appreciated, from the analysis that the organization will meet those requirements, those requirements may be considered as opportunities. Conversely, if it is considered that the organization will not meet the required environmental conditions, they become threats to the organization.

The most important categories of critical success factors are those arising from:

- Specific characteristics of the industry;
- Economic or technological changes;
- Regulatory regulations;
- Changes or internal needs of the organization;
- Innovation of products, services and processes.

### **2.3 Internal Environment Evaluation**

The basic idea in accomplishing the evaluation of the organization's internal environment is evaluating the company's current status, Rue, Holland (1986).

Internal analysis directions are:

- Analysis of action possibilities;
- Organizational culture.

This evaluation is made in order to identify the strategic internal factors, the strengths and weaknesses, critical when establishing whether the organization is able to take advantage of opportunities and avoid the threats. This internal evaluation is focused on identifying and developing the organization's resources. A resource represents assets, competences, processes, skills or knowledge, all managed by the organization.

Also, a resource can be a strength if it offers competitive advantage to the organization. It represents something the organization does or has potential to do better than existing or potential competitors.

For the analysis of action possibilities it is necessary information regarding organization's culture and related to:

- Financial resources: cash, credit lines, external sources,
- Natural resources: buildings, parking, laboratories, technical equipment,
- Human resources: skills,
- Organizational resources: information system, management system, staff training, organizational structure,
- Resources to address the competition: reputation, quick response, customers loyalty.

In his tool of analysis called VRIO, Barney, Hesterly (2005), Barney suggests four questions for the evaluation of each of the organization's key resources:

1. The Question of Value: Does it provide competitive advantage?
2. The Question of Rarity: Other competitors also have it?
3. The Question of Imitability: It costs a lot for other organizations to imitate it?
4. The Question of Organization: Is the firm organized, in order to be able to exploit the resource/capability?

If the answer is „yes” for a certain resource then that resource is considered as being a strength and it is seen as a distinctive competence.

Depending on the results obtained from VRIO tool of analysis, organization's capacity of action can be appreciated through the strengths and weaknesses that can be evaluated.

By use of resources can be achieved competitive advantage. Grant, (2007) proposes a five-step resource-based approach for strategy analysis:

1. Identify and classify organization's resources in strengths and weaknesses.
2. The strengths to be combined and be considered as organization's capabilities, that is something the organization does very well. If these capabilities are superior to those of competitors, they are called distinctive capabilities.
3. To evaluate the potential profit of these resources and capabilities based on their potential for the organization's competitive advantage and ability to obtain profit from the use of these resources and capabilities.
4. To choose the best strategy to exploit firm resources and capabilities for external opportunities.
5. To identify the lack resources and invest in improving weaknesses.

As indicated in step two, when an organization's resources are combined, they form a number of capabilities.

### **3. Conclusions**

To draw conclusions it is useful to look at another document "European Foundation for Quality Management (EFQM) Excellence Model 2010", because the principles are reconsidered for the calculation of criteria weights that are used to calculate the final score. The principles were reconsidered because there

are many changes regarding the subcriteria for evaluating the economic organization in order to obtain an excellence award.

If we consider the principles of EFQM Excellence Model 2010 and the recommendations of ISO 9004:2009 standard, the conclusion is the following:

The survival of economic organizations in 21<sup>st</sup> century requires:

- The development of a strategic management process
- Deeper customer orientation and the development and implementation of a Total Quality Management System because in this way the organization ensures customers satisfaction and thus ensures the necessary financial resources.

#### 4. Acknowledgment

*The work has been funded by the Sectorial Operational Programme Human Resources Development 2007-2013 of the Romanian Ministry of Labour, Family and Social Protection through the Financial Agreement POSDRU/6/1.5/S/19.*

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## ASSESSMENT OF THE ASTORIA RESORT TOURIST'S DEGREE OF SATISFACTION AND SOLUTIONS TO IMPROVE QUALITY OF SERVICES

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**Abstract:** *The aim of this study was a tourist's satisfaction assessment, in terms of service feature offered by Astoria Resort, as a main factor in ensuring quality of services and business competitiveness. This analysis consisted in applying SERVQUAL instrument built on a response scale designed to encompass both tourist expectations and perceptions about service. The assessment of the tourist's degree of satisfaction was made by determining the difference between perception and tourist statements regarding its expectation of certain components of the service. Most of the analyzed features recorded a lower level of perceptions compared with those of expectations manifested by tourists.*

**Key words:** services quality, tourist's satisfaction, expectations, perceptions, Servqual instrument

**JEL classification:** L8, L 83

### 1. Introduction

In last decades quality has become a key concept for trade in any kind of goods and services. Successful organizations have understood that continuous improvement is necessary to remain in business. Thus, they have developed mechanisms to help them change and adapt to new requirements.

Quality is a new strategic philosophy of management of organization based on the primary management and employees' objective, respectively consumer satisfaction and continuously improvement of products, production and services. Also, this capability can be achieved by improving product quality and innovation - both aspects are very important in the competitive process.

It is known that management, more than technology, the key of continuous quality improvement, must worry about forming and changing of an appropriate specific organization culture in order to achieve sustainable performance that prevail the company over the competitors.

### 2. Service quality – factor to increase competitiveness of the organization

The impact of a firm's products / services on its market shows the business performances by adapting products and services to customer needs. Any enterprise that aims primarily to meet the requirements of its customers will be able to obtain a significant market share and hence profits that are necessary for development activities. Studying consumer needs is a prerequisite for achieving quality products and services to achieve business competitiveness through a strategy focused on quality.

Satisfaction is a customer condition that occurs after comparing the quality of service with his expectations. Satisfaction depends on the size of the difference between reality and expectations and is measured by an indicator “service quality level”. Comparing four situations may arise: the performance is very low (dissatisfaction), a lower performance (whatever), and the performance meet expectations (satisfaction), the performance is better than expectation (enthusiasm) (Stanciu, 2003).

The client establishes expectations from experiences, from discussions with acquaintances, advertising, and the provider's promises. If the promises are disproportionate the customer is disappointed, and if they are insufficient, it cannot capture attention.

Quality is a defining element of the tourism product. Components of service quality must consider both the quality of service provision and quality of service resulting from this process. Given these issues, quality of service components are:

- a) quality of service provision - driven by several factors:
  - quality staff;
  - quality equipment;
  - space;

- environment in which service is provided;
  - written procedures for the service provision;
  - b) service availability - due to the following factors:
    - serving timelines;
    - timelines of delivery;
    - c) access to service quality – which relates to the possibility of being easy to contact customer service provider, to receive timely information they require in connection with that service, this is achieved through advertising by providing leaflets book which presents the services.
    - d) quality of relationship with the service provider – refers to how the customer is receipt, the attention that is given, to staff solicitude, to personalize customer relationship. Customer perception of service is decisively influenced by his relationship with staff.
    - e) the quality to support customer satisfaction – is the fact that information must be clear, accurate, relevant, suggestions and advice on the application of certain service should be tailored to each customer.
- For a service company to provide its customers only with quality service it is necessary before rendering them to know their correct and complete requirements and after its release to be known as good customer reaction (satisfaction or dissatisfaction) with relevant arguments (Juran, 2004).

### 3. Analysis of the service quality provided by the Astoria Resort in Mamaia

This analysis consisted in applying SERVQUAL instrument proposed by Zeithaml, Parasuraman and Berry, built on a response scale designed to encompass both tourist expectations and perceptions about service. This instrument allow to assess but at the same time is a tool for improvement and comparison with other organizations of the sector. Groups of factors determining customer satisfaction are: responsiveness, reliability, empathy, tangible elements.

The application Servqual instrument comprised the following steps:

- determine the intensity of tourist expectations on different parts of the service;
- determine tourist perception on different elements of the service, which would be measured;
- assessment of quality of service by determining the difference between perception and tourist statements regarding its expectation of certain components of the service. Quality will be the difference between perception and expectations (Dobrin, 2006).

This quality assessment will allow better definition of service points. Also, the method provides a score for each criterion. Starting here you can get Perception Index of Quality of service (PIQS), the ratio of arithmetic mean perceptions elements and of its arithmetic mean expectation elements.

The aim of this study was a tourist satisfaction evaluation, in terms of service features offered in Astoria Resort, as the main factor in ensuring quality of services and thus to increase business competitiveness.

The study objectives covered:

- evaluate the nature of Astoria Resort image (favorable / unfavorable);
- quality of service provided in association with the company's image;
- identify service features that contribute to tourist satisfaction;
- determine gaps between tourist expectations and their perceptions of service characteristics examined.

To ensure the representativeness of the sample, first, it was calculated the sample size. Between 1 and 12 May 2010 at Astoria Resort were accommodated 62 tourists who had lunch at the restaurant.

We calculated sample size for an exhaustive survey:

$$n_e = t^2 \times p \times (1-p) / \Delta\omega^2, \quad (1)$$

were:

- $n_e$  – sample size for an exhaustive survey;
- $t$  - coefficient corresponding probability guarantee of the outcome;
- $p$  - proportion of sample components that have researched feature ( $p = 0.5$ );
- $\Delta\omega$  – limit acceptable error.

Considering the probability of guaranteeing the outcome of  $P=95\%$ ,  $t=1.96$ , the proportion of components sample  $p=0.5$  and the limit acceptable error  $\Delta\omega = +/- 3\%$ , we get  $n_e = 1067$  persons. Calculating the final size of the sample corresponding exhaustive survey will get:

$$n_f = N \times n_e / (N + n_e), \quad (2)$$

were:  $N$  – statistical population investigated.

$$n_f = 62 \times 1067 / (62 + 1067) = 66154/1124 = 58,60$$

The results of two specific Servqual questionnaires applied to sample are presented in tables 1 and 2.

**Table 1: Recording data regarding tourist perception evaluation**

Feature	Given scores							Media (Am <sub>per</sub> )
	1	2	3	4	5	6	7	
<b>A. Resources</b>								
- modern equipment	-	-	-	7	13	22	17	5.83
- providing ambient conditions	-	-	-	11	16	19	13	5.57
<b>B. Reliability</b>								
- kindly given to tourists	3	11	18	16	8	3	-	3.40
- staff capacity to carry out orders	-	-	4	4	21	25	5	5.38
- staff capacity to provide consultancy	-	-	4	4	25	21	5	5.32
- staff capacity to explain refusal if the requirement is impossible	3	10	18	14	10	3	1	3.52
- staff ability to follow the approach to go for solving a request	-	5	8	15	17	13	1	4.47
- level of staff training	-	-	5	4	25	23	2	5.22
<b>C. Prompt response</b>								
- clarity of language	-	6	9	20	15	9	-	4.20
- speed in service	-	-	-	10	17	19	13	5.59
- the promptitude to perform services	-	-	-	10	10	28	11	5.67
<b>D. Safety</b>								
- ensuring tourists confidentiality	-	-	-	6	13	23	17	5.86
- ensuring guests privacy	-	-	-	-	3	7	49	6.77
- employees 'ability to convey confidence	-	-	-	6	16	22	15	5.77
<b>E. Empathy</b>								
- understanding the tourists needs	-	5	8	14	18	13	1	4.49
- good communication with staff	-	-	-	6	12	23	18	5.89
- company capacity to ensure a rich package of services	-	-	-	4	11	23	21	6.03
- individualized attention given to guests	-	-	-	4	13	22	20	5.98

For quality of service assessing we calculated the difference between the scores given by customers to different pairs of statements.

Quality = perceptions – expectations

Next the perception of quality Index was calculated for each service feature (table 3 and figure 1) using the formula:

$$I.P.C.S = \frac{Am_{per}}{Am_{exp}}, \quad (3)$$

were:

Am<sub>per</sub> - the average of customer perceptions;

Am<sub>exp</sub> - the average of customer expectations.

Analysing the obtained results can be drawn the following conclusions:

Most of the analyzed features of services recorded a lower level of perceptions compared with those of expectations manifested by tourists. Exception made the ability of organization to ensure the privacy of tourists for which the level of perceptions equal compared with those of tourists' expectations. The characteristics that recorded the largest differences between the perception and expectation levels were the staff courtesy with tourists, the staff capacity to explain refusal if the requirement is impossible the employees' ability to offer information using an accurate and clear language and respectively, the staff courtesy with tourists.

**Table 2: Recording data regarding tourist expectation evaluation**

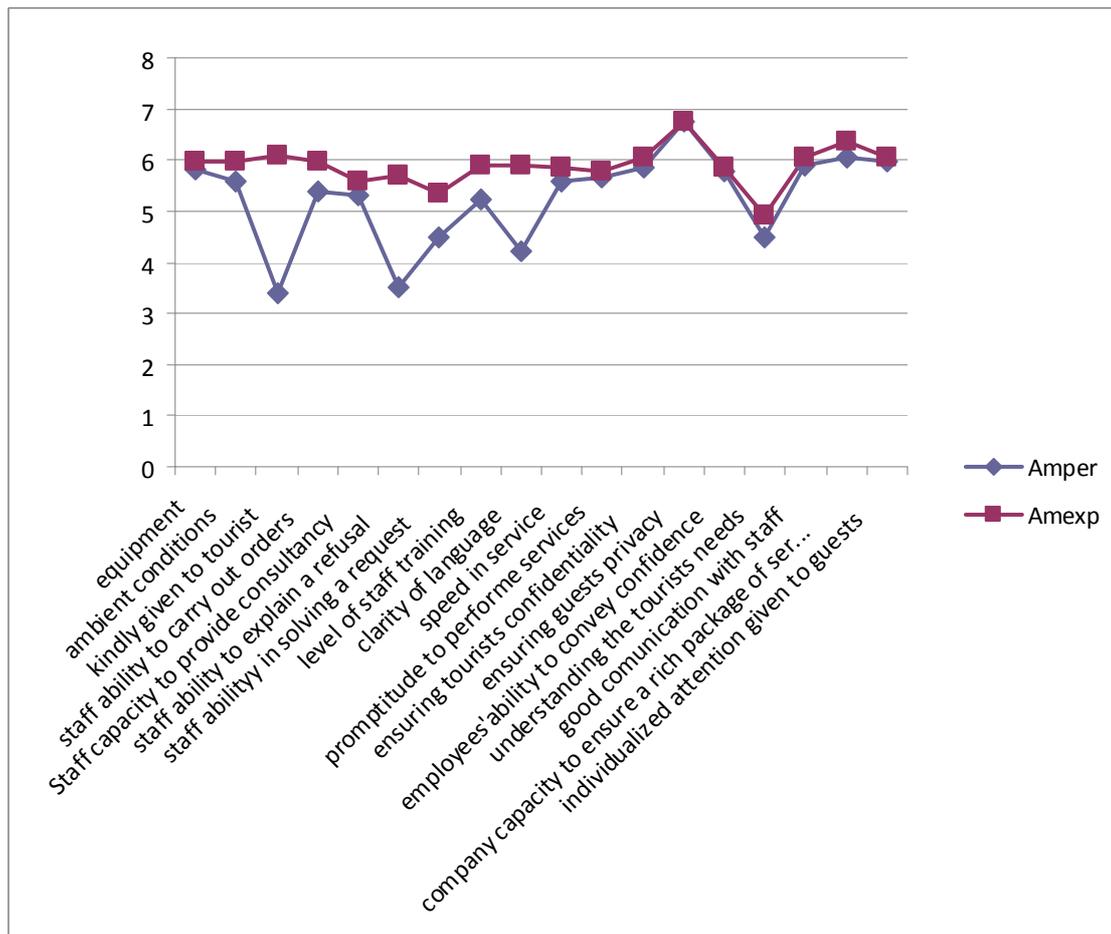
Feature	Given scores							Media (Am <sub>exp</sub> )
	1	2	3	4	5	6	7	
<b>A. Resources</b>								
- modern equipment	-	-	-	4	13	22	20	5.98
- providing ambient conditions	-	-	-	4	13	22	20	5.98
<b>B. Reliability</b>								
- kindly given to tourists	-	-	-	6	7	21	25	6.10
- staff capacity to carry out orders	-	-	-	4	13	22	20	5.98
- staff capacity to provide consultancy	-	-	-	11	16	19	13	5.57
- staff capacity to explain refusal if the requirement is impossible	-	-	-	10	14	18	17	5.71
- staff ability to follow the approach to go for solving a request	-	-	-	15	19	15	10	5.33
- level of staff training	-	-	-	-	20	25	14	5.89
<b>C. Prompt response</b>								
- clarity of language	-	-	-	-	20	24	15	5.91
- speed in service	-	-	-	6	13	23	17	5.86
- the promptitude to perform services	-	-	-	6	16	22	15	5.77
<b>D. Safety</b>								
- ensuring tourists confidentiality	-	-	-	4	11	23	21	6.03
- ensuring guests privacy	-	-	-	-	-	14	45	6.76
- employees 'ability to convey confidence	-	-	-	5	14	25	15	5.84
<b>E. Empathy</b>								
- understanding the tourists needs	-	-	7	15	17	15	5	4.93
- good communication with staff	-	-	-	4	11	23	21	6.03
- company capacity to ensure a rich package of services	-	-	-	-	5	27	27	6.37
- individualized attention given to guests	-	-	-	3	11	24	21	6.06

**Table.3: Perception Index of Quality of Service (PIQS)**

No.	Feature	Am <sub>per</sub>	Am <sub>exp</sub>	PIQS
<b>A. Resources</b>				
1.	Modern equipment	5.83	5.98	0.97
2.	Providing ambient conditions	5.57	5.98	0.93
<b>B. Reliability</b>				
3.	Kindly given to tourists	3.40	6.10	0.55
4.	Staff capacity to carry out orders	5.38	5.98	0.89
5.	Staff capacity to provide consultancy	5.32	5.57	0.95
6.	Staff capacity to explain refusal if the requirement is impossible	3.52	5.71	0.61
7.	Staff ability to follow the approach to go for solving a request	4.47	5.33	0.83
8.	Level of staff training	5.22	5.89	0.88
<b>C. Prompt response</b>				
9.	Clarity of language	4.20	5.91	0.71
10.	Speed in service	5.59	5.86	0.95
11.	The promptitude to perform services	5.67	5.77	0.98
<b>D. Safety</b>				
12.	Ensuring tourists confidentiality	5.86	6.03	0.97
13.	Ensuring guests privacy	6.77	6.76	1.00
14.	Employees 'ability to convey confidence	5.77	5.84	0.98
<b>E. Empathy</b>				
15.	Understanding the tourists needs	4.49	4.93	0.91
16.	Good communication with staff	5.89	6.03	0.97
17.	Company capacity to ensure a rich package of services	6.03	6.37	0.94
18.	Individualized attention given to guests	5.98	6.06	0.98

Some features such as staff ability to follow the approach to go for solving a request and the level of staff training has not registered significant differences between the level of perceptions and that of tourists' expectations, but they'll require attention from top management to improve the quality of these benefits.

**Figure 1: Graphic representation of the level of tourists perceptions and expectations on some features of services provided by Astoria Resort**



General speaking, tourist perception of quality services from Astoria Resort is not very different from their expectations; most features evaluated has values of Perceptions Index of Quality of Service (PIQS) close to 1.00, implying that the company's image as a whole is not a disadvantage one. Moreover, it appears that over 70% of respondents have a favorable perception of the company's image at the level of those five groups of features service evaluated.

**3. Conclusions**

Continuous improvement of management and performance in tendering processes and provide tourism services include the adoption of modern techniques and staff training to meet quickly and without reproach, customer requirements.

This analysis leads to the conclusion that the organization has problems with staff employed. Thus the staff professionalism was not just the tourists expectations, since it was supplemented by workers without special experience.

Astoria Resort management should be guided in determining staffing needs, the size of work teams, the schedule of work and tasks of each worker. Also it must follow strict correlation of the number of staff with results obtained and ensuring a suitable quality of service.

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## CONSIDERATIONS REGARDING THE SELLING ACTIVITY DURING THE PERIODS OF NORMAL ECONOMIC EVOLUTION AND ECONOMIC CRISIS

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**Abstract:** *Perceived as one of the most important human activities, selling consists of passing material goods, services or works, from the production sphere to the consuming one, their fulfillment as merchandise, the target being satisfying some consuming needs. Expressed through the simple change between parts, or through the more advanced complex sales, in which the package of services which comes with the traded good can generate other services or can produce other goods, selling and the sale management have reinforced their importance, careless of the way in which the economy developed. The approaching differences regarding their use in conditions of normal functioning of the economy and of economic crisis, make the object of this study.*

**Key words:** sale, sale management, performance, client orientation, results

**JEL classification:** M21

Certainly, from all the human activities, selling is one of the oldest, necessary, omnipresent activity. Even if there might exist some nuances, its indispensability is accepted and reckoned in unanimity, both in its theoretical aspects and from the perspective of its practical valences.

Even though selling represents one of the most invoked human activities, that it is a part of the granted human occupations, that its importance is without exception reckoned and appreciated, having in sight its place in the economic activity, a good period of time, both selling and its immediate consequence, buying, have not made the object of some theoretical debates at a level of interest which would have been imposed. Although, in the last period of time, the theoretical sale approach is situated on other coordinates of expression, in relation with its very high practical importance, selling as a theory is not situated at an equitable level of interest from all points of view with what selling as a practical activity represents. Because, regarding its importance and necessity, the conceptual steps regarding sales are still in a certain state of relativity, this somehow anachronism must be signaled as such. This is imposed because, certainly, only through a consistent theoretical debate and at a high level of approach it is possible the refinement of those fundamental and representative elements which are the scientific consistence of any economic or social category, among which selling occupies a very important place. Further more, having as fundament the substance, description and evaluation of those economic and social categories, particularly sales, there can be created models, can be formulated conclusions which themselves generate new hypothesis and theories based on which new approaches can be built and new solutions can be elaborated, which themselves might or might not be implemented in practice, solutions which once implemented, might generate those positive effects which were wanted and anticipated.

Equally from theoretical and practical perspective, selling is known as an activity in which are engaged at least two parts between which will occur or occurs a change of goods or services.

Selling is a change which can take place in nature (barter), thing that reminds of the beginnings of this activity. But, as it has predominantly happened for a good period of time, selling is firstly a change of products (services) for money, change after which the interests are to be satisfied in a favorable way.

In another approach, in which the economic essence of this human occupation gains a convincing enough outline, through selling is understood an activity organized possibly different, through which a determined quantity of goods or services is being valued through a commercial transaction. The quantity of goods and services which makes the object of a commercial transaction is expressed through a certain volume or has a certain value, refers to a certain period of time and targets a territory delimited more or less precisely.

Addressing to old or new customers, being made by distributors, being able to be specialized technically or being a missionary one (Blythe, 2005), having the significant status as one of the oldest human practice, selling fully proved its very well noted role in the activity of any organization.

The role of selling materializes, on the one hand, in the efficiency of the commercial function of the enterprise, and on the other hand selling can bring a decisive contribution in obtaining and maintaining an

advantage in relation with the competition. In these conditions, it is fully founded the affirmation that in an enterprise, the selling activity has a role not only very well noted, but also a fundamental one. Consequently, for an enterprise, the selling activity is the one which proves the ability to obtain those incomes which enable them to achieve profits and through them, incomes and profit, to become competitive and to position itself in an advantageous way in comparison with other players. Because, mostly, the acquisition of a certain market position, maintaining and strengthening it may be made by increasing sales. All this issues can be found in the assessment that sale is in one of the activities in which are noticed strong elements characteristic of a strategy.

Leading to a significant extent which in terms of achievement can be obtained, and in terms of unfulfilment why could not be accomplished what was proposed, supported by sufficient arguments, both theoretical and practical, sale is equally one of the important activities of an organization and one of its strategic activities. This statement may be supplemented by the fact that, on the one hand, through the elaboration and operationalization way, and on the other hand by its importance within an enterprise, the sales strategy represents one of the binding components of the overall business strategy. And of course, sales strategy objectives derive from the general enterprise objectives, and achieving the objectives referred to the sale contribute significantly to the overall objectives of the enterprise.

Representing a permanent and perhaps the most important interface with the external environment, the sale is the activity that complements all other activities taking place in an enterprise. Its role is of major importance, because after discovering new costumers, which is essential for any enterprise, that satisfy the needs at that level of exigency determined and claimed by the costumers. In addition, besides the fact that they discover and attract new customers through the ways in which the sale is being materialized, the existing customers can be maintained, fulfilling one of the most challenging goals of an enterprise, creating and maintaining loyalty to their clients, which in such a situation become true and important business partners. If it takes into consideration the fact that without customers no enterprise can operate and exist, the previous statement that sale is actually a fulfillment of other business activity is fully justified.

Even if there are significant differences between the types of ensuring the markets with the designed products and services to meet the needs of actual or potential customers, a country's, of an area, region or world economy must show the ability to meet population demands. Of course, the consumed resources, the committed efforts and managerial capabilities shown at the micro and macroeconomic level overall should, through sale, materialize in the meet of the needs, both quantitatively and qualitatively, of a population, not only under a upward trend of evolution in the numerical aspect, but a significant number of exacting countries.

In the current period, a significant number of countries, the overall situation of the economic developed countries and with a consolidated democracy, individual, through its active participation in various transactions that occur on the market, in a largely extent moved beyond the actual buyer stage which can accept or refuse the exchange, turning into a rigorous and pretentious assessor in relation to what is proposed, being only interested in something that necessarily have to correspond completely with what he wants.

In this context, the principle "likely" or "right" ("the right") has demonstrated its necessary and significant preponderance in relations between producers and customers, soon becoming a truly effective manager of this relationships. By materializing the principle "the right", the sale has become one of the functions of vital importance, both for business and for individuals, whether they are in position as a producer or customer. The sale has become an essential activity, not only because it makes possible the generation and progress of the exchange between stakeholders, but also because it determines the exchange, it directs to the areas where they can best be achieved, it improves and can make it profitable. Considering all these aspects, we can say that, in terms of sales activity, ensures the previous necessary conditions for the enterprise to become competitive as a manufacturer and therefore can meet the needs of costumers according to their wishes and requirements.

Being such an important and present activity in any enterprise, as part of commercial functions, sale can be described several common elements which acquire the attribute to be significant and very important.

The generality and its importance, suggests that from a practical perspective, the sale is the activity that contributes very much to increase incomes, supports concrete and effective the economic development of the enterprise, creates the necessary premises for increasing the market share, finally showing that any business development is possible only through increasing sales.

Even if the firm's efforts in improving their products, launch new products on the market in increasing number, variety, quality and appropriateness of services offered, all constitute elements of

success, their beneficial effect on the level of satisfaction of consumer needs is really only possible to achieve as far as sales activity has the ability to effectively harness the full potential available to it, managing to maintain a high level of performance.

That level of performance expected of sales activity can be achieved and maintained only as far as selling skills acquired over time, regardless of hierarchical level to which they relate are continuously reassessed, if necessary, revalorificated through greater specificity and binding in relation to sales targets and hence the overall objectives of the enterprise.

The performance of sales activity may increase if the company has in its relations the ability to add more value to customers. This "more offered value", which preferably should be differentiated in relation to the expressed demands of customers, it is possible to persuade them, the customers, not only to repeat purchase, but require more varied products and services or greater quantities or greater number.

To capitalize on evolving circumstances favorable sales activity to represent really a factor for development of the enterprise, it is important that top management should demonstrate the capability and determination to exploit all the resources and levers that are currently available, or that might be obtain in the future. So, prerequisites can be created for the development of sales strategies realistic and achievable goals, objectives, achieved to a level of efficiency and effectiveness previously established, will show that in the respective enterprise sales management is a performing one.

Moreover, in a modern society, in which primarily positive elements are representative, that characterize a market economy, a company that is based on strong and sustainable business that carries a credible management, flexible, powerful and modern in a position to effectively manage resources and activities of the enterprise, from the perspective of the role and it's importance, in such a modern society selling very precise place. In the management of resources to exploit the results of all activities of an enterprise and to encourage and exploit of the "new ways to generate sales" (Bader, 2011, p. 54), the activity of selling and the selling management are those who have a determined contribution to insure the competition of that enterprise.

It is therefore clear that, especially in the last period of time "selling has a vital role both in material circuit and in the informational one" (Grosu, 2007, p. 8) which makes use of an enterprise activity. Also, "the initial role if sales sought the material circuit, but with the market development and continued growth of competition, the sale (through sales force) becomes a real source of gathering information on the market (Consumer customers)"(Grosu, 2007, p.8), what represents one of the advantages of an enterprise in his way to be competitive on the market.

Of those listed above may conclude that, under the normal course of a market economy, the beneficial role of sales activity is fully demonstrated and confirmed, because "sales are synthesized by the mission, objectives and ultimate goal of economic activity" (Bader, 2011, p. 10) of an enterprise," which is why he took on new meanings, beeing raised by specialist to art ranking" (Bader, 2011, p. 10).

In condition of an economic crisis, regardless of its mode of manifestation, sales and sales management maintains the same role as in times of healthy economic development.

Among other elements of characterization of the economic crisis such as the significant reduction of productive activity, increased bankruptcies firms usually accompanied by the alarming increase in unemployment, inflation, reduce to an extremely low level of investment is invariably reflected in decreased sales.

The decline in sales and hence lower revenues from their enterprises make their contribution in that case of malfunction or non-functioning of the economy, with consequences in the event more or less evident, not only economic but also social instability.

With the economic crisis may acquire acute and long-term issues, and maintained social and political instability, an approach to sales and sales management problems find a full explanation, not necessarily in terms of need, which is already proven, but particular opportunity.

Since the opinion of many specialists is an affirmative finding that more than enough appreciating, there for a significant proportion of enterprises, regardless of size and market importance, the important objective and maybe unique in a time of crisis is survival, sales and sales management "gains strategy valences, especially in terms of strategic facets of the survival strategy that every company should" (Stefan, 2009).

In such a context, it is imperative that both sales falling efficiency of already established activities such as accurate knowledge of the competitive environment, proper management of the sales force, sales and other computerized processes what constitutes more or less new in this field, namely, electronic commerce and the Internet, databases, and using data base in sales and marketing "using Geographic Information

Systems in sales management" (Badea, 2011, p.68). Through such way to approach to sales issues, it is possible that one of the important effects of the economic crisis, the decrease in sales is very diminished, the tend of savings of the population to be somewhat reoriented to consumption, investment attraction to be revived and stimulated, and in that way to become possible a sales incensement, more exactly of purchasing.

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**INTERCULTURALITY IMPACT ON PERFORMANCE MANAGEMENT****CROITORU Gabriel<sup>1</sup>, BADEA Leonardo<sup>2</sup>, POPA Gabriela<sup>3</sup>**

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**Abstract:** *The cultural context of a country makes the organizations adopt its structural forms and ways of inner functioning adjusted to the behavioural forms specific to that country, to its cultural model. For an enterprise, under the new market specifications which has an international activity, it is compulsory to follow the traits of the country of origin but also to integrate the multiple influences of the countries where it is implanted. The major purpose of the present paper is to preserve and develop the professional culture, while the static ethic values tend to become part of this culture. The crisis period the market economy is passing through harms the professional culture in the sense that many of traditional old professions and jobs are disappearing much faster than the new ones come into being. The approach of the present paper is completed by an analyse obtained after having filled out a questionnaire. However, its interpretation is limited by the degree of subjectivity which often occurs when filling up a questionnaire, interpreting data, presenting some appreciations and recommendations. Perhaps, this thing is due to either a very close perception or to the necessary period of time these communities need to take shape.*

**Key words:** interculturality, performance, organizational culture, management, enterprise's economy

**JEL classification:** M11, M12, P12

## 1. Introduction

Largely, the multinational society is the generic term used to name all public and private entities whose activity is achieved by the help of the subsidiaries situated outside the national territory where their social offices are. Any multinational company has subsidiaries and branches located in different regions of the Earth.

Restrictively, the multinational company's social office is located in a certain country and exerts its activity outside the country through the subsidiaries and branches under its control, based on a strategy internationally thought and planned.

The multinational companies often work not only in many countries but also in many fields of activity and, as it is natural on many markets. The different fields of activity or ways to produce diverse products have, in general, distinct "organizational cultures". The force of the "transnational organizational culture", within an activity field or a product manufacturing process, allows the transcending of the differences between "national values" of the respective economic structure's members, because the common practices, meaning the harmonization of commercial and productive activities, and not the common values makes the connection between the multinational companies.

The cultural approach of internationalization depends on the dominant mentality in the company, on the management attitude to fundamental decisions regarding the product, marketing, financing etc.

Considering the worldwide business environment their own market, these companies "think globally and act locally", says Fatehi K.

As they advance in the internationalization process and in the intercultural experience increase, these companies adjust and improve their way to approach the business environment realities. The trend imposed by the requirements to insure competitiveness and efficacy at global scale is in fact the transition from ethnocentric approaches to geocentric ones.

Recent experience shows that multicultural approach offers important potential benefits for those companies having global activity. Some of these advantages emphasized by the specialized literature are as follows:

- cost reduction – small degree of local staff's integration which leads to dissatisfaction and absenteeism at work and implicitly, higher costs;

- resources procurement – those companies/firms with a good reputation regarding intercultural relations are more likely to attract human resources and a better qualified personnel;
- advantages in marketing – the existence of a multicultural personnel allows the company to better understand the local prices and to adopt adequate marketing strategies;
- optimum solutions – the existence of experience and diverse knowledge allow to analyze problems from different perspectives and help in making the right decisions;
- creativity – multiculturalism, obsonant to conformism and favorable to perspective diversity, stimulates creativity;
- organizational flexibility – with the view to adapt themselves to cultural diversity, the companies adopt organizational politics and more flexible and comprehensible procedures.

It is not less true however, that in international managerial practice, in each single case, three approaching elements are specifically combined in a mix which offers the respective companies the maximum of advantages.

The advantages of multiculturalism can increase the companies' competitive force that acts on the global market; but, this thing involves a kind of management devoted to creativity, flexibility and diversity principles.

## **2. The company in international and multicultural context**

Business management – in a worldwide economy under globalization- is marked by a double "challenge": that of internationalization and that of cultural diversity. Taking into account the international development stages of the company, on one hand, and the cultural approach way, on the other hand, some authors distinguish four types of companies/firms: national, international, multinational and global company/firm.

The multinational company/firm (named by some authors transnational) coordinates its activities in all those countries where its subsidiaries are, so that to take advantage of the maximum market and scale savings, trying at the same time to meet the specific local requirements. The control the mother-company exerts on the subsidiaries is more emphasized and is achieved by centralized informatics and planning systems but, at the same time, the conditions for decentralized decision are maintained.

In case of cultural differences management, there are fewer accents on multicultural aspects from outside the company and more accents on mastering cultural diversity from inside the company. This happens because the multinational company hires managerial and executive staff from worldwide. As such, the multicultural approach is built from the outside to the company, just the opposite situation used in case of international companies.

This type of company corresponds to the transition from the implementation to multinationalization stage in external development of the organization.

The company activity is integrated on a global basis, its main competitive strength being the coordination of activity complex network on worldwide market. Involving very diverse activities, these companies are usually constituted as conglomerates, extending the competitive confronting at a global scale, both from sectorial and geographical point of view. At the same time, of late, global companies hold complex organizational structures where integration is based on ownership relations and technological monopoly and also on a vast network of strategic alliances and international cooperations.

In a geocentric vision, the company practices an intercultural management both by directing the corporation values to external environment (e.i. international companies) and by internalizing in the company the cultural diversity from external environment (e.i. multinational companies). In order to become performant, the employees of a global company must develop intercultural abilities that allow them to work efficiently with the staff within the company (of different nationality and cultural values), as well as with the suppliers, buyers and foreign customers.

The global company is suitable to the transition trend from multinationalization to globalization in the process of organizational development at worldwide scale.

Currently, in literature, the notion of multinational company (or firm) is used in a generic sense to name the three types of companies/firms that are in advanced stage of internationalization: international, multinational and global company.

## **3. Cultural profile identification**

In order to identify the cultural profile, the present article tries to make an analyze of an enterprise from Romania. The real name of the enterprise is not to be used just because of the confidential nature of the

data; so the enterprise will be called Reka. The answers at the questions from the first part of the questionnaire, with regard to the existant situation from cultural point of view in organization, will be analyzed.

As for one of the cultural dimensions included in Hofstede G. model, namely, the distance to the executive managerial structure, based on the answers provided by the respondents, the following appreciations can be made:

- To the question referring to the situation where the main reason of hierarchical structure is that of knowing all human resources tasks, the answers of the interviewed ones indicated the following result: the answers included into the categories totally agree and partially agree allow one to appreciate that inside Reka the hierarchy means a inequality conventionally established and not an existential inequality, which demonstrates a small distance to the executive managerial structure.

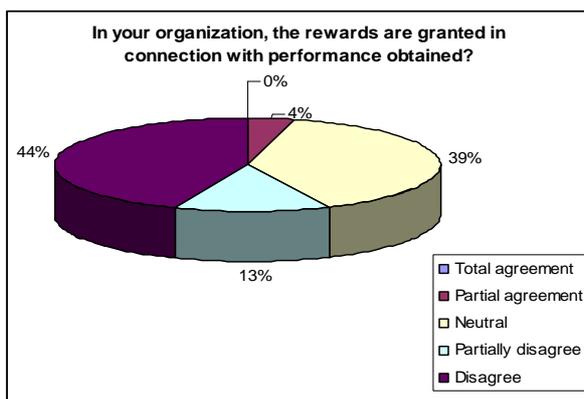
Out of the total number of 23 respondents, 16 were in disagreement and only 2 partially disagree. This last figure shows that at a great extent, the persons included in the managerial staff from this organization are accessible to the subordinates, a trait characteristic to an organization where the distance between the employee and the executive managerial structure is very small; however, it is noticeable that the answers provided by some respondents which mention the limited access to the executive managerial structure draw attention on some contrary cases which may lead to conflictual situations.

- about the same cultural dimension, the distance to the executive managerial structure, but in terms of motivating the personnel, the following situation occurs: the great number of answers point out that material rewards are very motivating in case of Reka employees; this situation is being correlated with the fact that these rewards are granted function on the obtained performance (Fig.1) and, it may be inferred that a latent conflictual state between these employees exists. This state may also exist in case of the executive managerial structure and the subordinates, taking into account the fact that then when the rewarding reason is based mostly on individual effort, a culture of internal competition arises, where the success secrets are well kept, the abilities and ideas are not shared with the colleagues. Thus, the premises of a culture involving a great distance to the executive managerial structure is created.

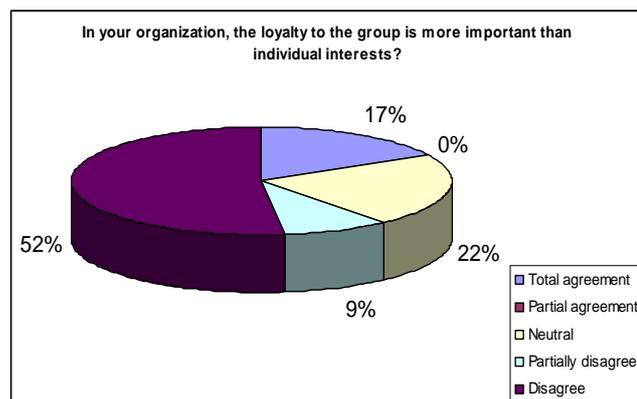
For a more complex analyze, the previous observation is connected to the reflecting way of individualism-collectivism dimension within organizational culture of Reka company.

As for this dimension, it can be observed a high level of collectivism indicated by the loyalty prime position to the group in the detriment of individual interests (fig.2) and to the involvement of the employees from the inferior levels hierarchically speaking in the decisional process.

**Figure 1. Analyze of distance to the executive power**



**Figure 2. Analyze cultural dimension of individualism -collectivism**



It is noticed the great concentration of the answers to the first four steps of the scale (totally agree, partially agree, neuter, partially disagree) which points out a certain orientation to collectivism.

Collectivism, as an orientation to common purposes and targets, puts the group targets, group interests ahead the individual purposes and targets. A person with a collectivist mentality thinks that the quality of each person life will increase as the concern to other person increases, even if the individual liberties are more restrictive. As for motivating the personnel, in a collectivist culture, not only material advantages are important working incentives, but also the support and appreciation of the colleagues.

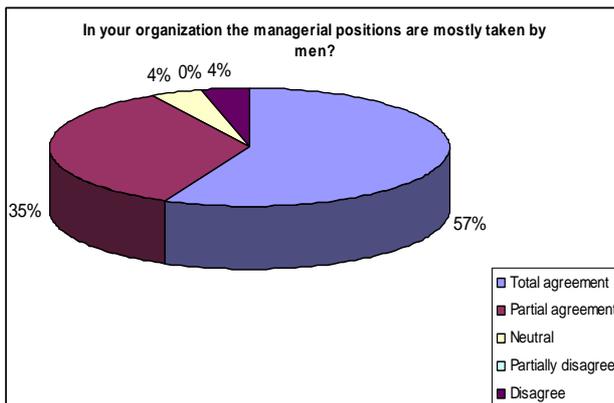
In this context, the high level of material reward importance in motivating Reka employees, does not represent a real threat and material advantages can be considered a performance stimulating factor particularly that performance is an important aspect of rewarding system.

In supporting the idea that motivational role of material rewards is only apparently in contradiction with the predominant expression of a small distance to the executive managerial structure within the organizational culture of the studies enterprise, the following argument may be added.

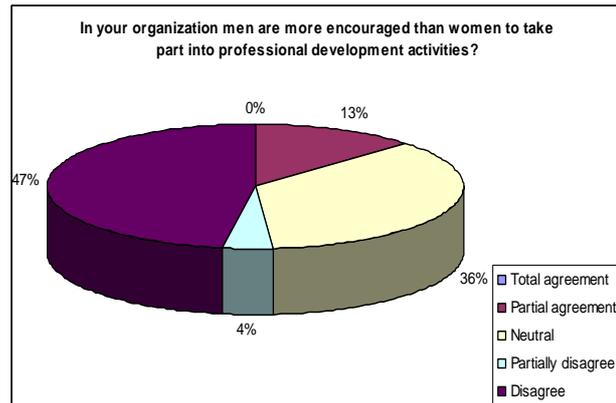
If the high masculinity index is taken into account, emphasized by the provided answers to the question: what the identification of women position within managerial staff has into view (Fig.3), then the role of material rewards in motivating the employees is justified, keeping in mind that getting money is a masculine characteristic value.

However, it is worth mentioning that given its specific activity, Reka company employees are mostly men; there is a permanent concern on diminishing the differences made between men and women employees.

**Figure 3. Analyze of cultural dimension feminity-masculinity**



**Figure 4. Analyze of cultural dimension feminity-masculinity**



The second dimension included by G. Hofstede in his analysis model of organizational cultures, used to identify the four types of organizations: Open, large family type, pyramids and "well equipped machinery", is the degree to avoid uncertainty.

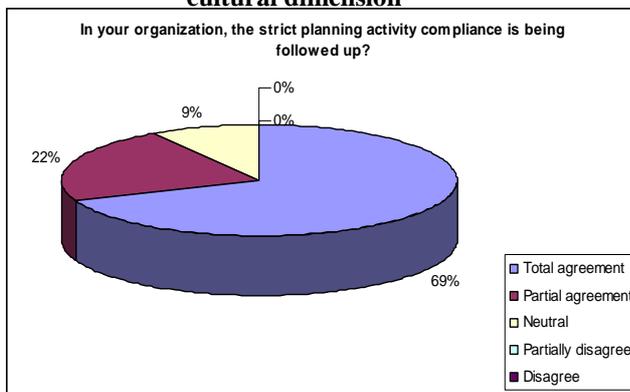
One of the main elements to characterize this dimension is the intensity of the necessity for regulations and written rules, and in tight connection with this necessity is the reaction determined by deviation from standards.

Relevant in this respect is the result obtained to the question about orientation towards planning of Reka enterprise.

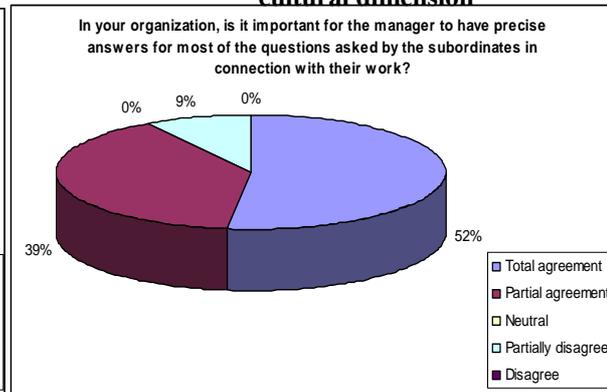
Focusing the answers only on positive and neuter side of the scale, as well as their positioning mainly in totally agree category, reflects the obvious orientation towards planning which indicates a strong avoidance of uncertainty. However, in the final appreciation of Reka, through this cultural dimension, it must not be neglected the fact that first of all, the complex character of shipbuilding activities and the existent competition on naval market impose a rigorous orientation towards planning.

Another aspect specific to the degree of avoiding uncertainty is the extent to which the trust in specialists and common sense or in experts and their knowledge gathers way.

**Figure 5. Analyze of uncertainty avoidance cultural dimension**



**Figure 6. Analyze of uncertainty avoidance cultural dimension**



The answers repartition on scale points out the trust granted to experts and their knowledge.

Another proof of this attitude is that subordinates wait for directions in what they have to do (Fig.7), although according to the high collectivism index – to which participative management is specific, and so, adopting decisions by consensus – it is assumed the subordinates' involvement in decision making, thus being informed and motivated to put it into practice.

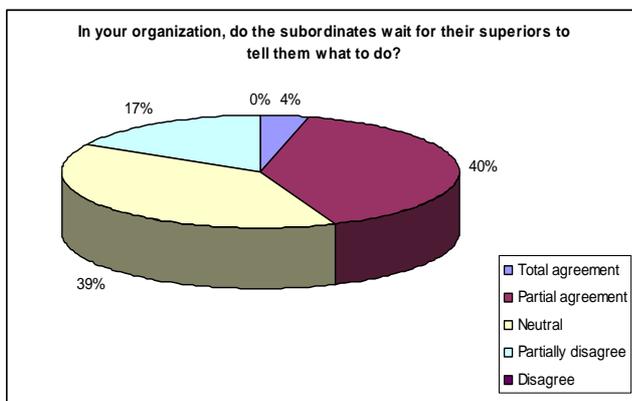
The answers focus on the middle steps of the scale points out the overlapping of the two characteristics, namely, the high level of collectivism and the trust granted to experts managers, a trait specific to a high level of uncertainty avoidance.

Another element taking part into defining the degree of uncertainty avoidance is the attitude towards young generation.

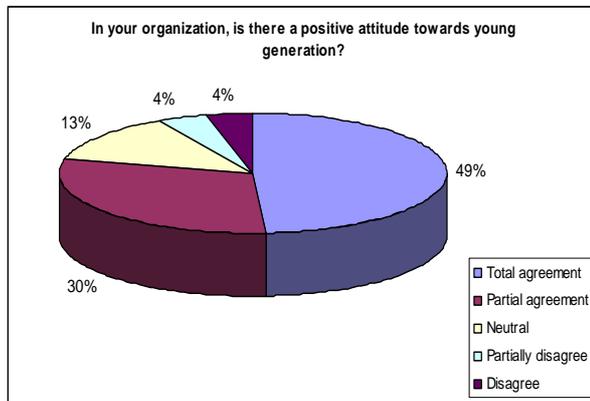
The answer provided by respondents indicate an openness towards young generation, a trait specific to a reduced degree of uncertainty avoidance, although there must be mentioned some cases of reticence towards this attitude (fig.8).

The intersection of these two elements that indicate two different states – necessity of regulations and written rules and the trust granted to experts and their knowledge that indicate a high degree of uncertainty avoidance, while the positive attitude towards young people indicated exactly the opposite – does not represent a contradiction; the first elements point out the dominant state while the openness towards young people shows a trend.

**Figure 7. Analyze of uncertainty avoidance cultural dimension**



**Figure 8. Analyze of uncertainty avoidance cultural dimension**



Based on these observations we can appreciate that at Reka there is a relatively high degree uncertainty avoidance.

Thus, knowing the measure in which the two dimensions used by G.Hofstede in his model are found at organizational culture level of the analyzed company, we can include Reka enterprise into the category of "well equipped machinery" organization.

The "well equipped machinery" organizations are specific to cultures characterized by a small distance to power and a high degree of uncertainty avoidance. Their structures are decentralized but formalized; working procedures are strictly provided but not the relations between the members of organization except for their tasks. The manager is seen by his subordinates as an expert, an expert who respects and applies the decisions made.

The main critic addressed to this model is given by its incapacity to establish a clear distinction between the notions of hierarchy and power.

For a more complex characterization of Reka company which allows a more correct identification of the interculturality role in reaching performance in management in its case, the cultural profile of the studied organization is to be identified using the model of R.Quinn.

This model of interpreting organizational cultures was developed to describe the relations that influence the efficiency criterion within organization. Quinn starts from the premises that, in order to understand the psicho-social dimension of a company/firm, the connections between the value system, organizational structure and employees expectations must be analyzed. In his opinion, cultural values represent the basis of a company managerial system.

Based on the cultural profile of Reka company, on the specific values of Reka Yards declared in the annual report for 2009 and based on the answers provided by respondents to the questions included into the second section of the questionnaire with regard to the way they would like the organization they are with to

be, and considering the same aspects found in the first section of the same questionnaire, an analyze of the interculturality role upon reaching managerial performance within Reka company can be achieved.

#### 4. Conclusions

Intercultural perspective involves taking into consideration the cultural diversity that characterizes the worldwide business environment as well as the specific of corporation values of participants at international transactions. Intercultural studies take into account the contextual character of management action and present the culture as a explicative variable of these actions.

Watching the managerial performance analysis of Reka company from the perspective of the value system specific to Reka group, the positive role of interculturality on managerial performance of Reka management team can be observed. This aspect is also reflected by the positive economic results obtained by Reka site following its integration into Reka group. Considering the cultural profile identified based on the two analysis models of organizational cultures, it is noticed that Reka has successfully fallen in the values promoted by Reka group, which demonstrates an efficient management of cultural differences and creates the premises of a unitary integration.

These are the results of Reka managerial team's efforts that look for a permanent improvement of the activity's quality. In this respect, it is useful to focus the attention to the ways of managing the cultural differences and of valorizing the organizational culture.

At most Romanian companies' level, there is still an appreciable lag between what is formally asserted by the managers and the way they act in practice, as well as the way the subordinates perceive these types of behaviors.

This fact aims to transmit some contradictory messages within the company, causing confusion and a feeling of distrust into the managers' ability to offer viable solutions for the good work and evolution of the company.

Also, it must not be forgotten that the symbol role of the managers is one of the important roles these ones perform within a company and, they are permanently supervised, evaluated and taken as a model by the company personnel.

A strong, healthy organizational culture is based on a lot of transparency and trust between the managerial and executive staff. A flexible organization must have few and simple rules and is based on strong and determined people, watching the common targets. They are the only ones able to make right decisions and, as such, they must believe into the common values of the company.

Practically, the managers must find the way to get the values down from the posters and to make company live.

The first aspect the managers must take into consideration when it comes to the promoted value system is its strategic alignment to the company mission. The intercession has to be always directed from mission to values and not converse. Values are not just nice words good to use on posters, but the quintessence of the spirit desired by organization. Values must be in concordance with the organization's mission not only at formal, declarative level, but also at the level of action and concrete targets. For instance, if one of the organizational value is "innovation", but the entire managerial system emphasizes the rules compliance, then, the two components of management, the structure and culture of the organization, are in conflict. Facing such a conflict, people will always follow the formal targets and will become cynic to values.

Besides, the value system has to allow their declension into norms and behavioral styles at each employee level. The transposition of values into behavioral norms, the personal example of managers, the constant feedback granted to employees are actions that practically contribute to the communication process of values within organization.

In order to diminish the lag between what is declared and what is perceived, the communication process of values must be doubled by actions that support and strenghten the value system. The most efficient method, in this respect, is the public admittance of errors, a process that has to be clearly delimited from that of rewarding professional merits.

Many specialists in the field have noticed that for people to live the organizational values, it is not enough to let them do so, they have to be encouraged in this direction.

The values of the company have to be reflected into the entire managerial system both operative and executive. Recruitment, development, promoting and rewarding have to take into account the person's adhesion to the organizational values.

Thus, the managers of Reka company can approach different ways of action in order to achieve this desideratum, starting with the assimilation and personal display in accordance with what they promote officially, to organizing info session, seminarily etc where some actions and the reason for adopting the respective decisions and actions are presented.

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## RESEARCH ON THE OPTIMIZATION OF COMMUNICATION AND ORGANIZATIONAL CULTURE TO REDUCE THE CURRENT ECONOMIC CRISIS EFFECTS

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**Abstract:** *Given the important role of the communication process within any organization, but also the impact of the organizational culture on firm performance today, the paper aims to highlight various practical ways to improve organizational culture and corporate communication with an important role in increasing company performance. In this regard, we have undertaken a direct research-based structured questionnaire applied to the staff of various departments in the company, using a systematic random sampling version. The main results of the research highlight the need to improve internal communication and organizational culture, which reduces the negative effects of the economic crisis.*

**Key words:** communication, organizational culture, organizational change, organizational climate, economic crisis.

**JEL classification:** M14

### 1. Introduction

The concept of organizational culture, both known and used by scholars today, and especially by the corporate world has known over the years a broad ideal enrichment process, based on contemporary research. Starting from the concept of culture in general, specialists in management are aware of the existence of an organizational and managerial culture within any organization, which has a distinct role in the companies' activity, especially in difficult and crisis conditions.

With reference to one of our corporate communication objectives, that of determining the organizational goodwill (Krizan, Merrier, Logan and Williams, 2011, p. 6), we intend in the present paper to show the ways in which organizational culture can be properly managed and, implicitly, to improve corporate communication. We appreciate the fundamental role of communication in increasing the cohesion of the organization members, with positive effects on organizational culture and, implicitly, the effectiveness of corporate governance. The current state of research and knowledge in the field reflects various concerns of the Romanian and foreign authors as well as of different professional associations. We present below the most recent research studies eloquent for the subject that we intend to look into.

### 2. Current research on the role of organizational culture

Brenton and Driskill (2010, p. 30, 31) consider that the organizational culture research should be directed toward three different directions namely: culture as a set of shared knowledge. In this situation, the research examines how employees think and the logical models they share; culture as a system of common symbols, the research in this situation, must be oriented, for example, towards the analysis of how members use the communicative process and language for managing conflicts and to strengthen interpersonal relationships. Thirdly, the two authors perceive organizational culture as an expression of various unconscious processes. In this regard, they will explore the beliefs underlying the behavior of members.

In one of the most influential management books of all time, Schein (2010) transforms the abstract concept of culture into a tool that can be used to characterize the dynamics and organizational change, focusing on today's business realities. Edgar Schein founds its study on a number of contemporary researches to redefine the organizational culture and to demonstrate the crucial role played by leaders in the successful application of principles to achieve cultural organizations and to cope with change. Schein (2010, p. 178) appreciates the importance of research in deciphering both the organizational culture to find new theories and methods, but also on a pragmatic level to interact with various audiences: prospective employees, customers etc.

Pfister (2009, p. 7) highlights the importance of the organizational culture and presents various research studies designed to improve the internal audit, the relationship between the organizational culture and the internal audit and its influence on the organizational culture. Another foreign author (Woodside, 2010, p.7) presents studies and research on the organizational culture including the impact of the organizational culture and the impact of the organizational culture on the performance of the financial-banking sector.

Another recent work (Schein, 2009) presents a guide for managers and consultants regarding the assessment of organizational culture. Based on his experience in global corporate consulting, the author considers corporate cultures as evolutive phenomena that can be modified to keep businesses competitive. After describing the methodology for determining the current state of corporate culture, Schein presents models for changing those cultures, real tools that help companies in times of crisis, to reassess and reform their cultural identity.

In the second edition of a classic work on organizational culture, Hofstede (2002, p. 19), a pioneer in the study of the influence of culture on business and organizations, explores the differences in thinking and social action which arise between members of more than 50 modern nations. Geert Hofstede argues that people have “mental programs” developed within the family in early childhood and reinforced in schools and organizations which contain components of the national culture. They are expressed most clearly in the different values that predominate among people from different countries. The paper is structured around five major dimensions: distance from power, uncertainty avoidance, individualism versus collectivism, masculinity versus femininity, and long-term orientation versus short term orientation.

A large Romanian study, developed in 2007, in order to identify how organizational culture is regarded by the Romanian companies, the structure of respondents was: 44% employees within various Romanian-owned companies and 36% employees belonging to multinational firms. In this study, in a steady percentage, participated the employees from various fields of activity and the above-average participation was from commerce, industry and telecommunications. The main conclusions of the study were as follows: the concept of organizational culture is perceived by respondents primarily by group norms and values embodied in the standards and values, but also in the interaction of the employees, followed by the company’s mission and internal climate. A favorable aspect released from the study results from the high percentage of respondents, respectively 64%, who appreciated the positive impact of the organizational culture on the performance of the organizations, a decisive role in this direction being awarded to the company's management and leadership.

Major contributions in the analysis of organizational culture within the context of the crisis are due to the authors Geert Hofstede, Gert Jan Hofstede and Michael Minkov (2010). Based on the research conducted in more than seventy countries over a period of forty years, they identify the national “moral circles” through which people think, feel and act, explore how national cultures differ, explain the relationship between organizational culture and national cultures and analyze the stereotypes, the differences in language, the cultural roots of the economic crisis and other intercultural movement.

On the basis of numerous empirical studies, the authors Kotter and Heskett (1992) demonstrate for the first time that those strong organizational cultures influence the economic performance. The quantitative studies aimed at the relationship between organizational culture and the performance achieved in more than 200 U.S. companies have allowed the authors to describe how cultural values can profoundly affect the economic success or, on the contrary, can lead to the incapacity to adapt itself to the changes in markets or in the economic and social environment.

We largely talk today about change management, which consists of “all concepts and new methods, with direct or indirect impact on people and organizations to survive and thrive in an environment generally very mobile” (Puiu, 2007, p. 282). Especially under the current economic and financial crisis, those companies that succeed to manage and improve their organizational culture, adapting it to the current market conditions of labor in Romania will be able to overcome in a large proportion the negative effects of the economic recession.

Năstase (2004, p. 224) elaborates a different relevant research that we debate on in order to show the current state of scientific investigation of the organizational culture in Romanian companies. The study was based on the assumption that the managers' ability to refer to specific managerial elements of the organizational culture and to use them appropriately in the management processes is the key to functionality and performance of the company, included 150 respondents with managerial positions in 102 firms. The research is important because it structures the results in three categories: the organizational culture parameters, presenting the characteristics of the organizational culture in the Romanian companies and

develops correlations for its parameters and characteristics. The conclusive issues identified the organizational culture as being considered increasingly more in recent years, an important factor determining the company success or failure, and represented a competitive advantage. In the research carried out 51.4% of managers said they had obtained good results and success is largely due to the organizational culture characteristics (Năstase, 2004, p. 224). Managers who have obtained non-satisfying results (20%) agree that the company success or failure depends largely on the components of the organizational culture.

The effectiveness of an organization must start from inside it. An organization must set its targets according to its “personality”, followed by a balance between the available resources (capacity to achieve its objectives) and the production, the turnover, the value added (the objectives it wishes to achieve). Among the resources behind achieving the expected results, a very important role is held by human resources, goods which have a strong determination and cultural load (Popescu-Nistor, 2003). In this respect, a manager-oriented towards communication and material and moral motivation of the employees, taking into account their values and beliefs, will obtain maximum productivity from his subordinates. The firms that pay attention to values and beliefs of their employees (IBM, General Electric, Procter & Gamble) used to have a high level of performance.

To understand the real reasons that determine the employees to achieve high results so that the organizations can adapt themselves to the crisis conditions, it is necessary to know the manager and explain the starting point of the motivation. According to the Romanian specialists Burduş, Căprărescu, Androniceanu and Miles (2003, p. 476), this is given by the values, expectations, beliefs, gained through tradition, education or experience. These factors affect perceptions, respectively the selection, order and interpretation of the reality and induce a certain feeling that, in turn, triggers and directs behavior. What is visible to the manager is the behavior. A manager capable of knowing the hierarchy of values and the expectations can influence those working in the desired behavior in order to support innovation and creativity.

An element that must be taken into account, especially in crisis conditions, is to create an organizational climate favorable to innovation and creativity. According to some American authors Nicholson, Audia, Pillutla (2005, p. 270), the organizational climate consists of the perceptions, experiences and expectations of the employees regarding the policies, practices and procedures used at their workplace. Some authors (Schein, 2000) believes that within an organization, the climate is influencing the organizational culture, with effects on the employees’ values and behaviors.

**3. The main purpose and objectives of the study** Taking as a benchmark this important national and international research, we have coordinated during April – May 2010 a study of the organizational culture in SC LISA Draexlmaier LLC PITEȘTI, whose headquarters are in Vilsbiburg - Germany. In the quality of an international partner for the automotive industry system, Draexlmaier group is currently on 5 continents in 21 countries through 53 subsidiaries, with a customer portfolio of leading car brands: BMW, Mercedes-Benz, Maybach Mythos, Volkswagen/Audi, Jaguar and Porsche.

Presently, the company’s central problem is the realization of a Draexlmaier standard for the employees on the principle “equal working conditions for equal work”, which could provide the following two aspects:

- The products they deliver to customers worldwide meet Draexlmaier quality standards everywhere whether produced in Germany, South Africa, China and Romania;
- The employees can explain the knowledge in any branch of the organization, for example, the commissioning of new outlets.

The question arises whether there is a kind of culture unique to all firms or each of them has its own specific culture. To receive an answer to this question, we must consider the activity of a specific business.

The main purpose of the study was to identify the ways in which the organizational culture can enhance company performance at Draexlmaier Lisa. In this respect, to direct a research-based structured questionnaire applied to 45 staff members from various departments of the company, using systematic random sampling version.

The sample structure was as follows:

- *according to the hierarchy*: 60% management staff, 40% execution staff ;
- *according to the respondents’ professional training*: 21% postgraduate studies, 64% university, 15% secondary education;
- *according to the number of years of experience in the field of activity*: over 15 years of experience - 24% of the respondents; between 10 and 15 years experience, 46% and under 10 years of experience - 30% of the respondents;

- according to their age: less than 25 years - 33%, between 25 and 35 years - 49% and over 35 years - 18%.

The main objectives of the research were:

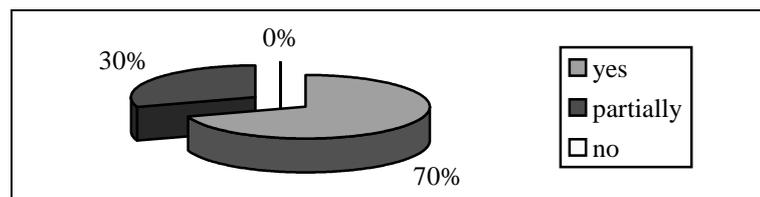
- finding the cultural dimensions at Lisa Draexlmaier;
- identifying the organizational culture traits at Lisa Draexlmaier;
- specifying the areas for action by the managers to enhance company performance through the use of cultural elements;
- analysing the gaps and developing proposals for the improvement and the enhancement of the upper remodeling and assessment of the organizational culture elements.

The research methodology: the survey was based on the use of a structured questionnaire as a quantitative method of positivist-explanatory orientation, and the data were processed by statistical and mathematical methods as well as comprehensive methods of analysis, while for data interpreting we used deductive methods which will be extrapolate the Romanian organizational culture phenomena, starting from real existing data, and the causal explanation, that will be organized on topics, according to those advantages and opportunities that directly affect the studied company.

#### 4. Research results

• The first question addressed to the respondents aimed to establish the comfort level at work. Thus, the question “Are you satisfied with the comfort at work, embodied in the space arranged for meals, breaks, furniture, advanced equipment?” was answered with a significant percentage of those surveyed, respectively 70% think positively, being satisfied, while 30% of the respondents are partially satisfied with the comfort at work (Figure no. 1).

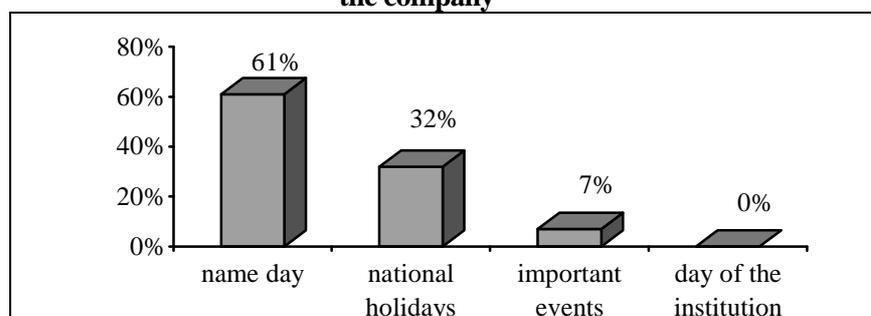
**Figure no. 1: Structure of the staff satisfied with the comfort at work**



Source: produced by the authors

• The next question focused on identifying the existence within the company of various customs, rituals, traditions, ceremonies. The respondents had to group, depending on the degree of achievement, the events they celebrate: birthdays or the celebration of name days, significant events in the lives of their colleagues, national and religious holidays, and the day of the institution. He noted that the first ranks, with a 61% the organization of birthdays, followed by the national holidays, holding a 32% share, and in the last place with only 7% is the organization of other significant events in the life of the employees: marriage, retirement, birth of a child, etc., and an all adverse circumstance is that the institution is not celebrating the day of the institution (Figure no. 2).

**Figure no. 2: Hierarchy set according to the degree of achievement of various events celebrated within the company**

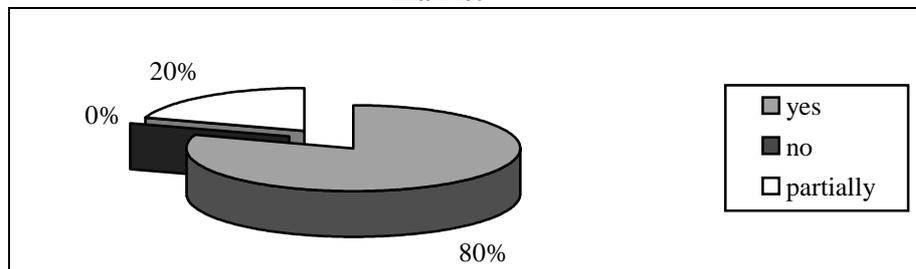


Source: produced by the authors

• The company’s concern towards the quality of the products offered on the market was the following question they thought about. The respondents’ answers reflected a positive aspect, meaning that a

huge percentage, 80%, appreciate that the company is concerned with product quality, while 20% believe that there is only a partial concern (Figure no. 3). However, the fact that no respondent has responded negatively to this question is a good thing.

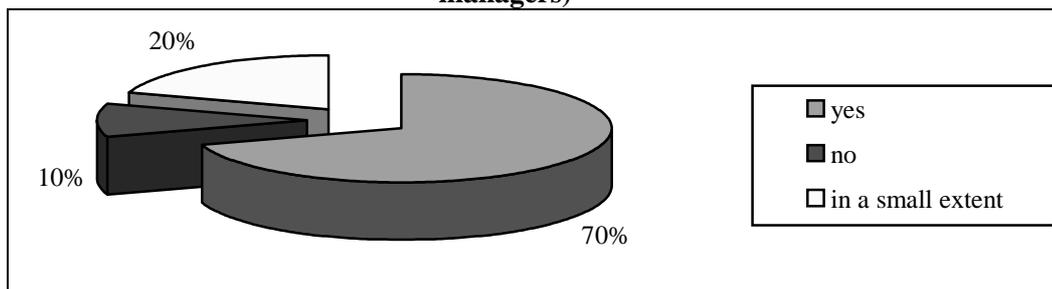
**Figure no. 3: The existence of the company’s preoccupation for the quality of products offered on the market**



Source: produced by the authors

• Regarding the existence of the vertical upward communication (from top to bottom), from the employees to the managers, a very high proportion of the respondents, respectively 70%, confirm the presence of this direction of communication, while 20% consider that there is very little communication, and 10% believe that the managers do not take their opinion into account (Figure no. 4). We consider that, although approximately one third of the employees do not have a positive opinion on this issue, however, there are positive signs that the situation can be remedied.

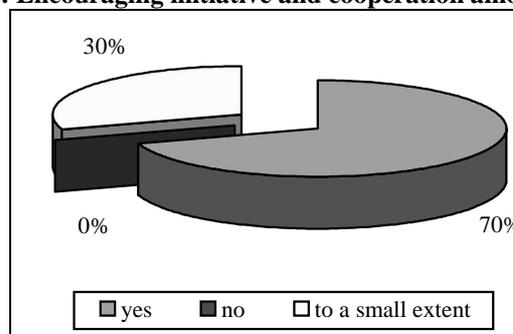
**Figure no. 4: The existence of the vertical upward communication (from the employees to the managers)**



Source: produced by the authors

• For the question “*Is initiative and cooperation among employees often encouraged?*”, the respondents, i.e. 70%, appreciate this aspect, a good thing for strengthening the organizational culture, while 30% believe that the initiative and the cooperation between the employees are slightly encouraged (Figure no. 5).

**Figure no. 5: Encouraging initiative and cooperation among employees**

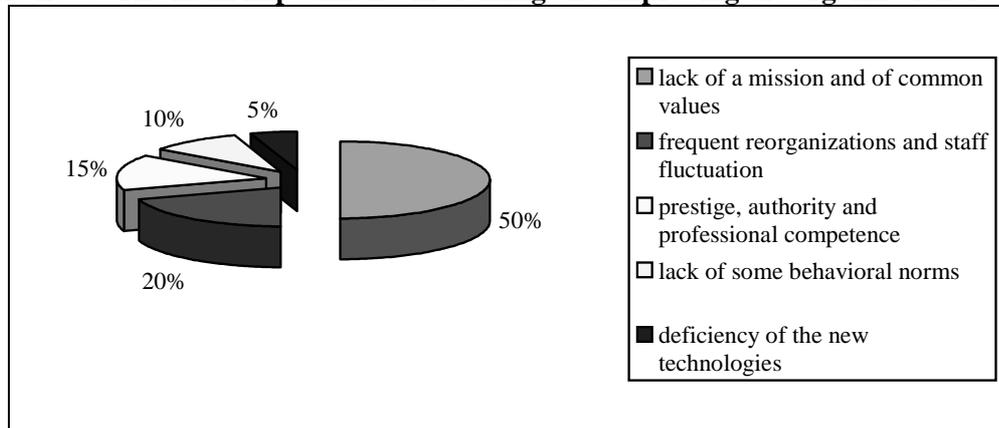


Source: produced by the authors

• The next question concerned the awareness regarding the main reasons that hinder the formation and improvement of the organizational culture in the analyzed company. As it is reflected in Figure no. 6, in a descending order of weights, the respondents appreciated the following: most of them, 50%, mentioned the

lack of a company mission and common values that could strengthen the group, turning it into a team. 20% believe that the frequent reorganizations and the staff fluctuations, especially in these times of economic crisis felt by the company, is the main reason that prevents training and development of the organizational culture, identifying the rest up to 100% as follows: 15% prestige, authority and professional competence which the staff has within the company, 10% lack of organizational behavioral norms enforced by formal organizational rules, and 5% of respondents identified the deficiency of new technologies and working methods.

**Figure no. 6: The main impediments in training and improving the organizational culture**



Source: produced by the authors

• Regarding the company's own values that determine the organizational culture, the respondents appreciated: 42% orders enforcement, 21% respect for the employees, 18% respecting the rules and norms, 16% sense of responsibility, 3% ethics, all are core values which reflect the company directly and intensively in the development of the organizational culture. On the other hand, no employee has chosen the following company's core values: performance orientation, professional consciousness and punctuality (Figure no. 7).

**Figure no. 7: The company's own values**



Source: produced by the authors

**5. Conclusions**

As a result of the survey, evaluating and examining the results, but also of the application of a form of observation and interview with five company managers situated at different levels, we identify the following conclusions and proposals for improving the organizational culture:

- The research conducted at Draxlmaier Lisa points out that within the organization there is a sort of individualized organizational culture, and the employees and managers are aware of its existence and its role;
- Based on the undertaken research, we could identify the values specific to the organizational culture, which have received various important factors. A greater percentage has the following: the execution of orders, the respect for the employees, the rules and regulations. For most respondents, responsibility and ethics are considered low visibility values, which denotes a lack of concern and the managers' inability to form beliefs as well as ethical and responsible behavior;
- We consider being very strange and even disturbing that none of the employees did not choose to represent the company's core values: performance orientation, professional consciousness and punctuality.

This result shows that neither managers nor employees are sufficiently aware of the role of culture in enhancing the organizational performance of the company, especially in difficult situations such as a crisis;

➤ A positive aspect is identified from the research carried out regards the company's concern to increase its product quality, as it is evidenced by a significant number of respondents. It is obvious that running the company in a tough environment and a dynamic creative ability is favored, underpinned by a strong culture and positive;

➤ While the company has a specific culture, most employees know the mission and the common values directed to strengthen the team;

➤ The perception of a significant number of respondents is that the frequent reorganizations and staff fluctuations resulted from the current economic crisis prevent the formation and improvement of the organizational culture;

➤ In terms of norm, some employees appreciate that there are deficiencies in the implementation of organizational business rules, something which negatively affects the formation of culture;

➤ The research shows that there is an opening to direct communication between employees and managers, which positively affects interpersonal relationships and strengthening the organizational culture;

➤ Any organizational culture is identified by the elements of language and folklore of the organization. It identifies a series of customs, rituals, traditions, ceremonies, with an important role in the creation and development of group membership;

➤ The analysis may indicate that the company has a progressive corporate culture, characterized by the fact that it signals the need for change, allowing a continuous adaptation to the environment. The managers' basic concepts promote the need to change strategies in order to satisfy the interests of shareholders, customers and employees.

➤ The specific values of the organizational culture converge to assessing the individual organizational culture, promoting initiative and creativity at all levels and being able to support all processes without changes in the organization, especially within the context of the current economic crisis.

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## TOWARDS AN INTEGRATED UNDERSTANDING OF FUNDAMENTING COMPLEX DECISIONS

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**Abstract:** *The way in which people decide what they decide can be explained through an entire range of research fields. It should be the role of the field of study openly declared as dedicated to the study of decisions to capture and integrate the most relevant results coming from all around in scientific literature. Decision-making models in decision theory have been often formulated and refined, but even more so they have been criticized through their inaccurate rendering of real-life situations and factors of complexity. A first step in formulating a more integrated and complex structure for understanding and substantiating decisions would be to acknowledge some of the most obvious factors of subjectivity, complexity and bias, and the role they play not only independently but also in relation to each other in influencing decision processes. In our attempt to develop such a study we intend to devise and run a survey investigating respondents' relative position with regard to a number of such factors identified: attitudes towards morals, mood or momentary feelings, preference consistency, cognitive biases, risk aversion or propensity, relation to others and demographics. We would then test correlations between observed attitudes in these domains and stipulate as to the nature and causality of relationships observed. This complex study involved in its turn a first step: devising the tool (survey) to test respondents' attitudes towards all these factors. It is this part that we detail in the present paper.*

**Key words:** decision-making, complexity, risk, subjectivity, cognitive processes

**JEL classification:** B4, C3, C7, D8, J1

### 1. Introduction

Capturing the decision process into a general formal model raises issues much beyond the exceptions permissible to any rule. It is safe to assume that, being endowed with a conscience, people weight a decision before taking one of several courses of actions. The precise process in which they do so (descriptive approach) or should do so (normative approach) may be extensively explored in the case of each particular decision. The research needed to explore an extensive range of decision processes and formulate a general model, however, seems infinite. Paradoxically, many issues evoked as greatly complicating or biasing the decision process are also met when formulating a general decision model, such as an overwhelming number of aspects to be considered, difficulty in capturing highly subjective, personal or otherwise non-quantifiable considerations, and not in the least similar difficulty in understanding the way in which all aspects considered are related to each other and compiled in the very different minds of different decision-makers. Research in the fields of decision and game theory has, over nearly a century, continuously proposed and refined formulas and matrixes along which decisions are generally made. Alongside this effort, experts in psychology, management, ethics and of course economics have continuously raised objections as to the extent in which a real-life decision-maker, with a unique life experience and mental pattern, faced with various regulatory, political, diplomatic, moral restrictions and considerations, can or indeed will follow such objective and clear-cut decision algorithms. Factors of complexity can pertain to both the decision environment (ex. Keeney, 1982) and the decision-maker himself (Dietrich, 2010), with some factors even situated at the borderline between the two (such as setting objectives). Herbert Simon is perhaps one of the most famous theorists who has turned against theory and acknowledged its limitations.

Entire fields of study are dedicated to understanding specific human characteristic that manifest themselves in cognitive processes, including decision-making. However, with a few exceptions (ex. Roth and Kroll, 2007; Taleb, 2007), few studies have developed an integrated approach to understanding decision-making processes. The objective of this study is therefore to devise a tool for testing the correlations between various factors of subjectivity, complexity and bias. In other words, the present paper aims to set the testing ground for elaborating more complex decision models with respect to factors pertaining to the decision-maker himself. Further research may investigate in a similarly integrated manner the correlated impact on decision processes and outcomes of factors pertaining to the external environment. A number of questions

comprised in the study restate previous tests carries out by renowned experts in each of the fields taken into consideration, as will be duly cited. This is in part an acknowledgement of the experts' more thorough knowledge and experience in each field; the present study proposes to put the various fields in relation to one another and explain their correlated impact upon one's decision, and not necessarily to explore in depth any of the fields. However, this approach also enables the study to mirror testing conditions and therefore establish a solid basis for result comparison.

## 2. Developing the testing tool

One first issue that we intended to explore was decision makers' own perception on the decision process, expressed through actual listing of the steps followed in reaching a decision as well as possible constraints, impediments or difficulties. The answer to the question regarding the steps the decision-maker follows may seem intuitive; researchers have supposed various models, more or less comprehensive. Keeney (1982) stated that logical steps would be structuring the decision problem, assessing possible implications of each alternative, determining values/ preferences, and finally assessing and comparing alternatives. Brunsson (2002) proposed a very similar sequence - searching for alternatives, estimating consequences, assessing alternatives, making the choice. Nut (1990) opted for a simpler, more general process, comprising of exploring possibilities, weighting options and testing premises, and finally learning from the experience. While the first two steps may be described in more detail by Keeney and Brunsson, Nutt introduces an additional element of decision dynamics – continuous improvement of the process. Schwartz (2004) would later describe in most detail the decision process as well as specify another evolutive element – the change in objectives that ensues from following the decision through. His version of decision-making process involves defining objectives, assessing the importance of each objective, ordering the options, assessing the chances of each option to reach the objectives, assessing the option to be pursued, and then modifying the objectives accordingly. To sum up all these views and the respective interpretations of each author, we have compiled below a sequence of decision steps that integrates them all:

1. Defining the problem, which in turn involves:
  - a. Defining objectives and their importance
  - b. Establishing criteria for reaching these objectives and the relative importance of each criterion
  - c. Identifying initial conditions/ status quo in the quest for reaching these objectives
2. Establishing possible alternatives
3. Estimating the consequences of each alternative by measure of each established criterion
4. Assessing alternatives comparatively and choosing one alternative
5. Re-assessing the objectives initially formulated and their importance
6. Drawing conclusions for similar situations through hindsight analysis of the decision

However, Gigerenzer and Katsikopoulos (2008) identified a very strict set of constraints under which such an orderly sequence should apply, namely: independent evaluations, exhaustive search, trade-offs between the attributes of an alternative (for example values and probabilities), objective probabilities and objective values. Moreover, the very attempt of formulating such a sequence automatically assumes a coherent approach to decision-making, while a substantial amount of literature debates whether decision-making follows any process at all. The most famous example of chaotic approach is Cohen's „garbage bins" (1972), stating that solutions are generated prior to processes and are attached to problems in a seemingly random manner (a situation most common in overly-birocratic and complex organizations). Other famous studies and theories are those of March and Olsen (1976) and Braybrooke și Lindblom's disjoint incrementalism (1963).

To test the coherence of preferences, we propose asking similar questions regarding preference at different moments in the survey (for example near the beginning and near the end). The various other questions will have put the respondent in another mindset, especially through simulation of various situations similar to role-play, will have added to the tiredness factor, or will have changed (or induced) answering patterns. The number of question testing preference coherence or consistency should not be too great so as prompt the respondent to recall previous instances of answering the same question. Also, questions may not be formulated the same but express the same thing. For instance, at the beginning of the survey the respondent may be asked to grade several characteristics of a good questionnaire. At the end of the survey, the respondent may be asked to grade the questionnaire he/she has just completed based on the same characteristics, and then grade improvement needs in these same fields (regardless of the grades previously

allotted, meaning the questionnaire may have gotten the maximum mark on a characteristic and still require the maximum amount of improvement, as “there is always room for better”). The sum of these two answers – current mark and improvement needs – should be an indication of the relative importance of characteristics (the greater the sum, the more important the characteristic). This result would then be confronted with the initial grading of characteristics. As one single question may seem inconclusive for determining a respondent’s disposition to changing preferences, an additional question may address his/ her personal objectives at different points in time, for instance the beginning of the year and the moment they complete the survey. Like in the previous case, the two questions should be addressed at different points in the survey. In order to avoid obvious reference of the second question to the first, the first question should inquire about the respondent’s current objectives for the year end, and the second about the objectives he/she has set out at the beginning of the year. Although this test would not give a precise indication as to the source of the sequential inconsistency (Bermudez, 2009), it would nonetheless provide an idea of the types of individuals prone to such inconsistencies, as well as of the effects of such disposition on the way such individuals fundament their decisions.

Another factor of subjectivity analyzed through another set of questions would be the respondent’s risk aversion. This topic has presented great interest in scientific literature - Kenneth R. MacCrimmon and Donald A. Wehrung (1990), or Martin Halek and Joseph G. Eisenhauer (2001), sought to examine the way in which different demographic factors (such as sex, age, income level, nationality or religion) influence decision makers’ availability towards taking pure or speculative risks. Another study carried out among managers established a positive correlation between a generic “success” factor (encompassing capital owned, income, status and level of authority) and risk-taking, under several reservations (MacCrimmon and Wehrung, 1990). What’s more, Louise Marie Roth and Jeffrey C. Kroll (2007) attempted to explain the relationship observed between two personal characteristics, namely sex and religiousness, through the intermediary factor of risk aversion/ availability. The hypothesis tested by the two researchers stated that women are more risk averse, and religiousness involves the risk of “divine punishment”, therefore the relatively higher degree of religiousness among women could be explained by their higher risk aversion. Although their researched concluded that this is not a convincing explanation, this perspective has the merit of analyzing the causalities between several personal characteristics.

According to MacCrimmon and Wehrung’s prescription, we shall assess risk aversion/ propensity by three measures:

- Self-assessment
- Actual response to real-life potential risk (such as insurance and a high degree of control over staff, as well as inforcement of extensive and restrictive regulations)
- Alleged behaviour in hypothetical situations purposely framed

In the last category, one first question reflects the Sankt Petersburg paradox first formulated by Daniel Bernoulli (1738) and later much discussed in scientific literature (for instance Samuelson, 1977). In this famous game, a coin is flipped and the player receives one monetary unit if the “heads” face appears; if the “tails” face appears, the coin is tossed again until the “heads” face appears, and each time the “tails” face appears the prize doubles. In a calculation based on probabilities, the expected payoff could be infinite. To test the respondent’s risk propensity, the game should also involve a fee. Suppose for instance that for each toss, the player pays a fixed fee of 2 monetary units. If the “heads” face appears in any of the first two tosses, the player loses one monetary unit. Otherwise, the player stands to gain an increased amount of money as the number of times the coin is tossed increases. The respondent is faced with a game with a chance of 75% of losing a very small amount of money, but also with an infinitely small chance of winning a fortune. Another paradox used is the Ellsberg paradox (1961), where people rather fall back on certainties and make what would logically be a suboptimal choice rather than risk to make assumptions in conditions of uncertainty. Another issue raised is whether or not the size of the stake influences one’s risk aversion or propensity. This can be tested by asking the respondent in two instances to choose between a sure prize and a lottery with the same expected outcome (for instance, between receiving 100 euro and a 50/50 chance of receiving either nothing or 200 euro). In the first instance, the prizes would be relatively small, while in the second instance the prizes would be consistent (say 100 or 1000 times larger). Finally, a final set of risk-related questions could test the variation of respondents’ answers depending on whether they are situated in a loose or win situation by report to the probability associated with the risk.

Another controversial subjective aspect tested in the study would be the manner in which the respondent incorporates the well-being of others into his own criteria for decision-making. In 1962, Wolf remarked “So far as I can see, game theory is capable of providing a formal analysis only of those situations

in which egoistic values are to be maximized". However, three distinct branched of game theory treat morals and social well-being as not only a side-effect, but a means in ensuring personal interests (Verbeek, 2002). An interesting prospect would be a personal utility function that incorporates the utility of others (Schelling, 1968). However, if the others also employ a similar artifice then the result would be a spiral effect leading to mathematical limits. As the number of different scenarios involving trade-offs between actors vary by a seemingly endless number of specific factors, we may wish to imagine at least two very different settings to observe respondent's inclination towards others. For instance, in one of the scenarios the respondent should not be linked, emotionally or otherwise, to the other party involved (the affected party could be a stranger); the other party could suffer a disutility or discomfort, the context created cannot be undone, the respondent may be placed in a situation of potential loss and the respondent's decision may be acted out publicly. Let's say that the respondent is passing his/ her Saturday afternoon in a café and unintentionally trips and spills his/ her drink onto the laptop of a person seated at another table. The respondent would then be faced with a choice among various possibilities of compensating for the accident, or simply walking away. In a different context, the respondent may have an emotional bond with the affected party, the affected party may be placed not in an uncomfortable but rather in a pleasant situation, the setting is not irreversible but rather in the respondent's power, the respondent in turn is faced not with a potential loss but with a potential gain and the decision may only be known by the decision maker and some other confident player. Let's say that on the 1<sup>st</sup> of June, the respondent just bought a doll for his/ her 5-year-old niece and is on the way to give the little girl the present; neither the niece nor her parents would know about the visit. On the way, an old friend of the respondent would offer to buy the doll at another price. The issue is the profit the respondent would agree to in order to renounce his niece's surprise. In a situation dedicating to testing only the respondent's relationship with others in an array of different situation, a different study may be devised examining the influence of each of the contextual factors listed above and potentially others. Since this is not the scope of the present study, one particular factor may play an important role in interpreting other results and understanding respondents' underlying motivations, namely public scrutiny. To test respondents' sensitivity to this element, it suffices to reproduce the last scenario described, with the only difference that this time the respondent's visit is anticipated by the niece and her parents. We would then observe the additional profit required for the respondent to overcome not only his/ her good intentions, but also public scrutiny by the affected party.

Referring to biases, various authors have identified and debated over a large number of cognitive biases interfering with logical and objective information processing. From the long list, we shall refer to a few of the best-known: confirmation bias (Wason, 1960), hindsight bias (Taleb, 2007), conjunction fallacy (Tversky and Kahneman, 1983), availability bias (Lichtenstein et al., 1978) and overconfidence (Yudkowsky, 2008). The famous confirmation bias test shows that people seek evidence to confirm their originally-formulated hypothesis rather than put it to the test. Hindsight bias refers to a certain human tendency of saying "I told you so", or "I always knew this would happen" after certain events. Availability bias explains how people may tend to access and rely upon whatever information is available, without confronting it with a larger context. For instance, people may cite accidents, homicides, suicides or cancer as most frequent causes of death because of the many cases exposed in the media, when in fact the two most frequent causes of death are cardiovascular diseases (29.34% of deaths worldwide) and infectious and parasitic diseases (23.04% of deaths worldwide) (World Health Organization, 2004). Overconfidence refers to giving estimates with too high a probability when inquired rather than admitting not knowing a certain fact. For instance, when asked for a minimum and maximum number of firms that could be listed in the yellow pages as providing advertising services, most respondents in such experiments would specify too narrow a range.

A final and major issue that has to be integrated in any such study should refer to the respondents' treatment of moral matters. As in the case of considering the impact on others, the study presently develop does not aim to explore in-depth the motivations of individuals for choosing in matters bearing a moral component. Rather, questions asked with this occasion should test individual's availability to assume action in such matters, to take a people-oriented or a rule-oriented approach, to favor sustainable endeavors over quick-gain ones, etc.

Finally, one question, preferably asked somewhere in the middle of the survey, should inquire about the respondent's mood or state of mind at the time of completing the survey, in order to relate this factor and potentially put responses to sensitive questions into context. Mood has been suggested to influence decision-making in several ways (Elsbach and Barr, 1999) and information on this factor may help better explain possible motivations and biases and not simply suppose them as determined solely by other factors, such as

demographics. Further debate on whether temporary feelings and emotions are functional or maladaptive in decision-making is yet another ongoing controversial issue (ex. Seo and Feldman Barrett, 2007). One of the most famous moral dilemmas worth including in this study is that of the runaway trolley put forward by Philippa Foot (1983): “A trolley is running out of control down a track. In its path are five people who have been tied to the track by a mad philosopher. Fortunately, you could flip a switch, which will lead the trolley down a different track to safety. Unfortunately, there is a single person tied to that track. Should you flip the switch or do nothing?”

### 3. Conclusions

As research in every field gains in depth, a certain breadth should be kept in explaining the role of every specific result in relation to the others and their concurrent role in creating an overall effect. The study of the correlation between attitudes towards morals, mood or momentary feelings, preference consistency, cognitive biases, risk aversion or propensity, relation to others and demographics may seem unlikely. However, findings in this respect could provide a sketch of where all these individual pieces fit in the puzzle of decision-making and allow for pertinent and comprehensive modeling of real-life decisions. The elements shown here represent but a small first step on the way – choosing some of the best-known factors of subjectivity and bias in decision-making and formulating a tool for testing their correlated influences. A future challenge will be to deploy this tool and analyze resulting findings. The field is also open for researching even more factors on a broader field of investigation, such as interdisciplinary teams of specialists observing different groups of decision-makers in both real and artificial decision situations and over time.

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## PERCEPTION ON THE ROMANIAN HEALTHCARE SYSTEM

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**Abstract:** *This paper aims to provide an image of the Romanian healthcare system, based on survey analysis. The questionnaire has been applied to doctors and physicians, as well as non-medical persons, in order to provide a differentiated perception of the benefits and the needs of the healthcare system.*

**Key words:** survey, healthcare system, medical reform

**JEL Classification:** I11, P23, P46

### 1. Introduction

One of the important methods of knowledge regarding the evaluation of medical establishments is also public opinion and medical staff testing about healthcare and quality. Opinion survey is considered by the World Health Organization and specialized literature as a basic element of health information system, which should not be absent from the work of taking and supporting decisions (www.who.int).

Given the fact that health services are in transition towards a system that would combine economic efficiency with meeting citizens' needs, that structural changes in the health system in Romania can be accomplished only with the consent and participation of key stakeholders - doctors and the beneficiary directly concerned, namely population, we considered it appropriate to accomplish a personal type of opinion survey on the perception of both segments of the healthcare system in 2008.

### 2. Research Method

Since the method of gathering information in order to shape the perception of the Romanian healthcare system was through direct research, using a questionnaire, special attention was given to elaborating the content of the questionnaire. It was applied to a number of 200 physicians randomly selected from lists of the Public Health Directorate of Bucharest and to 600 people who work in other fields than medicine, comprising persons aged over 18 years. 176 physicians and 437 people in other areas responded to the questionnaire, which can be considered a good response rate, especially among the population. A characteristic of this type of research (which is an exploratory type) is choosing the respondents based on nonprobabilistic sample selection choice, which is appropriate due to the absence of strictness of this process. Gathering and interpreting data based on questionnaires with predefined questions was conducted during September 2008 – February 2009. The information collected was collated using a specialized software application in order to facilitate the later interpretation of results.

The purpose of the research was to obtain and process the opinions of people working in the medical field (medical providers) and those outside it (health services users) on the current state of medical services and alternatives in the evolution of the healthcare system in our country.

The objectives and research hypotheses are summarized in Table 1.

**Table 1: Research objectives and hypothesis**

Objective	Research hypothesis
Evaluation of the healthcare system's image in 2008 compared with 2000	<ul style="list-style-type: none"> <li>▫ Most respondents considered that the condition of the healthcare system is better in 2008 compared with 2000.</li> </ul>
Determining the level of satisfaction that is offered to patients by healthcare providers from medical offices, ambulatory, hospitals and pharmacies	<ul style="list-style-type: none"> <li>▫ Most respondents think that medical assistance in urban surgeries is poor.</li> <li>▫ A large proportion among those surveyed considers that medical assistance is defective both in specialized ambulatories and hospitals.</li> <li>▫ The majority of respondents claim that medical assistance of radiological services is good.</li> <li>▫ Over 75% of respondents consider that medical assistance in pharmacies is good.</li> </ul>
Highlighting the level of training in health professionals (doctors and secondary medical staff)	<ul style="list-style-type: none"> <li>▫ The majority of respondents report that medical staff is competent and has a good medical training.</li> <li>▫ Most respondents distinguished physicians with secondary medical staff, saying that doctors have a higher medical training.</li> </ul>
Identifying the perceptions of the facilities (state of the buildings) of the health system	<ul style="list-style-type: none"> <li>▫ Most respondents assert that the state of the buildings in the medical field is poor.</li> <li>▫ A smaller proportion of respondents think that the state of the buildings is good, but only in hospitals.</li> </ul>
Determining how the public surgeries are perceived in comparison to private surgeries	<ul style="list-style-type: none"> <li>▫ Most of those interviewed consider that medical equipment in public medical institutions is poor and insufficient.</li> <li>▫ More than 70% of respondents disagree that medical equipment in medical offices, ambulatory and private hospitals is poor.</li> <li>▫ A large proportion of respondents claim that medical equipment in clinics and private hospitals is enough.</li> <li>▫ Most of them consider the functioning of private surgeries a real necessity.</li> <li>▫ Most of the respondents prefer the private surgeries to public ones.</li> </ul>
Assessing the perception about the state budget funds allocated to health sector	<ul style="list-style-type: none"> <li>▫ Most of the respondents consider that the state budget funds allocated to health sector are insufficient.</li> </ul>
Identifying the opinion on the salaries of doctors for a normal life	<ul style="list-style-type: none"> <li>▫ Most of those interviewed consider that the salaries of doctors are low.</li> </ul>
Assessing patient opinion about the financial incentives of doctors and if they have tried such methods	<ul style="list-style-type: none"> <li>▫ Most respondents disagreed that doctors should receive financial incentives</li> <li>▫ Most respondents offered financial incentives to doctors.</li> </ul>
Identifying the best source of health service funding	<ul style="list-style-type: none"> <li>▫ A small proportion of respondents consider that health services funding from the state budget is most effective.</li> <li>▫ The doctors' opinion is clearly different from that of the population.</li> </ul>

The conceptual and operational definitions of the variables taken into consideration are comprised in Table 2.

**Table 2: Conceptual and operational definition of variables**

Name of the variable	Conceptual definition	Operational definition
1. The image of healthcare system	Determining how much different is the image of healthcare system in 2008 from that in 2000	<ul style="list-style-type: none"> <li>• very favorable</li> <li>• favorable</li> <li>• little favorable</li> <li>• average</li> <li>• little unfavorable</li> <li>• unfavorable</li> <li>• very unfavorable</li> </ul>

2. Satisfaction of the medical assistance	Determining of the degree of satisfaction offered by medical assistance from surgeries, specialized ambulatories, hospitals and pharmacies to patients.	<ul style="list-style-type: none"> <li>• very good</li> <li>• good</li> <li>• satisfying</li> <li>• poor</li> <li>• very poor</li> </ul>
3. The level of training in health professionals	Highlighting the level of training in health professionals (doctors and nurses)	<ul style="list-style-type: none"> <li>• -5</li> <li>• -4</li> <li>• -3</li> <li>• -2</li> <li>• -1</li> <li>• 1</li> <li>• 2</li> <li>• 3</li> <li>• 4</li> <li>• 5</li> </ul>
4. State of the buildings	Identifying the perceptions of the facilities (state of the buildings) of the health system	<ul style="list-style-type: none"> <li>• very good</li> <li>• good</li> <li>• satisfying</li> <li>• poor</li> <li>• very poor</li> </ul>
5. Perception of the public surgeries in comparison to private surgeries	Determining the differences between the way the public surgeries' medical equipment is perceived in comparison to private surgeries	<ul style="list-style-type: none"> <li>• totally agree</li> <li>• agree</li> <li>• don't know</li> <li>• disagree</li> <li>• totally disagree</li> </ul>
6. The proportion of fund allocated from state budget	Determining the of the level of sufficiency of the state budget funds allocated to health sector	<ul style="list-style-type: none"> <li>• sufficient</li> <li>• insufficient</li> <li>• don't know</li> </ul>
8. Doctors' salaries	Determining if the doctors' salaries insure a decent living	<ul style="list-style-type: none"> <li>• yes</li> <li>• no</li> <li>• don't know</li> </ul>
9. Financial incentives	Determining if the doctors should receive financial incentives from patients and if patients use this method	<ul style="list-style-type: none"> <li>• totally agree</li> <li>• agree</li> <li>• don't know</li> <li>• disagree</li> <li>• totally disagree</li> </ul>
10. The source of funding the health services	Identifying the present options regarding the funding source of the health services.	<ul style="list-style-type: none"> <li>• stat budget</li> <li>• health insurances</li> <li>• don't know</li> </ul>
11. The necessity of a change in the present health system	Identifying the necessity of change in the present health system	<ul style="list-style-type: none"> <li>• totally agree</li> <li>• agree</li> <li>• don't know</li> <li>• disagree</li> <li>• totally disagree</li> </ul>

### 3. Main Findings

The answers were analyzed differently depending on the category of respondents: medical personnel or employees from other fields than healthcare (denoted by population group); to some questions, the answers were different, depending on the activity of the respondent and how he perceives the medical system.

Thus, the state of health services in 2008 comparing to the beginning of the decade (i.e. 2000) was assessed differently by the two categories of respondents. Following the given scores from 1-7 (1 = very unfavorable, 7 = very favorable), the following results were obtained (Table 3):

**Table 3: Assessment of healthcare services**

	2000	2008
<b>Medical staff</b>	2.8 = slightly unfavorable assessment	3.1 = slightly unfavorable assessment
<b>Population</b>	3.9 = neutral assessment	4.5 = neutral assessment slightly towards favorable

It is noticeable that, while the doctors' opinion on health services in 2008 in comparison to 2000 remained rather constant, showing, overall, a slight dissatisfaction, according to people outside the medical system, it was improved. The fact that the population perceives differently the medical system may be due to several reasons:

- medical staff, being inside the system, know better and more accurately its status quo, which is why their opinion is more relevant in this case;
- possible for some people and in some cases, health services to really have improved;
- population tends to be subjective in such an assessment, only one pleasant experience, or on the contrary, an unpleasant one related to pharmacies and hospitals being capable of affecting the whole perception of the health system.

Respondents' opinion on quality of care in different types of medical units and other healthcare services was evaluated by means of *the semantic differential*; they were asked to tick the attributes they considered most appropriate for each type of medical unit. For each attribute, a mark was granted (from 1 for "very poor" to 5 for "very good"). Thus, the results obtained (Table 4), shows the physicians and the public's assessment regarding the quality of primary care, to be at most considered satisfactory.

**Table 4: Healthcare assistance assessment depending on the medical unit and the type of health service**

Medical unit / Type of service	Surgeries	Specialized ambulatories	Hospitals	Radiological services	Pharmacies
Medical staff	1.82	2.25	2.78	2.78	2.37
Population	2.09	2.09	1.27	2.83	2.42

The average score given by respondents for each of the attributes of the medical unit type or service does not exceed the threshold of 3, respectively a satisfactory assessment. For each of the aspects investigated, the findings are around the mark of 2, which reflects a less favorable image of healthcare system, perceived by both population and physicians. In comparison with the answers at the previous question, where the results were clearly different depending on the category of the respondent, the answers to this question were relatively similar.

The assessment of the health professionals' competence was been taken into consideration only for non-medical respondents, in order to define the population's opinion on doctors and nurses' training and competence (Table 5). The note of 3.82 obtained by means of *Stapel's scale* indicates a favorable view of population about the competence of doctors, while a score of 2.61 indicates that population has more confidence in physicians, than in secondary medical staff.

**Table 5: Assessment of medical competence**

	Doctors' competence	Nurses' competence
Population	3.82	2.61

The state of infrastructure (buildings) was assessed similarly by both population and medical professionals, the results classifying it as satisfactory (Table 6).

Among the three categories of medical units, the specialized ambulatories received a better evaluation from doctors, while hospitals were better appreciated by persons outside the medical system.

**Table 6: Assessment of the state of infrastructure in health sector**

Buildings	Surgeries	Specialized ambulatories	Hospitals
Medical staff	3.44	4.02	3.89
Population	3.61	4.11	4.24

Respondents were asked to assess the endowment of health units, for this being used *Likert's scale*. The question is a complex one; the respondents have to express agreement or disagreement regarding a set of

statements about both public and private health units. This question was meant to make the step towards subsequent questions, those answers having the role to express people's opinion comparing the public and private medical units. Outcomes are summarized in Table 7.

**Table 7: Assessment of the endowment of healthcare units**

	Medical personnel	Population
1. Endowment in surgeries, specialized polyclinics and public hospitals is defective	agree	agree
2 Endowment in surgeries, specialized polyclinics and public hospitals is insufficient	agree	agree
3. Endowment in private surgeries, and private hospitals is defective	disagree	disagree
4. Endowment in private surgeries, and private hospitals is insufficient	disagree	disagree
5. Private surgeries are a real necessity	totally agree	agree
6. Public surgeries are preferred to the private ones	agree	agree

As it can be noted, assessments were similar, regardless of the respondents' field of activity:

- both categories of respondents agreed upon the insufficient endowment in surgeries, specialized polyclinics and public hospitals;
- on the contrary, respondents disagreed upon defective endowment in private hospitals, which shows the fact that both doctors and population outside the medical system consider that private medical units are much better equipped than public medical units;
- paradoxically, all respondents agreed on the fact that public surgeries are preferred over the private ones.

A possible answer for this preference could be the lack of financial means of a great majority of population, so that they can not afford treatment in private clinics. Public medical units are (at least declaratively) free. In addition, public medical units are much more numerous and better topographically distributed, placing themselves closer to patients' homes, while private offices are located (at least for the moment) mostly in central areas so that residents in the outskirts areas must travel through large distances in order to reach such surgeries in some situations.

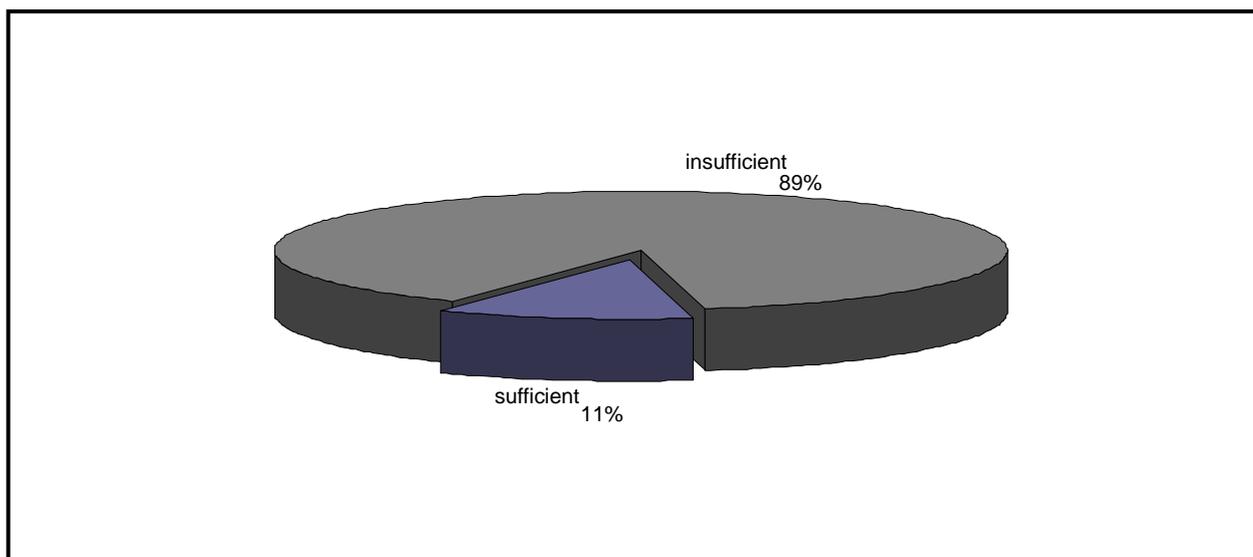
There was a different view according to occupation of the respondent, namely the need for private surgeries. While doctors expressed their total agreement, the population only partially agreed. The explanation of this aspect is the fact that it is normal and right for doctors, the responsible professional team, to understand the necessity of private sector in healthcare. People outside the medical system see the private medical sector as a luxury, often at an inaccessible price. In contrast, private offices are considered modern and well equipped, inspiring confidence that they can meet easily each patient's medical necessities.

On the issue of funds allocated to healthcare system, respondents were asked to assess if 4.5% of GDP is enough. Also this time, the results obtained show the differences between the two categories of respondents (Figures 1 and 2).

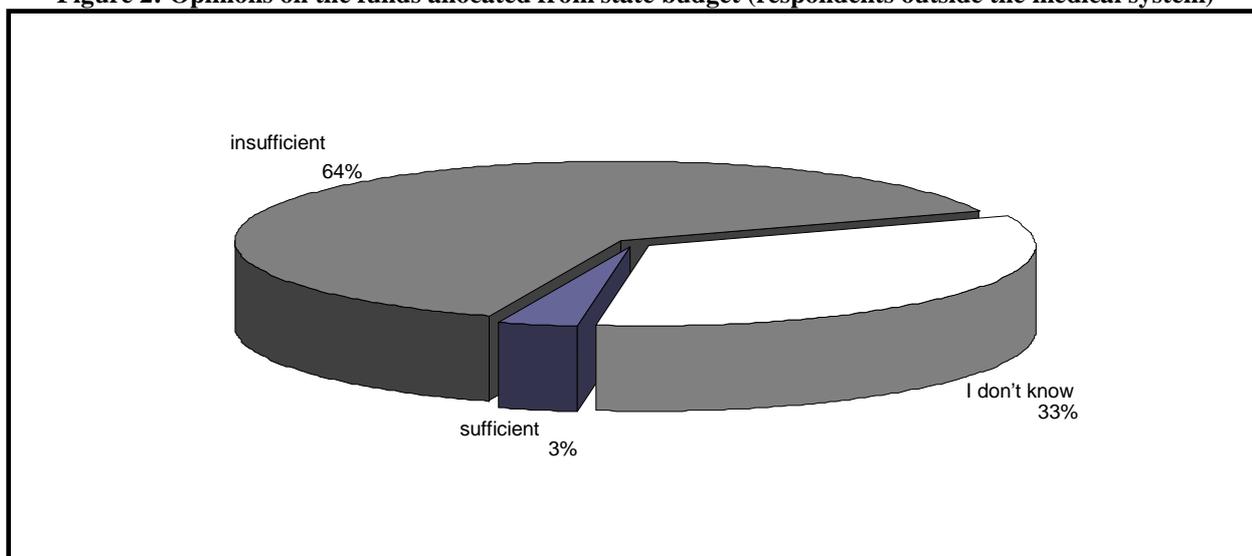
When analyzing the two figures, it can be noticed that among doctors there are no respondents who checked "do not know". Being part of the medical system, there was much easier for them to answer this question than those outside the medical system. An overwhelming proportion, i.e. 89% of doctors consider that funds currently allocated from the state budget are insufficient for healthcare system, while only 11% of respondents assessed that these funds are sufficient.

Correlating this with other studies in the literature (Roemer, 1993; Rodwin, Vlădescu, 1994, Pisces, 2006) regarding funds allocated from state budget and their use, it can be concluded that those people who thought that 4.5% of GDP is sufficient enough blame actually the incorrect management of funds and less the absolute or relative value of the funds. It has often been stated that lack of funds is not the most acute problem of many sectors of Romanian economy, as it is the administrative incapacity to correctly absorb, manage and target these funds.

**Figure 1: Opinions on the funds allocated from state budget (respondents from the medical system)**



**Figure 2: Opinions on the funds allocated from state budget (respondents outside the medical system)**



Respondents outside the medical system consider also, however in a lower percentage representation than doctors (64%), that funds allocated to health are insufficient. A very small sample, much lower than in the case of doctors, said that funds prove to be sufficient (only 3%). What is different in this case, compared to doctors' answers, is the fact that 33% of respondents opted for the response "I don't know", which shows certain ignorance on the part of those not involved in healthcare, proving once more the lack of public information regarding extremely important fields for the development of economic activities of a country.

When asked to determine whether salaries of doctors are sufficient in order to ensure a decent living those employed in a different industry than the healthcare sector offered answers which present the following: the majority, 56%, are concerned that these are insufficient, 34% of respondents consider wages are sufficient to ensure a decent living, while 9% of respondents did not know what to answer (Figure 3). The question was not aimed at people in the medical field to avoid subjectivity in the answers.

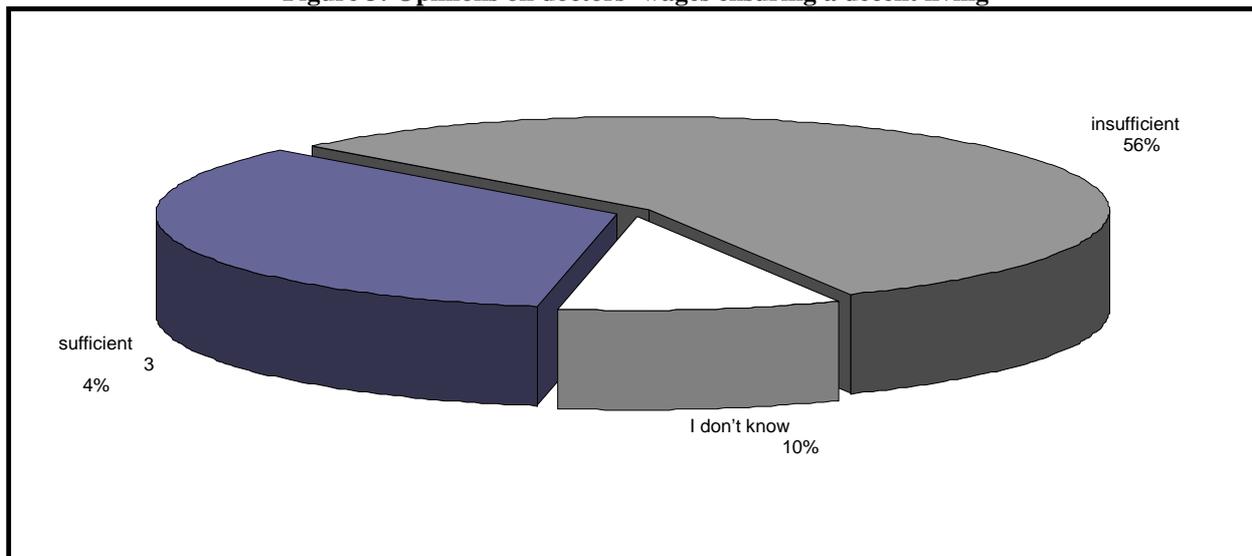
The questionnaire dealt with a more delicate question in the medical field, namely the incentives of financial nature offered by patients and received by physicians in order for the latter to provide medical treatment to the former (Table 8).

Both categories of respondents consider to a high degree that it is not a normal practice for doctors to receive and /or accept financial incentives from patients. Corroborating this fact with the results of specialized studies, patients without significant incomes feel disadvantaged by this system, whereas they see their incapacity to provide necessary treatment for themselves.

As far as doctors are concerned, they do not agree with these incentives, reasons for refusal are quite varied though: professional ethics, fear of being exposed, creating a degrading situation. However, other studies (Tulchinsky, Varavikova, 2003) show that this phenomenon has become so spread among population and the medical community that it creates a vicious circle, of which is very hard to get out, without legislation measures at a national level, to compensate for these incentives and morally regulate the medical profession. In shaping and maintaining this vicious circle have contributed: the lack of funds and their bad management, low wages for doctors and the rest of the medical staff, poor hospital facilities, endless queues for different treatments and tests, impotence of the Health Insurance House to manage various crisis situations and lack the desire to get rid of the remains of damaging and dishonorable attitudes.

Contributing to the magnitude of this phenomenon, the respondents admit that they have offered financial incentives, although as it has been shown they agreed that it is not normal to do so.

**Figure 3: Opinions on doctors' wages ensuring a decent living**



**Table 8: Opinions regarding financial incentives in the medical system**

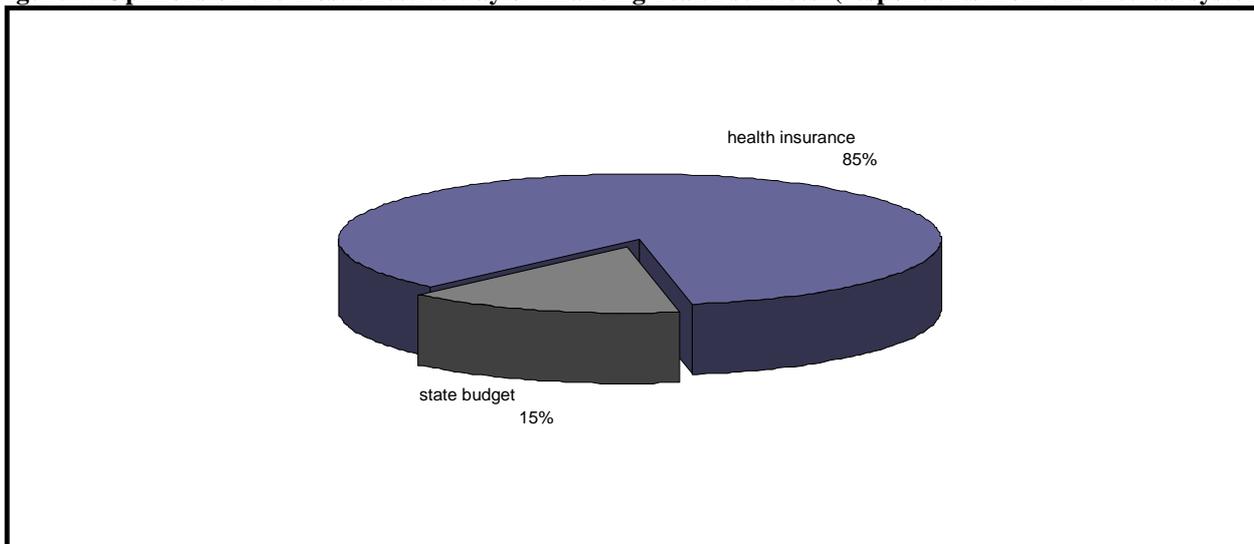
	Medical personnel	Population
1. It is natural that physicians accept financial incentives from patients	disagree	disagree
2. You have offered, in turn, money or gifts for medical care	-	agree

Another question aimed at finding out the questionnaire respondents' opinion on the most effective way of financing health services (Figures 4 and 5).

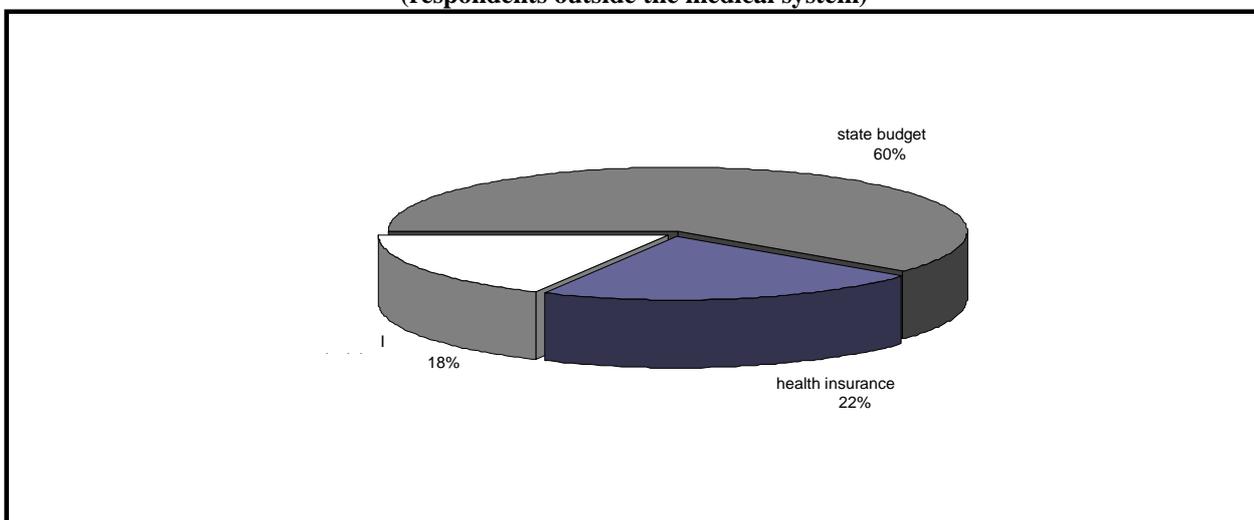
This question registers the most noticeable discrepancies in assessment:

- overall, the opinion of respondents in the medical system on the financing of medical services is inconsistent with the population's opinion;
- 85% of doctors see the most effective way of financing the health sector is through the health insurance system;
- only 22% of respondents employed outside the health sector say financing should come from the health insurance system;
- 60% of those outside the health sector consider that state budget is still an optimum source to finance health services;
- unlike doctors, who had concrete answers to this question, 18% of respondents employed in non-medical fields have stated that they do not know which the correct way to finance health services is.

**Figure 4: Opinions on the most effective way of financing health services (respondents from the medical system)**



**Figure 5: Opinions on the most effective way of financing health services (respondents outside the medical system)**



Last question regarding necessary changes in the current healthcare system, has placed the respondents in two categories, according to their answers (Table 9).

**Table 9: Opinions on the necessity of change in the Romanian healthcare system**

	Medical personnel	Population
The current system need major changes	Totally agree	Slightly agree

Doctors are in total agreement that the system should continue being reformed, given its obvious shortcomings. In contrast, respondents from outside the medical system were located in a position of “slightly agree”, very close to indifference regarding these reforms. This stance supports the “I don’t know” answers at the previous questions and the hypothesis according to which population is not fully informed on certain areas and on the necessities of urgent reformation. This lack of information can come from several sources: indifference regarding certain aspects of micro-and macroeconomics, avoiding the awareness on the importance of the health for individuals and the economy as a whole, partially or entirely distorted presentation of information by mass information sources etc.

**4. Conclusions**

As main conclusions of this analysis, we have synthesized the following:

- Romanian healthcare system, still in transition, is seen in a favorable outcome, by both medically qualified personnel and the public;

- the need to invest in healthcare services in order to increase the quality of health services, as well as adequate remuneration of medical personnel are still perceived as goals;
- there is a favorable opinion of the population on the professional competence of doctors and of medical staff with training;
- perception of how the funding system is differentiated, the preference of doctors is for the health insurance, while the population considers the state budget an optimal source of financing.

On the whole, looking at the results of the questionnaire applied to the two categories of respondents, it can be easily noticed that involvement (or lack of involvement) in the medical field influences the perception and thus the answers given. Depending on the nature of the questions, the answers were, to a smaller or greater extent, different from one category of respondents to another, yet the need for change in the healthcare system in order to attenuate or eliminate dysfunctions and obtain visible results, both socially and economically, is acutely perceived by all respondents, regardless of their activity domain.

Given that the perception of medical personnel is relatively similar with that of the population and that both groups feel acutely the need for reform in the healthcare system, there is the assumption that the reform strategy initiated by policy makers will take shape in our country.

### 5. Further research

During the postdoctoral research that I am currently conducting, I intend to re-submit an extended questionnaire; by the year 2012, I will be able to compare the new results and indicate to which extent the perception on the Romanian healthcare system has changed, corroborated to new health reforms that are currently implemented in our country.

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*This work was cofinanced from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/1.5/S/59184 „Performance and excellence in postdoctoral research in Romanian economics science domain”*

## KNOWLEDGE BASED MANAGEMENT-THE NEW TREND IN CONTEMPORARY MANAGEMENT

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**Abstract:** *In the economy of this beginning of millennium, knowledge based management, a concept that was born in the new era of knowledge, tightly connected to using the intellectual capital, is more and more legitimately considered as the key to success in business.*

*Knowledge based management is, essentially, a management of change, with a catalyzing role, and which is focused on the rational directing of the organization towards success.. The final objective of knowledge economy is the increase of the GDP, through investing in the human capital, which, with the help of information technology and training, learns how to generate and explore knowledge.*

*Knowledge economy and management are concepts that Europe itself tries to make applicable to its cultures, trying to keep intact human individuality, but redefining society as a whole.*

**Key words:** intellectual capital, knowledge, knowledge based management, knowledge based economy

**JEL Classification:** M 21

*„The phenomenon of human knowledge is no doubt the greatest miracle in our universe. It constitutes a problem that will not soon be solved.”*

Karl R. Popper

### 1. Knowledge based management-the management of the 21<sup>ST</sup> century

Ovidiu Nicolescu, renown management specialist, claimed (2003) that at the level of most well known universities, research and consultancy centers and economy and management specialists in developed countries, mankind is rapidly heading towards a new type of economy and, implicitly, of company and management – a new type that should be called Knowledge Economy, Organization and Management, an approach that we are also in full support of.

While the industrial revolution from the past centuries was mainly based on physical labor and financial capital, the situation in the future presents itself otherwise: wealth and power in the 21<sup>st</sup> century will generally resort from the intangible intellectual resources, from the knowledge capital. The weapons of competition in this century are represented by knowledge and information.

The new society, specialists claim, will be an era of information and advanced technologies, a world of specialists, of the knowledge workers – those that own, share, protect and user information and knowledge, completely necessary to the new society – the knowledge society. In this society, more and more knowledge will be accumulated as it represents one of my most important sources of power.

Ever since the beginning of the '90s, a significant number of enterprises all over the world, especially multinational companies, have been involved in this field, considering knowledge management as a measure to improve performance

Peter F. Drucker (1999), claims that the new society actually exists – it is a post-capitalistic one, which will use free market as a mechanism verified by economic integration. It will be an anti-capitalistic society, and the basic economic resource, the means of production, is not capital anymore, and nor natural resources or labor, it will be knowledge. At this beginning of millennium, knowledge has acquired new and complex meanings and significance as compared to the previous classical and modern philosophies “it is not considered only a human mental process, but also a process of the artificial intelligence systems, of industrial, economical and social organizations, of organizations that include people who collaborate with

software agents, intelligent robots and the internet, a process of intelligent and conscious artifacts (in perspective), which acts with or without the involvement of humans.”( Drucker,P., 1999)

Knowledge based economy is definitely a new type of economy completely different from the industrial or post industrial ones, one that has been present in the past decades in the developed countries.

## 2. Favorable factors for knowledge based management

The factors that render knowledge based management necessary, could be organized in three categories (Bogdan, 2007):

Necessity factors (demand factors for knowledge based management):

- the exponential growth of production, transmission and usage of information and knowledge;
- the amplification of the knowledge content in processes, products, services and markets;
- the increase in number of knowledge employees and organizations in the contemporary society;
- the fast depreciation of personnel, data, information and knowledge;
- easier and faster access to data structures, information and knowledge;

Possibility factors, such as:

- the increase in number of systems and instruments for managerial software, available for the management of organizations;
- the processing capacity of computers has doubled every 18 months;
- the data volume owned by large companies has doubled every 12 months etc;

The human factor, which materializes in the following possibilities for implementing knowledge based management:

- the increase of the level of information and education of the population in the context of an increased number of mass media;
- now graduates with solid knowledge in the context of perfecting and developing learning;
- an increased responsiveness towards the new;
- new innovative approaches, methods and techniques within organizations that generate new knowledge.

## 3. Concept and principles of knowledge management

The companies have always tried to obtain a competitive edge that would allow them to maximize profit, to have loyal clients and maintain superiority as compared to the competition, regardless of the offered products and services. 5000 years ago, in Mesopotamia appeared the first institution dedicated to knowledge management – the library, as people were not able anymore to manage the thousands of clay boards on which contracts, taxes, sells and laws were recorded. However, the access to this information was allowed only for the political and religious leaders, part of the upper classes. They either understood the language in which the boards were written, or afforded translating the boards in their language. The situation improved in the Renaissance, after the invention of the printing press and after printing books in the common language. (Bergeron, 2003)

Nowadays, we are witnesses to multiple approaches, from different points of view, regarding knowledge management.

For example, in the computerized approach, this is a key process through which a superior economic performance is obtained, within companies, industries and, finally, countries, for the population involved. Moreover, this can also be done by a complete capitalization on potential benefits generated by the digital technologies and by the Internet, due to knowledge sharing and innovation.

Management specialists define the knowledge management as the “commitment of organizations for developing production and the knowledge flow, to transmit and use knowledge in order to create economic value.” (Nicolescu, O., Plumb, I., Pricop, M., Vasilescu, I., Verboncu, I., 2003)

The well known specialist in the field, Ovidiu Nicolescu, has a broader and more detailed approach on the issue of knowledge based management, defining it, firstly as a science and secondly as a practical activity, regarding the object, functions, principles and implications in the areas of the organization’s management system.( Nicolescu, O., Plumb, I., Pricop, M., Vasilescu, I., Verboncu, I,2003)

Knowledge based management, as a science, in the aforementioned sense, consists of studying the knowledge processes and managerial relations with the aim to discover the rules that govern them. It also

consists of creating new systems, methods and techniques with the aim to increase the performance and functionality of organizations, by capitalizing on the great value of knowledge.

Knowledge based management, as a practice, in the same aforementioned sense, consists of using knowledge in order to ensure a superior value as compared to the previous knowledge, relying on the many aspects of knowledge.

Other specialists in the area (Clarke, 2000) define knowledge based management as “the commitment of organizations to develop production and knowledge stream and to share and use knowledge in order to create economic value. “This definition is focused on using knowledge generally, regardless of its origin. Moreover, there are different specific processes regarding knowledge (production, sharing, using and capitalizing on them), which outline the purpose of knowledge management as being of economic value. Knowledge based management concerns the organization and knowledge as a total.” (Clarke, T., Rollo, C. , 2001)

It is important to mention the definition of Mr. Oprean, C (2008) regarding the concept of knowledge management, according to which, it represents the system of methods and techniques focused on producing and using knowledge in order to ensure superior values, with the multiple aspects of knowledge.

The specialists of the World Bank, in an attempt to describe the strategies for transition to the knowledge economy, have identified a necessary context for each country, which requires: (Torriel, P., 1994;)

- an institutional and economic regime that is relatively stable and stimulates the efficient use of the existing knowledge and innovation and promotes free initiative;
- an educated and experienced population that creates, shares and uses knowledge;
- a dynamic informational infrastructure which ensures effective communication and spread and processing of information;
- an efficient system for innovation promotion in the companies, in research centers, in schools, universities and among consultants in order to assimilate the knowledge stock, adapt it to the needs and create new technologies

We see that all these definitions of the concept of knowledge based management are revolving around the ideas of: economic performance, creating economic added value, improving the operational efficiency, effectiveness and profitability. Knowledge based management is, essentially, a management of change with a determining role and which concentrates on the rational guidance of the entity towards success and adaptation.

Knowledge management implies a series of processes (Bergeron, 2003):

- Creation or acquisition – knowledge is created or collected by the knowledge employees;
- Modification – knowledge is modified in order to serve the immediate or future needs;
- Usage – knowledge is used for clear, useful purposes;
- Archiving – knowledge is preserved in a form and format that will survive in time and will become used and accessible in the future to the knowledge employees;
- Transfer – refers to the transfer or sharing of knowledge from one person to the other;
- Transformation – knowledge is transformed from the original form in a different, more appropriate form for the new purposes;
- Access of users – refers to the limited access of knowledge employees, based on their function in the company and based on necessities;
- Elimination – it is important to identify the information/knowledge that must be kept and the one that must be eliminated.

Collecting and/or creating knowledge represents the central part of the implementation of the knowledge based management and the first stage of the cycle of knowledge management. There are a series of approaches, techniques and instruments that can be used in order to “extract” explicit knowledge so as to create new knowledge and to organize everything in a systematic manner. The transformation of knowledge in an explicit or more understandable form, called codification, facilitates other processes of knowledge management, such as storing and sharing knowledge. The multidisciplinary character of knowledge management is emphasized also by the fact that the techniques used for collecting knowledge come from various fields, such as sociology, economy, mathematical analysis, etc. (Dalkir, 2005)

At a world level, managerial practices presents, on the one side, the tendency to extent efficient managerial practices, and on the other, the tendency to theorize these practices, formulating rules, principles etc. However, the issue of principles is approached rather rarely in the specialized papers. Thomas Davenport a renown specialist who approached this issue, has formulated nine principles of knowledge management, among which we mention: the principle according to which “management is expensive, but so is ignoring it”,

or the principle according to which knowledge management “has political features”, “is never-ending” and “requires a contract of knowledge”.( Nicolescu, O., Plumb, I., Pricop, M., Vasilescu,I., Verboncu,I., 2004).

The Romanian management school, aware of the importance of the concept, has created, through its specialists, acclaimed representatives of modern management (Bogdan, 2007) a set of knowledge based management principles, as follows:

- treating knowledge as a determining element for the functionality and performance of the organization;
- approaching and using knowledge in its variety and multi-dimensionality, with an accent on that of strategic importance for the organization;
- management’s focus on the complex treatment of knowledge within the organization;
- integrating informational and communicational technologies in the processes and relations of forecasting, organizing, determining, coordinating and control-evaluation of the company;
- the necessity for managerial solutions that combine specialized employees with advanced information and communication technologies regarding identifying, efficient use and capitalizing on knowledge;
- the awareness of the organization’s employees that accessing and obtaining knowledge is only a beginning which, however, must be followed by using, capitalizing and protecting knowledge;
- the transmission to the organization’s employees of the concept and behavior according to which the sharing and using of knowledge with other persons is a normal and effective approach in the organizational and individual framework;
- the superior capitalization on knowledge is performed by creating networks and organisms which are horizontal, diagonal, internal and external to the organization and function mainly on the principles of the market economy;
- grating special attention to the people, areas, work processes where knowledge is produced or used intensively;
- knowledge management requires specialized managers and management organism;
- transforming the company into a continuously learning organization.

As the distinguished University Prof. Ioan Bogdan, PhD (Bogdan, 2007) has shown, the promotion of innovation represents the keystone of the edifice which is knowledge based management. Innovation refers to new and more valuable knowledge and is preceded by the management of human creativity stimulation and followed by the management of capitalizing on the new knowledge generated by innovation. The pragmatism of the American management has created rules capable of animating the innovation process, among which we mention: rules for stimulating and implementing creativity; rules oriented towards encouraging the beneficial change of the individual; rules regarding accepting the possibility of failure.

Beyond any doubt, knowledge management generates significant costs. It is a very expensive management through the logistics it involves, the specialists it uses and the constant processes of updating, developing, using, protecting, etc. knowledge. However, not implementing it can be more expensive and can lead to, if not immediately, then for the long or medium term, to the bankruptcy of the company. The companies which are well managed become quickly aware of this reality and adopt strategies accordingly, which they operationalize with perseverance, leading to decisional, organizational, informational and motivational mechanisms which ensure a good relation between efforts and results, respectively between costs and incomes (Oprean C. , 2008)

#### **4. Conclusions**

Information and knowledge is considered at this beginning of the 21st century as the new major resource of any organization, a resource that must be led and used efficiently. Therefore, information management and more and more knowledge management are considered major functions of the management of the company.

At the end of the 20th century, when the paradigm changes in the theory of organization were finalized, it was clear that the old organizational rigid, pyramidal structure, present in the case of most organizations, cannot be compatible with the knowledge organization, which determined the appearance of many other forms of non-hierarchical organizational structures.

Starting from this reality, the necessity of changing the behavior of the employees in these organization becomes necessary, especially in the case of the top management – their behavior changed radically, becoming an entrepreneurial one. Thus, managers cannot simply do what they wanted and used to

do in the area of hierarchies. However, in order to do what they should do, they need new abilities because knowledge, as a resource and as an organizational process, requires a new type of involved managerial interference, which must be official and professional. Certainly, excellence resides, however, in those that practice it by inclination.

In this context, if the key word is “knowledge”- the Knowledge Society, the Knowledge Economy, the Knowledge Organization and the Knowledge Management – it is inevitable that the key knowledge assets – resources that comprise also the knowledge workers, qualified human resources be the only ones that can contribute to knowledge generation.( Dalkir, K. ,2005),

It is nowadays a certainty that passing to the knowledge society, economy, organization and management depend, in the current context of our country on: creating new knowledge by scientific research; transmitting knowledge through education and training; sharing knowledge by means of the Information and Communication Technologies; using knowledge in the industrial processes and in services, and actually transforming knowledge into innovation for development. (Nicolescu,O.,Nicolesu, L,2005)

We express our full belief that generating, acquiring and using knowledge is extremely important for obtaining profit and ensuring the sustainability of companies and the economy for the long term.

Nowadays, the main promoters of economic development are represented by the knowledge communities, learning organizations and people. We recommend, in the context of the current economic world crisis, the implementation within organizations of a knowledge based management in order to face the consequences resulting from potential future crises.

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## EMPIRICAL STUDY ON THE STANDARDIZATION PROCESS OF INTERNAL PUBLIC AUDIT IN PUBLIC INSTITUTIONS

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**Abstract:** *This paper is based on a field study carried out in public institutions at all levels of administration. Starting from a survey meant to determine the pros and cons of the internal public audit activity within the Romanian public sector, these research tries to identify improvement areas and ways for the relationships of internal public audit with other key departments of public institutions. The study has been carried out between January and August 2010, and it is part of the author's PhD thesis which is in its final developing stage.*

**Key words:** internal public audit, operative procedures, public institution, public management

**JEL classification:** D73, H12, K23, M42, P35

### 1. Introduction

As human society becomes more complex it gets harder to control. Yet the more complex it gets, the more stringent the need gets to control the processes taking place within it. As proof we show the legal framework becoming increasingly complicated and embracing domains which were unheard of a few decades ago. Laws are in this regard societies expressions concerning the behavior of its individuals or, better said, the expression of behavioral standardization. Laws create a "gauge" for the way people act and behave thus offering a basis. For identifying those actions that deviate from what we consider to be normal.

Such behavior standardization phenomena are necessary in our society because they are the only way to ensure the upholding of individual rights and obligations within our communities. Standardization and normalization do not imply the uniformity of human behavior but merely the creation of a set of behavioral rules obligations and rights whose purpose is to enforce the safety and well being of all community members. As the development process of any society is a continuous one, the legal framework must be continuously extended and adapted to met the new conditions.

Standardizations efforts do not occur only at community level, but also within organizations becoming the key notion regarding quality and process management. The basic idea behind this is the same need to control human behavior, but also to create an organization related knowledge base. Industries calls this phenomenon know-how creation and binding. Basically each process taking place within organizations including accounting and internal audit can be standardized. This is also true for public services like public healthcare and education.

### 2. Standardization process for internal public audit

The main issue of our study was to determine the degree of acceptability and/or implementation of standardization processes regarding internal public auditing in Romania's public institutions. Two facts have led to the idea that internal audit processes for the public sector can be standardized:

- Internal public law no. 672/2002 stipulates at article 19 that every public institution must implement a system of procedures for the internal public audit who's goal is to enforce the traceability and continuous improvement of this activity;
- International audit standards have been implemented worldwide for many years and have governed internal audit activities in the private sector with a fair amount of success.

Starting from these two observations the hypothesis that internal public audit can be standardized in public institutions. Further studies on these matter have revealed that a considerable number of public institutions have complied with the legal requirement of implemented procedures which regulated internal public audit activities. At this point the research has turned towards asserting the standardization process and the degree of implementation of a operative procedure system for the public audit. Six aspects were considered to be extremely important for our purposes:

- Are there different approaches on internal public audit?
- Which are influential factors on the standardization process?
- Which is the regional influences on the internal public audit?
- Which is the decentralization and independent degree of internal public audit activities?
- What is the information status of other departments regarding internal public audit?
- How is the standardization process perceived?

### 2.1. Theoretical background

In order to be able to answer to the questions mentioned above an interdisciplinary study of the existent knowledge based has been carried out. The general theory of audit (Arrens, 2006; Renard, 2002; Dumitrescu, 2010) has been linked with the theory of public administration (Santai, 2005; Alexandru, 2008) and we have determined that internal public audit is an indissoluble part of the public administration. Intercultural aspects related to Geert Hofstede<sup>2</sup> dimensions have been asserted based on a study carried out for Romania (Androniceanu, 2008, pp. 310-312; Istocescu, 2010). A third dimension of these study concerns public management (Androniceanu, 2009; Dumitrescu, 2009, 2010; Matei, 2009; Pollitt, 2010). Another important aspect of these study is the relationship of the proposal model with the models existing in quality management namely the ISO 9000 standards series (Juran, 1992).

The field research has been carried out according to Gill (1995), Bartlet et al. (2001) and has consisted in a questioner and subsequent selective interview. The statistical analysis of the results has been carried out according to Bourrier (2005), except for the concentration analysis which has been carried out according to Bruckmann (1969).

Last, but not least legal aspects have been considered according to the following laws:

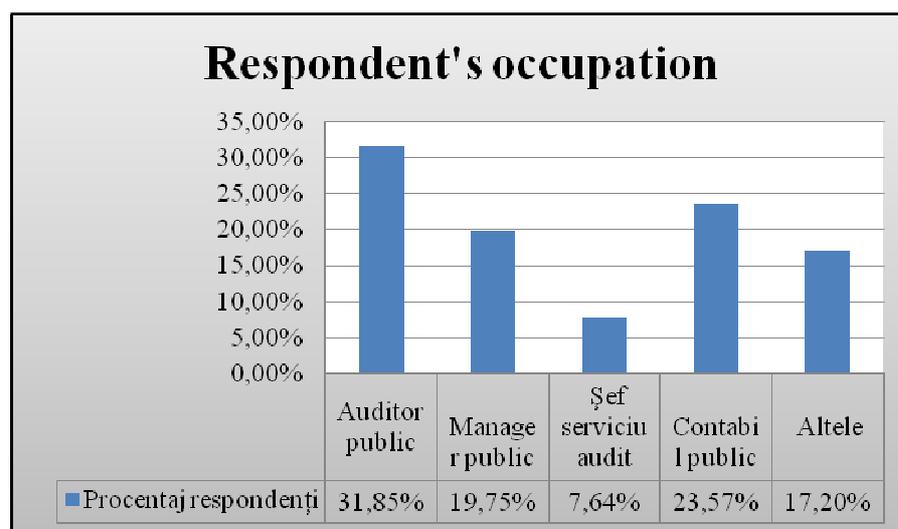
- Internal public audit law no. 672/2002;
- Public finances law no. 500/2002;
- Public administration law no. 286/2006.

It is mentioned that the works listed above are only a selection of a very wide interdisciplinary range of works published in Romania and abroad.

### 2.2. Methodological aspects

As mentioned above the field research was based on a questioner over thirty questions divided in four sections. The answer to these questions did not respond directly to the six aspect mentioned above. The conclusions reached at the end of our study have derived and have been deducted by applying systematic scientific approaches based on the evaluations of the questioner.

Figure 1: Respondent's occupations



A se vedea și <http://www.geert-hofstede.com>

The questioner was aimed mostly at three categories of respondents: public managers, public auditors and public auditors in chief. In order to broaden the survey public accountants and other staff of public institutions have been included (see figure 1).

A special category of respondents was built by members of the didactical corps whose answers, much to our surprise have been easily integrated within the bulk of the answers and who have brought an important contribution to the final evaluation.

Data assessment has been conducted according to strict principles:

- anonymity of the respondents;
- elimination of group tendencies;
- payback fidelity;
- measurability.

These principles help guarantee the statistical correctness of the evaluation presented in brief bellow. The survey was aimed at several hundred possible respondents out of which one hundred and sixty nine subjects answered. Only 157 answers have been validated to take part in the final evaluation, meaning a file quota of 7%.

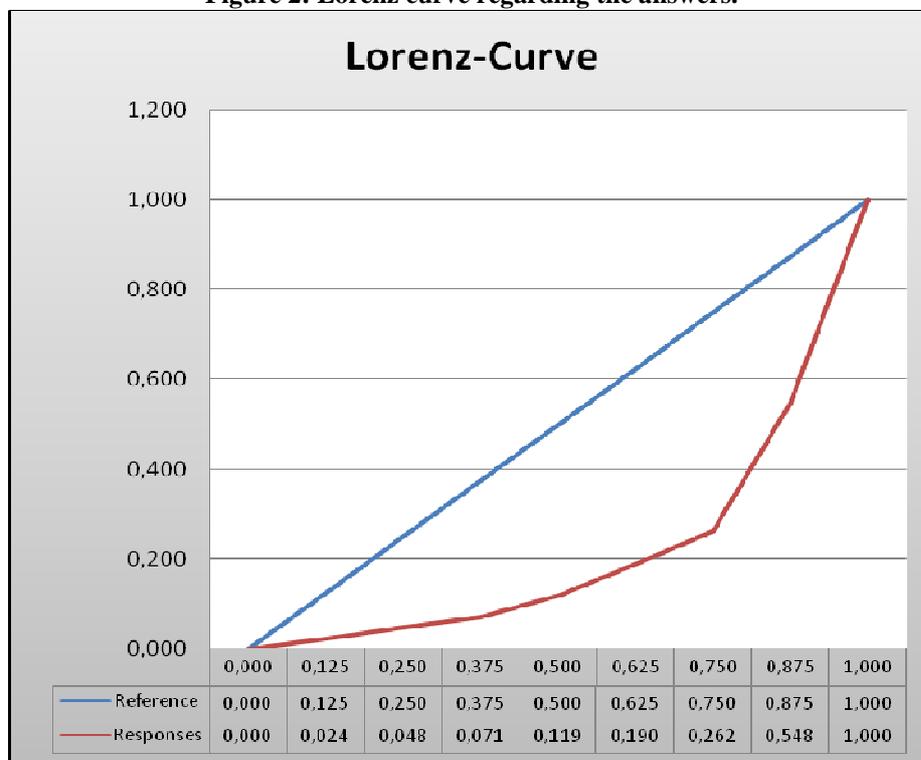
**2.3. Statistical considerations**

The validated 157 answers to the survey have been grouped into several multidimensional classified variable. Based n these variables two kinds of tests have been carried out:

- concentration analysis and determination of the Lorenz curve;
- correlation analysis based on the Bravais-Pearson correlation coefficient.

The concentration analysis (Bruckmann, 1969) tried to determine whether the subjects tended to give answers r to the multiplies choice questions in the first quarter of choices (*choice a* and *choice b*). Starting from the secondary hypothesis that respondents will think that the first choices in a multiple choice questions are the most important, we have designed these questions in such manner, that the most obvious answers are choices a and b. In our analysis we have constructed the Lorenz-curve, as shown in figure 2.

**Figure 2: Lorenz curve regarding the answers.**



The high value of the associated Gini coefficient proves our secondary hypothesis to be correct (Bruckmann, 1969), and that our additional efforts in designing the multiple choice questions were not

misplaced. Also this hypothesis is sustained by existing literature, and is considered to be a source of errors for such questions. Unfortunately, it is not possible to evaluate how large this error is.

Regarding the correlation analysis, the Bravais Pearson correlation coefficient was used. This coefficient tries to determine whether there is a linear dependency between two statistical variables (Bourier, 2005). Several correlations have been calculated, the most important of them being shown in figure 3.

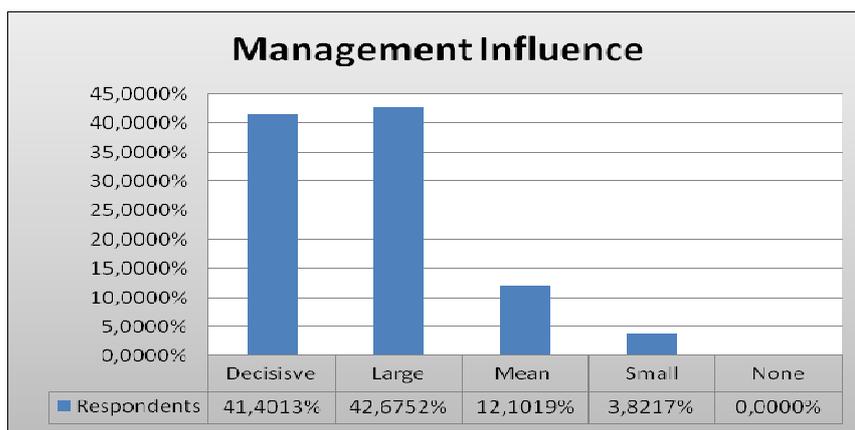
<b>Manager-Auditor correlation</b>	0,389
	563
<b>Auditor-Auditor in chief correlation</b>	0,593
	673
<b>Public accountant-Auditor correlation</b>	0,575
	336
<b>Manager-Other correlation</b>	0,459
	592
<b>Manager- Public accountant correlation</b>	0,443
	069
<b>Public accountant –other correlation</b>	0,908
	446
<b>Manager-Auditor in chief correlation</b>	-
	0,07797

These correlations have been proven to have significant influence on the qualitative evaluation of the survey results. For example, it is striking that the correlation between the answers of the auditors and of the auditors in chief should be that small. It was expected to be much higher. Also as striking is the very small and negative value of the correlation between the answers of managers and auditors in chief, meaning that auditors in chief have given completely different answers those managers.

**2.4. Evaluation**

The most striking fact in our study was the assessment of the influence of the management on the public audit. Not only that this influence is too big, seeing that audit is an independent and objective activity, but it was more curios to find out that almost every respondent to our survey considered the influence to be appropriate. Figure 4 shows the influence of the management on the public audit.

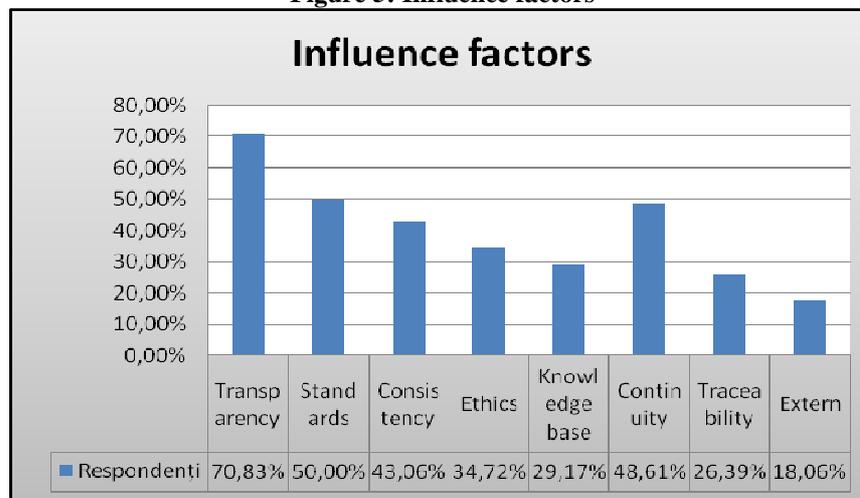
**Figure 4: Management influence**



This has greatly influenced most of the primary hypotheses of our study, namely, regional influences, with a link to confirming that Hofstede’s Power Distance Index has a high value for Romania (Androniceanu, 2008), influence factors on the standardization process, but, among others, it also determines a different approach to internal public audit from the management as from other subjected professional categories. This also indicates that regulations are not fulfilled to the greatest extent possible, since the independence of internal public audit is a legal requirement.

The communication between public auditors and other departments of public institution has also to suffer, given different approaches, authoritarian management styles and poor coordination of efforts of standardization. This is also visible in the list of influence factors for the standardization process, as shown in figure 5.

Figure 5: Influence factors



Here there have been made some striking observations. For example, almost half of the respondents think that that continuity of the audit activity must be enforced by a procedure system, yet only a quarter of the respondents think that it is important to guarantee the traceability of this activity. However, theory and practice as well have shown that continuity and traceability are linked in such manner that continuity is not possible without traceability (Juran, 1992). Also it is interesting to see, that 70 % of the subjects have named transparency to be the most important aspect for a procedure system to fulfill.

### 3. Conclusions

The study clearly shows that internal public audit in Romania shows great improvement potential because of severe unconformities with existing Romanian and E.U. regulation. It also shows that internal public audit is regarded upon as an unavoidable evil and that it is not fully understood what benefits internal public audit can bring for an institution. Public audit is not only in need of a drastic image makeover, but it is in need of improvement of its rank within the public sector.

The power differences between the management of public institutions and other hierarchical inferior departments, including internal public audit puts these activity which should be one of the most important tools in managing institutions of the public sector to a major disadvantage.

However given regulation requirements of traceability and continuous improvement and given the success history of the private sector, we consider the implementation of an operative procedures system. Based on the concepts of Quality Management System, such as ISO 9000 standards, to be appropriate in this way, public audit could be helped reach its deserved position within public institutions.

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## USING STRUCTURAL EQUATIONS MODEL PERFORMANCE EVALUATION IN SECURITY MANAGEMENT

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**Abstract:** *Structural equation models of latent variables are measured and multicausal hypothetical models, the procedure states compared hypothetical types of relationships between the five latent variables. Introducing the concept of organizational networks in which organizations are natural, organic is a concept, a strong network theory gives concrete and rhythm, whereby each stage of growth brings a well understood set of changes.*

**Keywords:** structural equation, organizational concept, model multicausal, quasipur

**JEL classification:** M19

The study is based on two assumptions known to implement effective safety management systems:

- (1) and nature of the misunderstanding of a number of variables is relative to the situation analysis on management;
- (2) failure to understand how the variables can be combined for an effective and appropriate use.

If the two models can be developed, the observed data they contain information about how security level organizational variables affect the performance of the security study.

There is still controversy about how variables influence safety performance. Understanding how these variables interact will prove the importance of information security to develop effective interventions at the organizational level there are five dimensions to study security operation.

The question is whether the committee of management, motivation control, technical supervision, control workers / group processes and performance may be the five building security related or are other variables to be considered? The study should answer these questions.

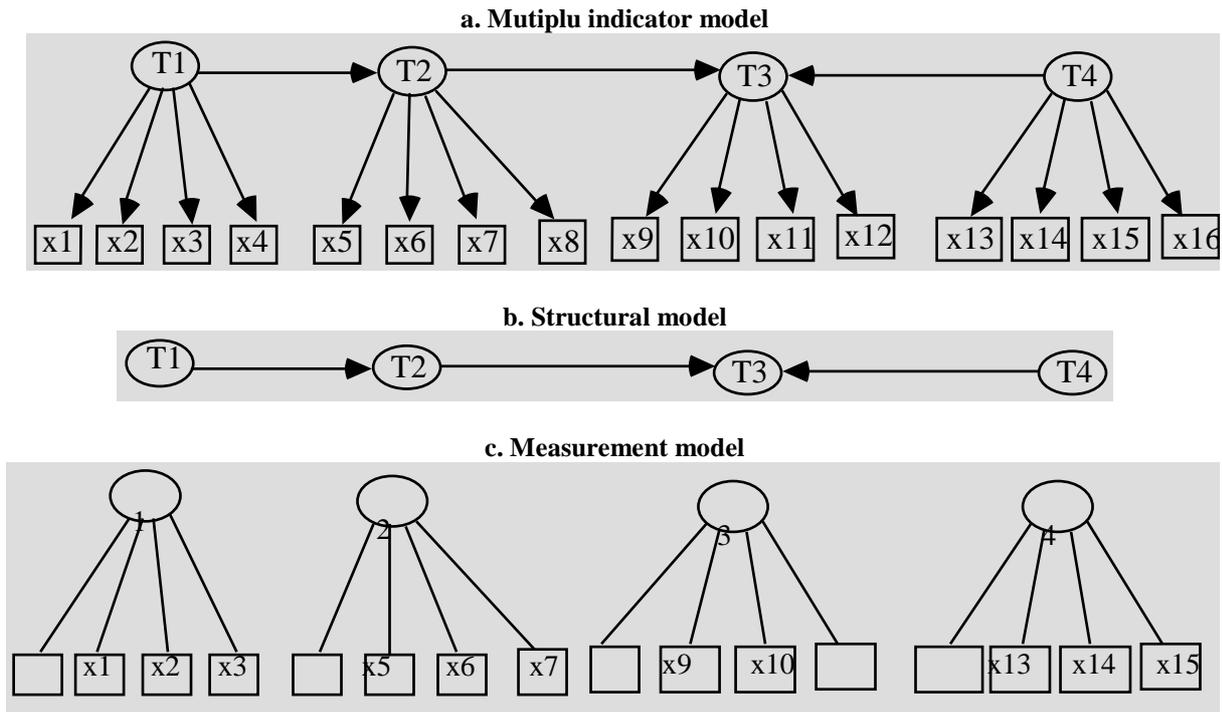
The study may also bring information about empirical measurements operaționalizează construction. It is desirable to know which measurements are less affected by external factors and which measurements can be combined.

A major reason for the performance study is to learn how security variables induce changes in performance at the organizational level and how certain causal effects are transmitted directly or indirectly.

The parameters determined from the causal model bring light to this question. Questions: "Who produces the greatest effect - the characteristics of workers or management committee?" "Can motivational controls, engineering controls and group process variables to intervene?" and "There are other variables that were not taken into calculation and can mediate between management and performance of certain committee?" "It is interesting to know how much of the variation in performance is explained by certain motivational controls, engineering controls, group processes and characteristics of workers (Dedobbeleer, N., Beland, F 1989; Dedobbeleer, N., Beland, F 1991).

Structural equation models of latent variables are measured by several indicators, are usually called models of multiple indicators (Fig. 1). Taking T as a set of latent variables and V a set of measurable indicators, each model can be divided into two parts: model structure and model measured (Fig. 1 b and c).

Fig. 1 Structural equation models



Graph model contains structural elements of T and T's boundary between elements and the graph model contains all variables measuring.

The measurement can be easily or one-dimensional (where each latent variable  $x_i$  represents the direct effect of an error  $\epsilon_i$  latent variables for each different error  $\epsilon_i$ ,  $\epsilon_i$  and  $\epsilon_j$  are not correlated).

The terms "one dimensional" and "pure" are used interchangeably.

An indicator is "impure" whether it is the other variable T.

Model A in Fig. 2 is a pure measurement model, while model B is not. In model B, the latent variables  $x_1$  and  $x_2$  are impure because of the error terms are correlated, latent variables  $x_4$  and  $x_5$   $x_5$  are impure because it is a direct cause for  $x_4$  and  $x_8$ , is impure because it measures and T2 and T3.

All pure measurement model parameterization involves a variety of constraints covariants deletion observed regardless of what it would be a structural model (Smith, G.R., Roth, R.D 1991). Uni dimensionality these tests may be done before specifying the structural model (Anderson, J.M. 1992).

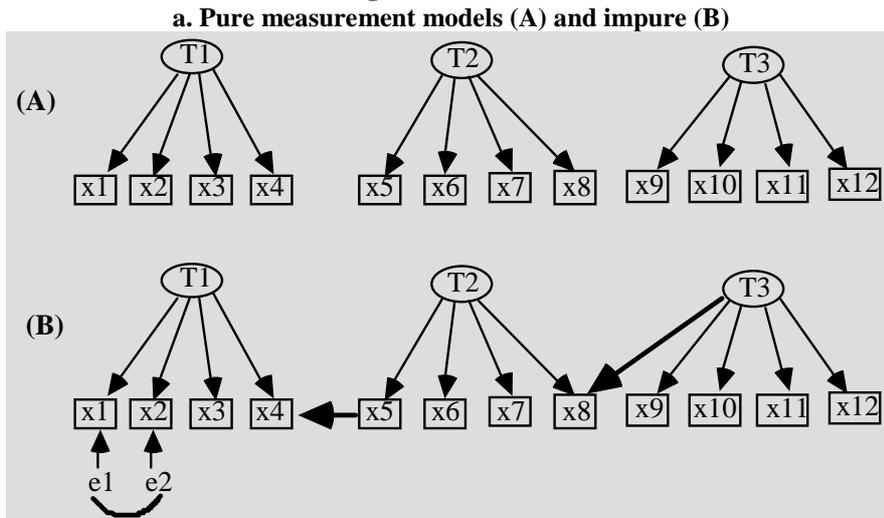
For example, it is assumed that the latent variable  $X = \{x_1, x_2, \dots x_{12}\}$  is produced by a structural equation model with impure measurement model shown in Fig. 2 (B). If the initially specified measurement data and shown in Fig. 2 (A) is used as a constraint entry time to locate and ignore a set of three indicators that are impure in the model generated.

The set is not unique, and if either of the sets of latent variables  $\{x_1, x_5, x_8\}$ ,  $\{x_1, x_4, x_8\}$ ,  $\{x_2, x_5, x_8\}$  and  $\{x_2, x_4, x_8\}$  is ignored, the result model measurement is easily among the remaining variables. If the set  $\{x_1, x_5, x_8\}$  is ignored, then the outputs are a pure measurement model in Fig. 2 b, d.

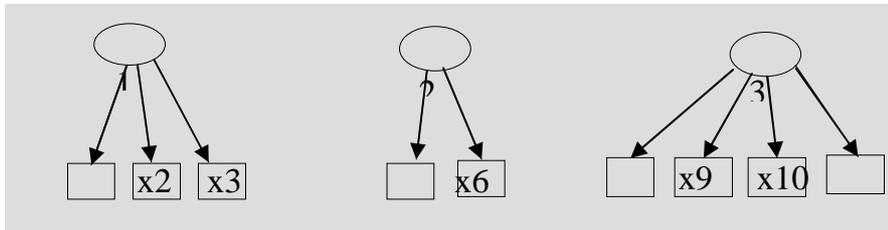
In the current model only among these indicators, all of which are pure. The model takes as input: covariant data or continuous data for a set of V and an initial measurement model specified as pure. As output data are considered: a pure submodel of a pre-specified measurement model where each latent variable is measured in at least three indicators that fit the data as much as possible.

If T is a set of latent variables and V is a set of variables measured, a measurement model is quasipur if each home has a latent variable per latent variable is measured at least one survivor and the graph model shows that if  $x_i$  is a indicator of T, where  $x_i$  is independent of all other variables in T (Fig. 2 c) (Kauffmann, S. 1995; Kauffmann, S. 2000).

Fig. 2 Measurement models

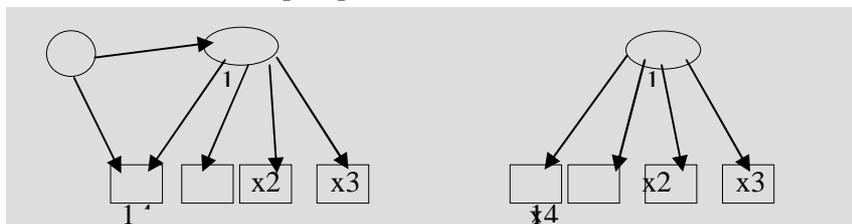


**b. Pure measurement models**



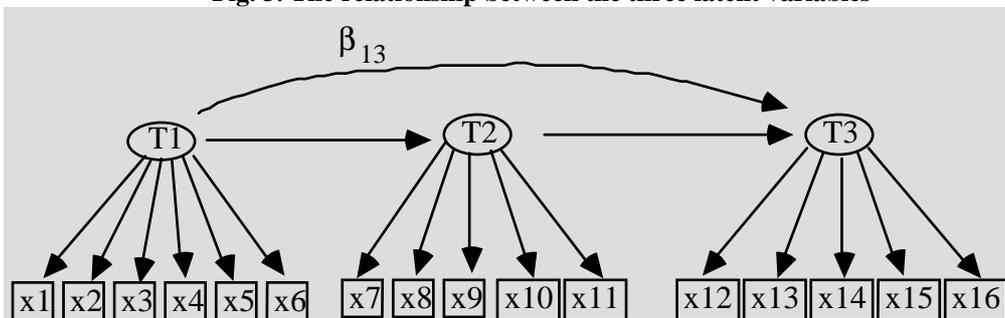
**c. The measurement quasipur model**

**d. Pure measurement model**



If  $\beta_{13} = 0$ , means that influenced T1 T2 T3 is mediated, but the actual measurement model is not one-dimensional as we have shown in Fig. 3, but is replaced by that of Fig. 4, which I expected.

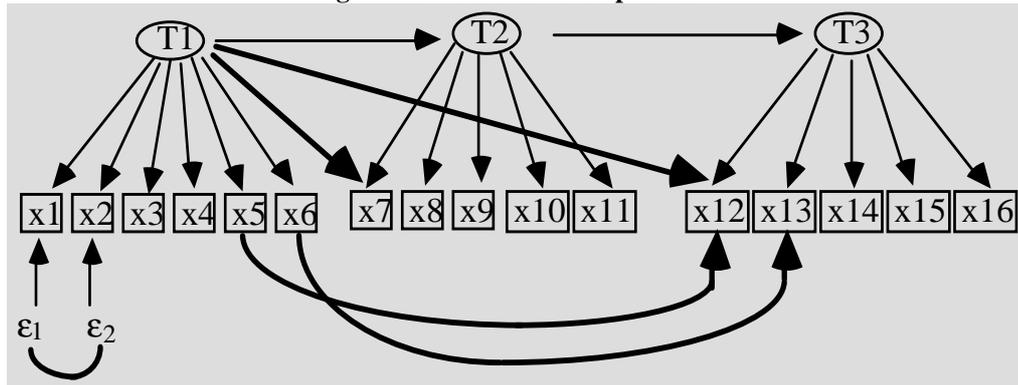
Fig. 3. The relationship between the three latent variables



We will likely conclude in many cases of error, the direct dependence of T3 on T1, there is a direct effect on T3 from T1 to T2 unmediated.

As an indicator means that an error committed was left behind in impure measurement model, the error made is much greater than the error omitted if the goal is achieved for any reason, the latent variables.

Fig. 4 Effect of variable dependence



Organizational concept. Organizations are naturally networks. They are an organic concept, an idea mingled in the etymology of the word itself. The organic nature has a strong network theory gives concrete and rhythm.

Each stage of growth brings a well understood set of changes.

Over time, business growth reaches a limit in the context of any market environment, but dynamic growth ceases even if the maximum size is reached. Employees come and go all the time. In reorganization, organizations move, add, divided into smaller units or greater in order to meet development challenges and opportunities that are present constantly around us.

Because so many parts and components, networks are known and labeled before the start of the process, the reorganization is an explicit set of features clearly not a typical start.

Reorganization is in no way an instant phenomenon. Growing networks, position location in time. Organization puts the growth of the spiral. New levels of heading heart grow bigger circles all the time.

Growth is faster because the hierarchy is modular, each organization develops Level 2 to Level 3 in parallel, each organization develops Level 3 to Level 4 at the same time, so the next phases

In this real case we can label the levels of their organizational positions.

Barabasi (Barabasi, A-L. 2002) simulates the development of scale-free networks based on two principles: growth and preferential attachment.

For network scientists, growth is a big deal. Increase introduce more complexity into the network panel, but it is more descriptive of the real world.

A connection of nodes is not instantaneous in nature, they grow into a network node to node in time.

Scale-free networks remain natural and essential to maintain their integrity by adding nodes, loss and binding. The new model networks are open systems that interact in their environment. By contrast, older random network model assumes a static population of nodes in a larger system closed.

We know that organizations are open systems. As systems grow and resist them, while the dynamics of prejudice and delete items and links between them.

Often links some organizations these people recasting himself as a "reorganization. " In general, however, organizational development pattern is more "point of equilibrium" in biological evolution. Changing the environment breaking induces periods of relative stability, bringing new capabilities to a new level of organization - or catastrophic collapse.

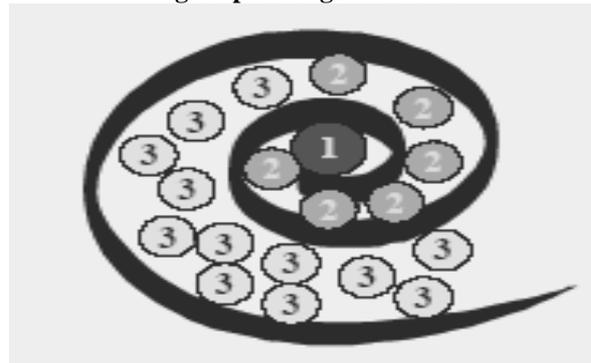
What happens to the second principle: preferential attachment? It is hard to see in organizations, but it is there.

The principle is as simple as a new node with some probability, prefer to bind to an existing node with more than one with few connections. As the network grows, the center is a popular attraction, recently attached nodes giving a major advantage in their becoming and remaining as centers.

In (Barabasi, A-L. 2003) Barabasi network presents a visual example of the growing step-by-step from 2 to 11 nodes (centers). In his scenario, each node practice preferential attachment, making two links to existing nodes, usually already connected neighboring nodes. Centers grow fast in a sequence of 10 steps.

Discussions about strategy and design with senior leaders developed a series of conversations with the resulting first level of organization specific to key people. Second round of discussion led to spiral to the next level positions (Figure 5).

**Fig. 5 spiral organizational**



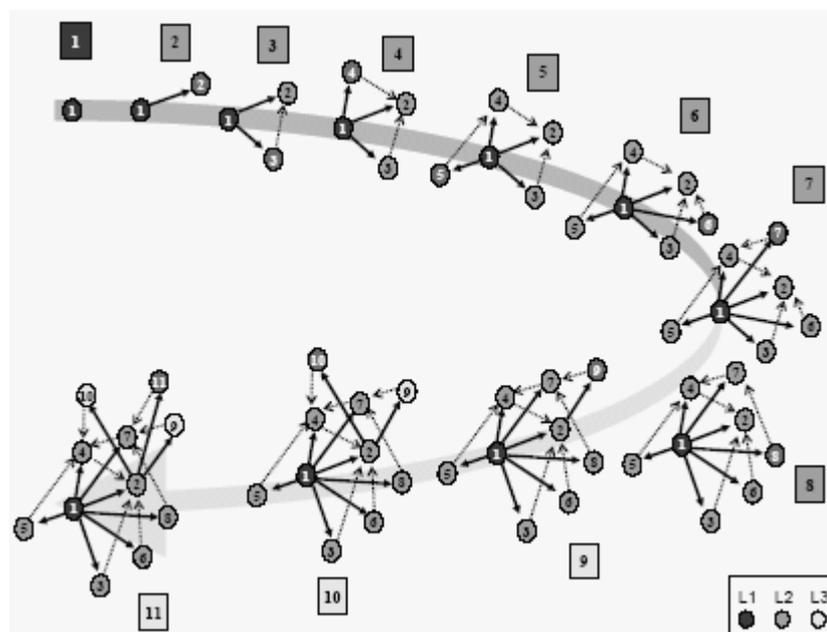
To test the logic of preferential attachment work has changed the basic parameters of the torque reference model Barabasi. First, to present the report of the relationship, it was necessary to use direct links instead of indirect links used in the model reference. Then, because they use direct connections, could soon begin the first step in a sequence, using a single root node, a "CEO node instead of two nodes in the sequence began as Barabasi.

Following the preferential attachment scenario, the first link went to the highest connected node in the neighborhood, while two went about (usually but not always) the next highest node connected.

To distinguish between these two links, it represented the first relationship with a thick line and the second dotted line.

The simulation of (Stamps, J., Lipnack, J.,A 2005) counted each node, each sequence number representing the number of employment. The link gives each node a name and unique personal scenario becoming increasing as chance would any node in network growth. The scenario goes to a point in the system "a step, a node. With each step, the configuration changes to the organizational matrix (Enescu M 2007) (Fig. 6).

**Fig. 6 matrix organizational**



- The scenario starts with the first node, # 1, which describes "node CEO" and his role at Level 1 in the hierarchy;
- Node # 2 can make a strong connection with the CEO, making him the position of Level 2. Since the root node is first connected, he immediately becomes the focal point;

- Node # 3, along with other nodes in succession, did have two links for the node # 3, the choice is simple: establish a first link with # 1 and the second related to # 2. Node # 4 is the same;
- New node # 5 is also an alliance with # 1, but is choosing where to place the second link. When you look in # 4 you get an array of beginning;
- At node # 6, # 7 and # 8 next to the first link is the CEO, but then there are many choices about moving to second link;
- In Step 9, something different happens. Without parameters known to be present simulations, the node is # 1, CEO, stop accepting direct reporting by July. So, the node is directly joined # 9 and tied first time # 2 (which just made its second reporting);
- This is the first node # 9 Level 3;
- Last two nodes, but also form a primary link # 2 and thus the components of Level 3.

Ignoring the direction and weight (continuous / dashed) the same root structure continues at these two links [9]. Directional linking and distinguishing primary connection (thick line), an intimate scale is outside the network of roots that come with the link second (dotted line), each node is colored differently to indicate the level. Network nodes 11 produces three levels. It appears that the levels that can channel the growth and preferential attachment with direct links, where at least one link connecting each node to the other, with a sole parent-child relationship.

It is not difficult to see how the relationship between preferential attachment of links reflects the real world.

People in normal positions attaches the greatest leader they have. For new nodes, head employing a high probability of generating secure attachment. For the whole organization, the trend is emanating from the CEO.

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## THE IMPACT OF CHANGEING ABOUT THE ORGANZATIONAL BEHAVIOR

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**Abstract:** *Organizations do not change for change sake but for that part, from a comprehensive development process and are required to respond to new environmental changes, the requirements, restrictions and opportunities that arise. Competitive organizations regarding change as an ongoing process essential for survival, their development and improvement. The most important aspect of the success of organizational change is the acceptance and understanding them. The source of the changes can exist in inerorganization or outside it (environment) Strategies for change / development have to consider many variables: size of organization, relations of competition, changes in the environment. Beyond dependence environmental organization, changing it can be seen as a way to create change, thus emphasizing the proactive side (not just reactive).*

**Key words:** change, organizational development, values

**JEL classification:** (L16)

### 1. Introduction

Change is a feature of existence and human history. Without change there is no life and people's efforts to obtain better living conditions involve adapting to change. In the current economic environment there is a new phenomenon: depth, complexity and pace of growth on technological, social and cultural level. Human dimension of organizational change is fundamental, because people in organizations are those whose behavior ultimately determine what organizational changes can be made and what real profits will result from them. Organizations are above all human systems.

In the process of adaptation to organizational change people must change too, to acquire new knowledge and information to tackle new tasks, to develop their level of competence, and in some cases to change work habits, values and attitudes in the way organizations work. Changing values and attitudes generate behavioral changes. In an organization this requirement refers to all its members including its leader.

### 2. Models of organizational change

Analyzing the organizational phenomenon through the theories implemented by praticiens and theorists we start questioning ourselves if organizations can be changed?

Each organization has an institutional support that develops some rules, procedures and specific behaviour. These patterns force us to think that change is a difficult process that involves a long period of time, which leaves trace on the workers mentalities and organizational behaviour. On the organizational level the change impact affects both indiviual and collective behaviour. On the other hand in all organizations the change phenomenon is the most productive solution for development and progress.

Nowadays the socio-economic influence puts pressure on the organizational environment and requires organizations to restructure their activities so that they can meet their goals and achieve maximum productivity.

Kurt Zadek Lewin (1997) known as one of the modern pioneers of social, organizational, and applied psychology, suggests an organizational change model built in five stages (initial state, unfreeze, change, freeze and final state). This is a logical model that contains steps that should be detailed and defined in action plans. One drawback of this theory is the fact that it is relatively static and based on a large environmental and organizational stability while today's society is very dynamic.

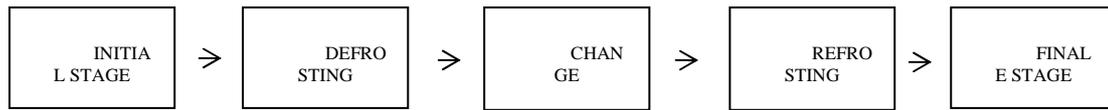


Figure 1. Lewin model

Moorhead & Griffin (1998) implement a more dynamic model of continuous change that is easy to adjust for business. In the current economic market conditions it is impossible for an organization to keep unmodified systems previously built for a long period. So in order to face the competition and to ensure the success and performance we should resort to permanent changes. The pattern suggested by Moorhead & Griffin appreciates the important role of "changing agents" which are represented by individuals or groups that have the vision, creativity, and strength to push and support the organizational change processes.

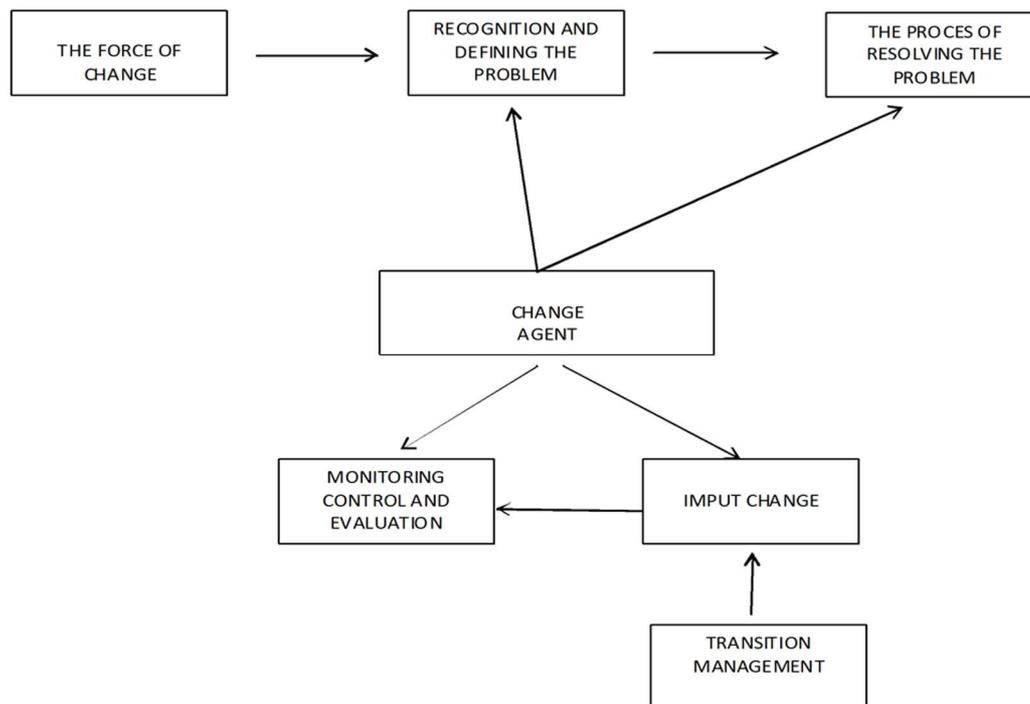


Figure 2. M-G model of the process of continuous change

Edgar Schein (1992) designed a model that reflects ways to change according to the organization stage of life. The stages described by Schein are:

- The stage of establishment and growth - gradual change through general and specific evolution; change through organizational therapy; change through the promotion of hybrids in the culture
- The stage of development - change by promoting subcultures; change planned projects; change by creating organizational learning structures; change through Technology
- The stage of maturity and decline - change by bringing staff from outside; defrost by conflict and challenge of myths; change by fundamental reshaping; change by coercion

A significant element of Schein's theory is represented by the concept of achieving change through organizational development projects and creating organizational learning structures. Through this concept of achieving change the theory outlines mentalities and ways of action that represent an alternative to the traditional pattern. Organizational learning structures and organizational development projects are processes that develop values, symbols, encouraging behavior and transmit a feeling of safety, motivation and psychological comfort for the employees. Schein's model is a realistic model, created on a pragmatic approach that takes into consideration natural evolution of the organization. Organization adaptive living system that is supported by a managerial coherent vision. For Schein organizational culture change was not a target in itself but it integrated the whole organizational change.

Kuczarski (1995) implements a methodology that can be used in shaping organizational values. In the remodeling process employees are involved so that organizational values will be much easier accepted. There are combined the individual creativity with the group's creativity and the individual behavior with the collective pattern and rules. When employees participate to the development of organisational values the new elements are easier to assimilate. This participation leads to a considerable reduction of resistance to change for everybody in the organization. Kuczarski did not specify the extent of the changes in organizational values. So could this process be successfully applied for the depth values as well as for the core values of the organization and for superficial cultural values of the organization? The model presented by Kuczarski is an important work for labor or partial interest in shaping the organizational culture.

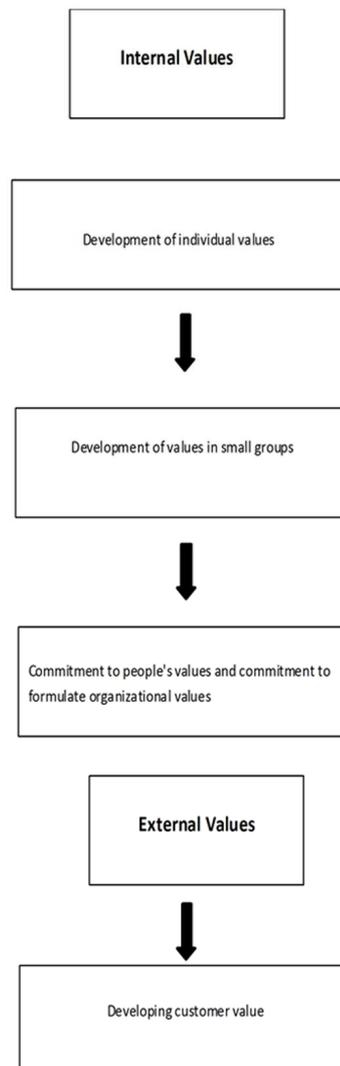


Figure 3. The Kuczarski model of change in organizational values

The model is a methodology that can be used successfully in reshaping organizational values, in the stages completed are involved in a high level employees at all stages, they are inducing the premises that the new values should reflect better expectations of employees so that change can be more easily accepted.

A common concept in the context of organizational change is resistance to change.

Resistance occurs when people do not support efforts to change in organization. Resistance to change initiatives are attributed to lack of confidence in those who propose change, misunderstanding of the reason to change, and political self-interest, low tolerance to individual change, the stress of uncertainty, situation assessment, organizational culture. To establish the status quo and the desire to make a change for the organization as a whole, the initiators of change must communicate the need for change. Members of the organization must understand why certain behaviors and routines must change. In this context, leaders with

good interaction skills are able to monitor and discriminate their own emotions of others and to use information in order to guide the thinking and actions. (Goleman, 2005).

Yohgmei Liu (2005) examines a cognitive model of organizational change emotionally. It argues that employees go through four stages emotions sequential but distinct organizational change process. In the first stage of primary evaluation - this stage induce emotions that have a high degree of activation, mixed in hedonic tone and anticipated in the second stage of positive and negative emotions occur as a result of secondary assessment. Emotional experience affects behavior in stage three, stage four emotions are associated with action tendencies.

Changes in the organizational structure generates modifications on social behaviour that influences and results on social transformations (Brown, 2001). Changes in organizational structure lead to major economic updates. Those that require the most time are social changes. The biggest challenge remains on the educational level; how could we help people understand that change is not only a requirement but it can generate an improvement in their current life?

#### 4. Conclusion

Speaking of organization is important to say that there are those that will accept continuous change, which will develop and integrate easily into current economicosocial dynamics, and others who will oppose the change concept. In an organization the role of those that observe and lead the change concept is to ensure that each individual involved is addressed in accordance with the profile or the behavior and expectations concerning the process of change.

All organizations must change under the action of forces of the internal and external environment. Changings in the economic environment require many changes in organizations. Organizations can modify the objectives, strategy and organizational structure, processes and people. The process of change involves exchanging attitudes and behaviors and then use the skills gained for developing the organization

#### 5. Acknowledgements

This work was co-financed from the European Social Fund through Sectoral Operational Program Human Resources Development 2007-2013, project number POSDRU/89/1.5/S/63258 "Postdoctoral school for zoo-technical biodiversity and food bio-technology based on the eco-economy and the bio-economy required by eco-sangenesis".

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## STRATEGY AND PERFORMANCE – AXIOLOGICAL COORDINATED IN MANAGEMENT OF A COMPANY

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**Abstract:** *It can be argued that the successful management of any company is crucial when it comes to survival and success in the present highly competitive and continuously evolving business environment. Although there are a variety of theories about the management of a company, the present study does not aim to analyze them, but awareness of the importance of a pragmatic framework of analysis which occupies the central position sizing axiological. “Strategy” and “performance” are two concepts which we argue, in light of theories already formulated, the importance of the sizing.*

**Key words:** *strategy, performance, balanced scorecard, benchmarking, customer innovation and learning perspective*

**JEL classification:** A13

### Introduction

The challenge of developing or reestablishing a clear strategy is often primarily an organizational one and depends on leadership. Its core is strategy: defining and communicating the company's unique position, making trade-offs, and forging fit among activities. The leader must provide the discipline to decide which industry changes and customer needs company will respond to, while avoiding organizational distractions and maintaining the company's distinctiveness. Deciding which target group of customers, varieties, and needs the company should serve is fundamental to developing a strategy.

Managers are mystified when what they thought was a beautifully crafted strategy is never implemented. They assume that the initiatives described in the voluminous documentation that emerges from an annual budget or a strategic-planning process will ensure competitive success. They fail to appreciate the necessity of having a simple, clear, succinct strategy statement that everyone can internalize and use as a guiding light for making difficult choices.

### 1. Strategy is management's core

Mike Rukstad (2008) identified three critical components of a good strategy statement - objective, scope, and advantage - and rightly believed that executives should be forced to be crystal clear about them. These elements are a simple yet sufficient list for any strategy that addresses competitive interaction. Companies must be flexible to respond rapidly to competitive and market changes.

Any strategy statement must begin with a definition of the ends that the strategy is designed to achieve. The definition of the objective should include not only an end point but also a time frame for attain it.

That advantage has complementary external and internal components: a value proposition that explains why the targeted customer should buy your product above all the alternatives, and a description of how internal activities must be aligned so that only your firm can deliver that value proposition.

Scope and advantage requires trade-offs, which M. Porter (1996) identified as fundamental to strategy. If a company chooses to pursue growth or size, it must accept that profitability will take a back seat. If it chooses to serve institutional clients, it may ignore retail customers. If the value proposition is lower prices, the company will not be able to compete on, for example, fashion or fit. Finally, if the advantage comes from scale economies, the firm will not be able to accommodate idiosyncratic customer needs. These

are some rules that constitute the essence of differentiation strategies within the company (Collis & Rukstad, 2008).

### **1.1. Competitive advantage - the essence of strategy**

Defining the Scope a company's scope encompasses three dimensions: customer or offering, geographic location, and vertical integration. Clearly defined boundaries in those areas should make it obvious to managers which activities they should concentrate on and, more important, which they should not do.

The three dimensions may vary in relevance. First, it should be noted that the customer must always be the most important. The customer shall not be defined in terms of revenue it brings to the company; not does it use demographics, profession, or spending habits. Rather, the definition is psychographic: the company's customers are long-term investors who have a conservative investment philosophy and are uncomfortable making serious financial decisions without the support of a trusted adviser.

The scope of an enterprise does not prescribe exactly what should be done within the specified bounds, but it encourages experimentation and initiative. To ensure that the borders are clear to all employees, the scope should specify where the firm or business will not go. That will prevent managers from spending long hours on projects that get turned down by higher-ups because they do not fit the strategy (Grundy, 1993).

A sustainable competitive advantage is the essence of a strategy. Clarity about what makes the firm distinctive is what most helps employees understand how they can contribute to successful execution of its strategy.

The complete a sustainable competitive advantage is the essence of strategy definition of a firm's competitive advantage consists of two parts (De Wit & Meyer, 2005).

The first is a statement of the customer value proposition. Any strategy that cannot explain why customers should buy your product or service is doomed to failure. A simple graphic that maps your value proposition against those of rivals can be an extremely easy and useful way of identifying what makes yours distinctive. The second part of the statement of advantage captures the unique activities or the complex combination of activities allowing that a company alone to deliver the customer value proposition.

When a company goes about crafting its strategy statement, the first step is to create a great strategy, which requires careful evaluation of the industry landscape (Todnem, 2005). This includes developing a detailed understanding of customer needs, segmenting customers, and then identifying unique ways of creating value for the ones the firm chooses to serve. It also calls for an analysis of competitors' current strategies and a prediction of how they might change in the future. The process must involve a rigorous, objective assessment of the firm's capabilities and resources and those of competitors, not just a feel-good exercise of identifying core competencies.

The creative part of developing strategy is finding the sweet spot that aligns the firm's capabilities with customer needs in a way that competitors cannot match given the changing external context - factors such as technology, industry demographics and regulation (Collis & Montgomery, 1995). One of the best ways to do this is to develop two or three plausible but very different strategic options.

## **2. Methods and tools used to measure performance**

In a study entitled "The Balanced Scorecard - Measures that Drive Performance", Robert S. Kaplan and David P. Norton (1992) propose a performance measurement tool in a company. Robert S. Kaplan is the Arthur Lowes Dickenson Professor of Accounting at the Harvard Business School and David P. Norton is president of Nolan Norton, a company in Massachusetts - based information technology consulting firm he cofounded. During a year-long research project with 12 companies at the leading edge of performance measurement, Robert S. Kaplan and David P. Norton have done a "balanced scorecard" - a set of measures that gives top managers a fast but comprehensive view of the business. The balanced scorecard includes financial measures that tell the results of actions already taken. The financial measures were complete with operational measures on customer satisfaction, internal processes, and the organization's innovation and improvement activities. These operational measures were considered the drivers of future financial performance.

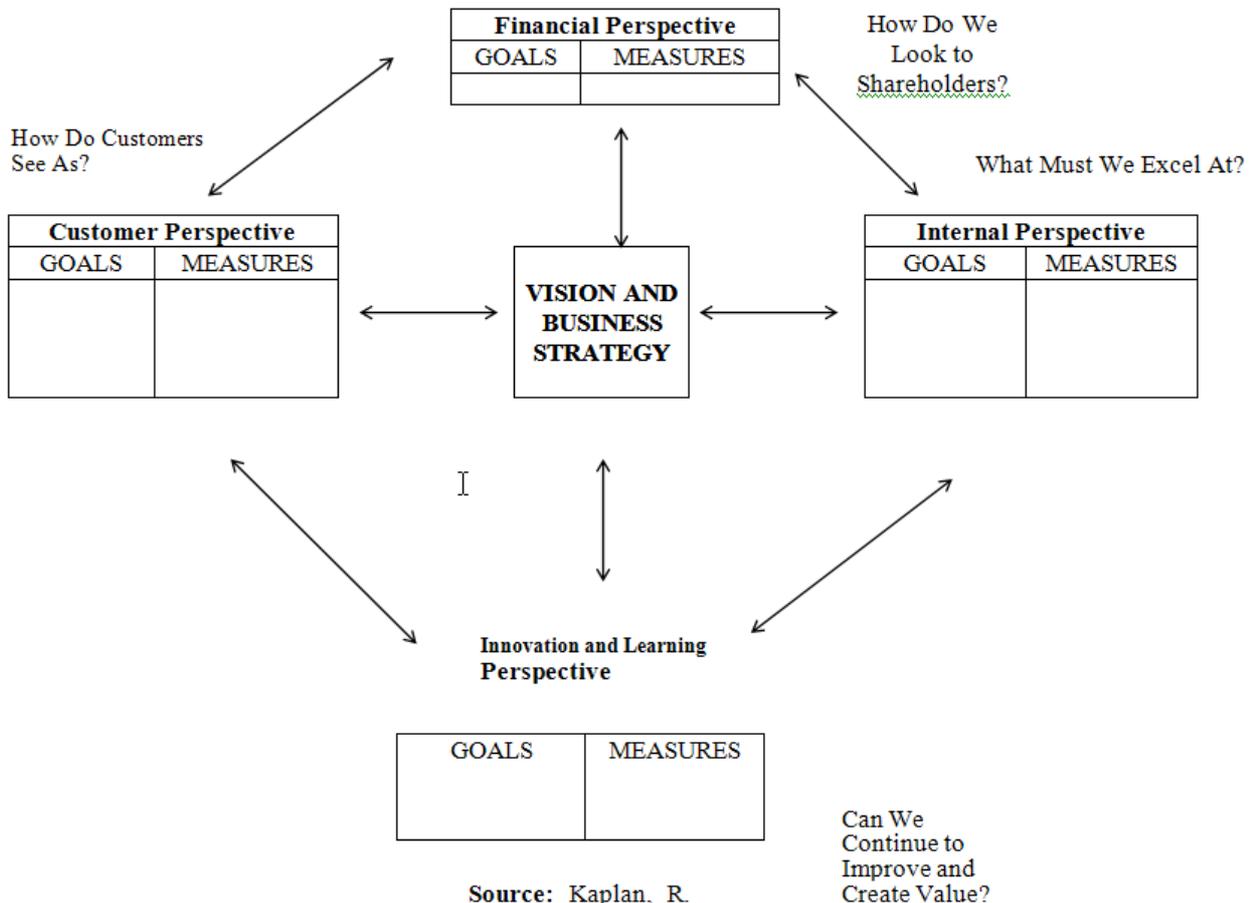
Robert S. Kaplan and David P. Norton (1992) described the "balanced scorecard" as: "Think of the balanced scorecard as the dials and indicators in an airplane cockpit. For the complex task of navigating and flying an airplane, pilots need detailed information about many aspects of the flight. They need information on fuel, air speed, altitude, bearing, destination, and other indicators that summarize the current and

predicted environment. Reliance on one instrument can be fatal. Similarly, the complexity of managing an organization today requires that managers be able to view performance in several areas simultaneously”.

The balanced scorecard allowed managers to look at an business from four important perspectives, providing answers to four basic questions: How do we look to shareholders?, How do customers see us?, What must we excel at? and Can we continue to improve and create value?

The first question involve a financial perspective, the second – a customer perspective; regarding the third question is about internal perspective and the fourth - an innovation and learning perspective.

Figure 1 The Balanced Scorecard Links Performance Measures



Source: Kaplan, R. S. & Norton, D. P. (1992), *Balanced Scorecard Measures that Drive Performance*

According to Robert S. Kaplan and David P. Norton (1992), several companies have already adopted the balanced scorecard. Their early experiences using the scorecard have demonstrated that it meets several managerial needs. First, the scorecard brings together, in a single management report, many of the seemingly disparate elements of a company's competitive agenda: becoming customer oriented, shortening response time, improving quality, emphasizing teamwork, reducing new product launch times, and managing for the long term. Second, the scorecard guards against sub-optimization. By forcing senior managers to consider all the important operational measures together, the balanced scorecard lets them see whether improvement in one area may have been achieved at the expense of another.

**2. 1. Customer Perspective in performance measurement**

Many companies today have a corporate mission that focuses on the customer. "To be number one in delivering value to customers" is a typical mission statement (Kaplan & Norton, 1992). How a company is performing from its customers' perspective has become, therefore, a priority for top management. The

balanced scorecard demands that managers translate their general mission statement on customer service into specific measures that reflect the factors that really matter to customers.

Regarding customers' concerns, they tend to fall into four categories: time, quality, performance and service, and cost. Lead time measures the time required for the company to meet its customers' needs. For existing products, lead time can be measured from the time the company receives an order to the time it actually delivers the product or service to the customer.

For new products, lead time represents the time to market, or how long it takes to bring a new product from the product definition stage to the start of shipments. Quality measures the defect level of incoming products as perceived and measured by the customer. Quality could also measure on-time delivery, the accuracy of the company's delivery forecasts. The combination of performance and service measures how the company's products or services contribute to creating value for its customers.

To put the balanced scorecard to work, companies should articulate goals for time, quality, and performance and service and then translate these goals into specific measures, considered **Robert S. Kaplan and David P. Norton (1992)**. For example managers should establish general goals for customer performance: get standard products to market sooner, improve customers' time to market, become customers' supplier of choice through partnerships with them, and develop innovative products tailored to customer needs.

These general goals must be translated into specific goals and identified an appropriate measure for each. For example, to track the specific goal of providing a continuous stream of attractive solutions should be measured the percent of sales from new products and the percent of sales from proprietary products. That information is available internally. Certain other measures, however, require a company to get data from outside - for example, to assess whether the company was achieving its goal of providing reliable, responsive supply.

In addition to measures of time, quality, and performance and service, companies must remain sensitive to the cost of their products. *Benchmarking* procedures are yet another technique companies use to compare their performance against competitors' best practice. Many companies have introduced "best of breed" comparison programs: the company looks to one industry to find, say, the best distribution system, to another industry for the lowest cost payroll process, and then forms a composite of those best practices to set objectives for its own performance.

Customers see price as only one component of the cost they incur when dealing with their suppliers. An excellent supplier may charge a higher unit price for products than other vendors but nonetheless be a lower cost supplier because it can deliver defect-free products in exactly the right quantities at exactly the right time directly to the production process and can minimize, through electronic data interchange, the administrative hassles of ordering, invoicing, and paying for materials.

Customer-based measures are important, but they must be translated into measures of what the company must do internally to meet its customers' expectations. After all, excellent customer performance derives from processes, decisions, and actions occurring throughout an organization. Managers need to focus on those critical internal operations that enable them to satisfy customer needs.

**Table 1. Goals and Measures of the Customer Perspective**

Customer Perspective	
GOALS	MEASURES
<ul style="list-style-type: none"> <li>◆ New products</li> <li>◆ Responsive supply</li> <li>◆ Preferred supplier</li> <li>◆ Customer partnership</li> </ul>	<ul style="list-style-type: none"> <li>◆ Percent of sales from new products</li> <li>◆ Percent of sales from proprietary products</li> <li>◆ On-time delivery (defined by customer)</li> <li>◆ Share of key accounts' purchases</li> <li>◆ Ranking by key accounts</li> <li>◆ Number of cooperative engineering efforts</li> </ul>

Source: Kaplan, R. S. & Norton, D. P. (1992), **Balanced Scorecard Measures that Drive Performance**

**2. 2. Internal Business Perspective in performance measurement**

The internal measures for the balanced scorecard should stem from the business processes that have the greatest impact on customer satisfaction - factors that affect cycle time, quality, employee skills, and productivity, for example. Companies should also attempt to identify and measure their company's core competencies, the critical technologies needed to ensure continued market leadership. Companies should decide what processes and competencies they must excel at and specify measures for each.

To achieve goals on cycle time, quality, productivity, and cost, managers must devise measures that are influenced by employees' actions. Since much of the action takes place at the department and workstation levels, managers need to decompose overall cycle time, quality, product, and cost measures to local levels. That way, the measures link top management's judgment about key internal processes and competencies to the actions taken by individuals that affect overall corporate objectives. This linkage ensures that employees at lower levels in the organization have clear targets for actions, decisions, and improvement activities that will contribute to the company's overall mission (Pettinger, 2004).

Information systems play an invaluable role in helping managers disaggregate the summary measures. When an unexpected signal appears on the balanced scorecard, executives can query their information system to find the source of the trouble.

**Table 2. Goals and Measures of the Internal Business Perspective**

Internal Business Perspective	
GOALS	MEASURES
<ul style="list-style-type: none"> <li>◆ Technology capability</li> <li>◆ Manufacturing excellence</li> <li>◆ Design productivity</li> <li>◆ New product introduction</li> </ul>	<ul style="list-style-type: none"> <li>◆ Manufacturing geometry vs. competition</li> <li>◆ Cycle time Unit cost Yield</li> <li>◆ Silicon efficiency</li> <li>◆ Engineering efficiency</li> <li>◆ Actual introduction schedule vs. plan</li> </ul>

Source: Kaplan, R. S. & Norton, D. P. (1992), *Balanced Scorecard Measures that Drive Performance*

**2. 3. Innovation and Learning Perspective in performance measurement**

Intense competition requires that companies make continual improvements to their *existing* products and processes and have the ability to introduce entirely new products with expanded capabilities. Thus, a company's ability to innovate, improve and learn ties directly to the company's value. That consist of the ability to launch new products, create more value for customers, and improve operating efficiencies continually can a company penetrate new markets and increase revenues and margins.

A company's innovation measures have to focuses on the company's ability to develop and introduce standard products quickly, products that the company expects will form the bulk of its future sales. Its manufacturing improvement measure focuses on new products; the goal is to achieve stability in the manufacturing of new products rather than to improve manufacturing of existing products. Percent of sales from new products is one of its innovation and improvement measures. If sales from new products are trending downward, managers can explore whether problems have arisen in new product design or new product introduction.

**Table 3. Goals and Measures of the Innovation and Learning Perspective**

Innovation and Learning Perspective	
GOALS	MEASURES
<ul style="list-style-type: none"> <li>◆ Technology leadership</li> <li>◆ Manufacturing learning</li> <li>◆ Product focus</li> <li>◆ Time to market</li> </ul>	<ul style="list-style-type: none"> <li>◆ Time to develop next generation</li> <li>◆ Process time to maturity</li> <li>◆ Percent of products that equal 80% sales</li> <li>◆ New product introduction vs. competition</li> </ul>

Source: Kaplan, R. S. & Norton, D. P. (1992), *Balanced Scorecard Measures that Drive Performance*

**2. 4. Financial performance in performance measurement**

Financial performance measures indicate whether the company's strategy, implementation, and execution are contributing to bottom-line improvement. Typical financial goals have to do with profitability, growth, and shareholder value. Financial goals should be determined as simple: to survive, to succeed, and to prosper. Survival was measured by cash flow, success by quarterly sales growth and operating income by division, and prosperity by increased market share by segment and return on equity.

Many economists have criticized financial measures because of their well-documented inadequacies, their backward-looking focus, and their inability to reflect contemporary value-creating actions. *Shareholder value analysis* (SVA), which forecasts future cash flows and discounts them back to a rough estimate of current value, is an attempt to make financial analysis more forward looking. But SVA still is based on cash flow rather than on the activities and processes that drive cash flow.

Some critics go much further in their indictment of financial measures. They argue that the terms of competition have changed and that traditional financial measures do not improve customer satisfaction,

quality, cycle time, and employee motivation. In their view, financial performance is the result of operational actions, and financial success should be the logical consequence of doing the fundamentals well. In other words, companies should stop navigating by financial measures.

**Table 4. Goals and Measures of the Financial Perspective**

Financial Perspective	
GOALS	MEASURES
<ul style="list-style-type: none"> <li>◆ Survive</li> <li>◆ Succeed</li> <li>◆ Prosper</li> </ul>	<ul style="list-style-type: none"> <li>◆ Cash flow</li> <li>◆ Quarterly sales growth and operating income by division</li> <li>◆ Increased market share and ROE</li> </ul>

Source: Kaplan, R. S. & Norton, D. P. (1992), *Balanced Scorecard Measures that Drive Performance*

Assertions that financial measures are unnecessary are incorrect for at least two reasons, believes **Robert S. Kaplan and David P. Norton (1992)**. A well-designed financial control system can actually enhance rather than inhibit an organization's total quality management program. More important, however, the alleged linkage between improved operating performance and financial success is actually quite tenuous and uncertain.

The scorecard puts strategy and vision, not control, at the center. It establishes goals but assumes that people will adopt whatever behaviors and take whatever actions are necessary to arrive at those goals. The measures are designed to pull people toward the overall vision. This understanding can help managers transcend traditional notions about functional barriers and ultimately lead to improved decision making and problem solving.

## Conclusion

It is evident from this article that strategy and performance are inevitably present in feature life of an organization. They are two key points from which to build a pragmatic framework for analyzing the values that determine a company's success. Strategy is essential to superior performance, which, after all, is the primary goal of any enterprise. Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value.

By providing a hermeneutical review starting from a "balanced scorecard" as measure that drive performance, this article has made an attempt to highlight the need for a pragmatic framework axiological dimensioned in any managerial approach. In order to construct such a framework it is recommended that further studies of the nature of values and how it is being managed should be conducted.

The paper also suggests that methods of measuring the success in organizational management should be designed in order to evaluate the value of any new frameworks suggested.

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## MODELS FOR MEASURING INTERNATIONAL COMPETITIVENESS: A LITERATURE REVIEW

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**Abstract:** *The aim of this working progress paper is to present a literature review of models that measuring international competitiveness. The first attempts to define and to measure the international competitiveness has began in the 60` by integration of basic-factors into models and continues with the composite indicators or indexes. From the various models for measuring international competitiveness in this paper are presented only four developed by different organization, such as: World Economic Forum, Organization for Economic Co-operation and Development, European Commission and Institute of Management Development.*

**Key words:** international competitiveness, models, global competitiveness index, revealed comparative advantage, world competitiveness scoreboard

**JEL classification:** F00, O10

### 1. Introduction

In the literature the concept of international competitiveness is characterized by a various factors and determinants.

What a theory of international competitiveness must do is "to establish the links between the growth and balance-of-payments position of an open economy and factors influencing this process" (Fagerberg 1988). But that was available in the 90.

Today the notion of competitiveness has become a prominent concept in the assessment of countries, regions and locations. The competitive advantage of nations and the competitiveness of locations have become important topics in economic policy (Aiginger 2006). He defines competitiveness as "the ability to create welfare".

According to Krugman (1996) the concept of competitiveness is "elusive or meaningless when applied to national economies; for economies with little international trade, competitiveness is a specifically maintained to be a funny way of saying productivity". Other author consider that international competitiveness is said to occur whenever the economic welfare of a nation is advanced through an increase in the flow of trade or through an alteration in the conditions of trade starting from a presumed initial equilibrium (Coldwell 2000).

Marsh and Tokarick (1996) emphasized that the international competitiveness of an economy is based on real exchange rate indicators using consumer prices, export unit value, unit labor costs.

According to the well knows Porter's diamond model (1990) the determinants of national competitive advantage are:

- (1) Factor conditions, broken down into basic factor conditions and advanced factor conditions;
- (2) Demand conditions, such as the degree of sophistication of buyers, market size and so on;
- (3) The role of related and supporting industries through coordination and sharing activities in the value chain in promoting competitiveness; and
- (4) Firms' strategy, structure, and rivalry, such as the ways in which they are managed and choose to compete.

Change and government are also two external variables that interact in the "diamond" of competitive advantage. The nature of a country's international competitiveness depends upon the type and quality of these interactions. The four determinants for a nation shape the environment in which local firms compete and promote or impede the creation of competitive conditions (Liu and Hsu 2009).

From Siggel (2006) point of view "countries may compete for market share or for foreign investment, but the attribute of stability, good government and profitable investment opportunities, are better summarized as a favorable business climate than competitiveness". He has made a survey in order to compare different way to measure international competitiveness taking into consideration the concept and their characteristics (see Table 1.).

**Table 1: Concepts and indicators of competitiveness**

Proposing author or organization	Measurement criterion or indicator
Lipschitz and McDOnals (1991)	Real exchange rate, real effective exchange rate
Marsh and Tokarick (1994), IMF	Real exchange rate, real effective exchange rate
Hatsopoulos et al. (1988)	Trade balance with rising real income
Markusen (1992)	Real income growth with free balanced trade
Dollar and Wolff (1993)	Productivity
Fagerberg (1988)	Market share increase
Sharpe (1985)	Market share
WEF (1995)	Global Competitiveness Index
IMD (1995)	World Competitiveness Scoreboard
Durand and Giorno (1987), OCDE	Price competitiveness
Aiginger (1998), Pitelis (2003)	Price competitiveness, unit cost
Porter (1990)	Diamond model
Siggel and Cockburn (1995)	Full unit cost
Krugman and Hatsopoulos (1987)	Market share, change
Balassa (1965)	Revealed comparative advantage
Bruno (1965)	Domestic resource cost

Source: Adapted after Siggel (2006).

From the various models that measure international competitiveness in this paper are presented four of them, which we consider as most representative:

- (1) the model developed by World Economic Forum;
- (2) the model developed by European Commission;
- (3) the model proposed by OECD;
- (4) the model proposed by Institute for Management Development.

## 2. The model developed by World Economic Forum – Global Competitiveness Index (GCI)

“Since 2005, the World Economic Forum has based its competitiveness analysis on the Global Competitiveness Index (GCI), a highly comprehensive index, which captures the microeconomic and macroeconomic foundations of national competitiveness. We define competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country. The level of productivity, in turn, sets the sustainable level of prosperity that can be earned by an economy.” (Sala-I-Martin et al. 2009).

Given the complexity of the concept and of its consequences, it is obvious that the determinants of the international competitiveness of an economy are very heterogeneous – in time and in space; in order to accurately identify, evaluate and measure the dynamics of competitiveness – in volume, as well as in structure. WEF identified and developed (within the Global Competitiveness Report that it prepares each year) 12 pillars of competitiveness. These pillars are described below:

(1) *Institutions*. The institutional environment is determined by the legal and administrative framework within which individuals, firms, and governments interact to generate income and wealth in the economy.

(2) *Infrastructure*. Extensive and efficient infrastructure is critical for ensuring the effective functioning of the economy, as it is an important factor determining the location of economic activity and the kinds of activities or sectors that can develop in a particular economy.

(3) *Macroeconomic stability*. The stability of the macroeconomic environment is important for business and, therefore, is important for the overall competitiveness of a country.

(4) *Health and primary education*. A healthy workforce is vital to a country’s competitiveness and productivity. Workers who are ill cannot function to their potential and will be less productive. Poor health leads to significant costs to business, as sick workers are often absent or operate at lower levels of efficiency.

(5) *Higher education and training*. Quality higher education and training is crucial for economies that want to move up the value chain beyond simple production processes and products.

(6) *Goods market efficiency*. Countries with efficient goods markets are well positioned to produce the right mix of products and services given their particular supply-and-demand conditions, as well as to ensure that these goods can be most effectively traded in the economy.

(7) *Labor market efficiency*. The efficiency and flexibility of the labor market are critical for ensuring that workers are allocated to their most efficient use in the economy and provided with incentives to give their best effort in their jobs.

(8) *Financial market sophistication.* The recent financial crisis has highlighted the central role of a sound and well-functioning financial sector for economic activities.

(9) *Technological readiness.* In today’s globalized world, technology has increasingly become an important element for firms to compete and prosper.

(10) *Market size.* The size of the market affects productivity since large markets allow firms to exploit economies of scale. Traditionally, the markets available to firms have been constrained by national borders. In the era of globalization, international markets have become a substitute for domestic markets, especially for small countries.

(11) *Business sophistication.* Business sophistication is conducive to higher efficiency in the production of goods and services. This leads, in turn, to increased productivity, thus enhancing a nation’s competitiveness. Business sophistication concerns the quality of a country’s overall business networks as well as the quality of individual firms’ operations and strategies.

(12) *Innovation.* The final pillar of competitiveness is technological innovation. Although substantial gains can be obtained by improving institutions, building infrastructure, reducing macroeconomic instability, or improving human capital, all these factors eventually seem to run into diminishing returns.

### 3. The model developed by European Commission

Competitiveness “refers to the overall economic performance of a nation measured in terms of its ability to provide its citizens with growing living standards on a sustainable basis and broad access to jobs for those willing to work. In short, competitiveness refers to the institutional and policy arrangements that create the conditions under which productivity can grow sustainable (productivity growth is the only source of sustained income growth, in turn the backbone of growing living standards). When applied to international trade, however, competitiveness, or external competitiveness, may convey a different more specific meaning. Unless otherwise stated, in this chapter external competitiveness refers to the ability to export goods and services in order to afford imports, and hence it will be summarized by world market shares (the share of exports in total exports).” (see European Competitiveness Report 2010).

According to European Competitiveness Report (2010) a way to measure international competitiveness is **revealed comparative advantages (RCA)**. This index was first developed by Balassa (1965).

$$RCA_j^c = \ln \frac{X_j^c / \sum_k X_j^k}{\sum_n X_n^c / \sum_{k,n} X_n^k} - \ln \frac{M_j^c / \sum_k M_j^k}{\sum_n M_n^c / \sum_{k,n} M_n^k} \tag{1}$$

Where,

- $X$  and  $M$  denotes exports and imports
- $j$  denotes an index for the product category under consideration
- $c$  is an index for country.

The first term denotes the relative export advantage, and the second term denotes the relative import advantage. The index ranges from minus infinity to plus infinity and is symmetric around zero. A positive value reveals a comparative advantage. One accounts for double counting by excluding the respective country in the aggregates over countries and the particular product categories in the product aggregates.

### 4. The model proposed by OECD

The model proposed by OECD for measuring international competitiveness is based on the export unit values of manufactures, unit labor costs in manufacturing and consumer price indices. According to Durand and Giorno (1990) “the concept of international competitiveness is often used in analyzing countries’ macroeconomic performance”. The relevant indicators for the model are: import-competitiveness; export-competitiveness, overall export-competitiveness, and overall trade-competitiveness. Each indicator has some specific characteristic like type of weighting, market on which competitiveness is determined, competitors (see Table 2.).

**Table 2: Definition and field of application of the various measures of competitiveness**

Competitiveness	Type of weighting	Markets on which competitiveness is determined	Competitors on these markets	Comments
Import-competitiveness in		The home market of country <sub>j</sub>	All exporters to market <sub>j</sub>	

the INTERLINK model					
Overall export-competitiveness	Double weighting	Export markets k of country i	All exporters and domestic producers		
Overall import and export competitiveness	Double weighting	All export markets and the domestic market of country i	All exporters and domestic producers on each market		
Export-competitiveness strictly defined in the INTERLINK model	Double weighting	Export market k of country i	All exporters to markets k	Imports are assumed to be predetermined	
Export-competitiveness	Single multilateral export weighting	The world market	All exporters to the world market	No account is taken of individual country export patterns	
Export-competitiveness	Single bilateral export weighting	Export market k of country i	Domestic producers on each market k	No account is taken of competition among countries on third markets	
Overall trade-competitiveness	MERM type	All export and home markets of country i	All exporters and domestic producers on each market	Obtained by means of exogenous shocks using a multinational model	

Source: Durand and Giorno (1990)

### 5. The model proposed by Institute for Management Development

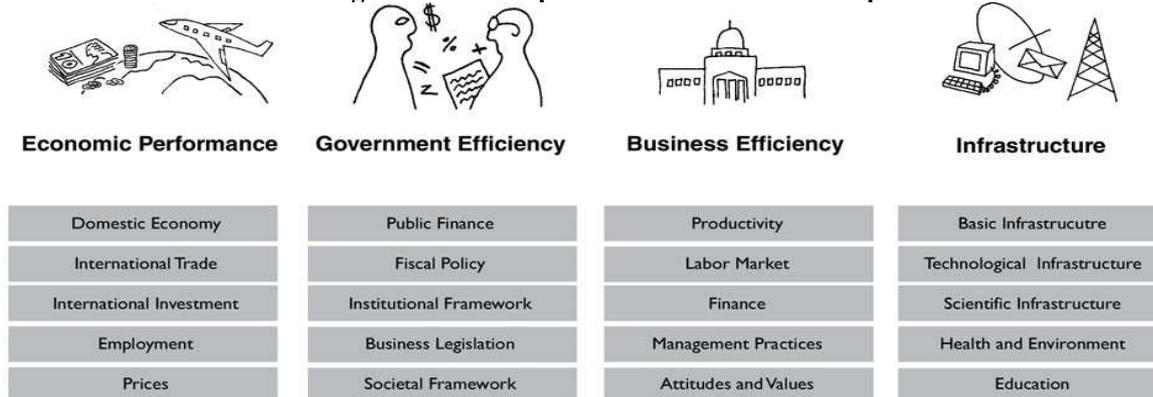
The ability of nations to create and maintain an environment in which enterprises can compete represents form The World Competitiveness Yearbook (WCY) point of view a possible way to measure international competitiveness.

In order to measure international competitiveness of an economy the methodology of the WCY divides the national environment into four main factors:

- Economic Performance
- Government Efficiency
- Business Efficiency
- Infrastructure

These factors have 20 sub-factors that are presented in the figure below.

Figure 1: The components of international competitiveness



Source:

World Competitiveness Yearbook, Institute for Management Development, available at [http://www.imd.org/research/centers/wcc/research\\_methodology.cfm](http://www.imd.org/research/centers/wcc/research_methodology.cfm)

The most of the 20 sub-factor are very much the same with the sub-index of the 12 pillar identify by WEF. The World Competitiveness Scoreboard for 2010 ranks only 58 economies while the Global Competitiveness Report 2010-2011 ranks 139 economies.

### 6. Conclusion

Economists have concentrated substantial theoretical and statistical efforts to understanding and modeling the process of international competitiveness. The first attempts for the definition of international competitiveness, in 1965, were made by Bruno and Balassa with basic-factors approaches. After 20 years, starting with 1985, specialists like Sharpe, Fagerber, Krugman and Hatsopoulos redefine the concept of international competitiveness in accordance with the new challenges of globalization as markets development and obsession for market share increasing. At the end of the last century, some organization (WEF and IMD) elaborate composites indicators in order to measure international competitiveness.

In conclusion, the models of measuring international competitiveness are very important but the results are in most cases the same. Between all rankings that analyzes international competitiveness exists a very strong correlation. In generally, it can be observed very small differences, only a few positions plus or minus. Taking into consideration the fact that all macroeconomic indicators from the international competitiveness models are interconnected this situation is a normal one.

### Acknowledgement

This work was supported by the project "Post-Doctoral Studies in Economics: training program for elite researchers - SPODE" co-funded from the European Social Fund through the Development of Human Resources Operational Programme 2007-2013, contract no. POSDRU/89/1.5/S/61755.

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## APPLICATION OF MATHEMATICAL PROGRAMMING ON THE ROMANIAN AGRO-FOOD ECONOMY: CEREAL PRICE ANALYSIS

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**Abstract:** In this paper, mathematical programming is used to elaborate a study on the evolution of prices. A regression method (Minmad) is presented and discussed, and then it's applied to shape an image of the variation of grain price on a regional market in Romania. Also, the results are compared with those obtained by the classical method of least squares.

**Key words:** mathematical programming, regression, minmad method, OLS.

**JEL classification:** C02, C44, C51.

### 1. Introduction

Mathematical programming is one of the instruments commonly used in Economics. One of the branches where the results are of great theoretical and practical interest is the agro-food economy (Hazell and Norton, 1986; Kaiser and Messer, 2011). In this paper, we use a linear regression method, which is called Minmad (Arthanary and Dodge, 1980) to realize an analysis of the evolution of grain prices on a major Romanian market. The final result is presented under the form of a mathematical relationship. This one allows not only to analyse but also to make projections of future price variations. The work is divided into two main parts: the first is dedicated to the presentation of the theory and the second deals with a numerical application.

### 2. Theoretical considerations

Consider the statistical variables  $X$  (which is the independent variable) and  $Y$  (the dependent variable), for which there are values  $(X_i, Y_i)$ ,  $i = \overline{1, n}$ . Linear regression involves establishing an equation of the type:

$$Y = a + bX + e \quad (1)$$

where  $e$  is the error term (or deviation). The purpose is to find the real parameters  $a, b$ . There are different approaches in literature. Some of them are: least squares (LS) (Wolberg, 2005), total least squares (TLS) (Markovsky and Van Huffel, 2007), minimizing mean absolute deviations (Minmad), or minimizing maximum of absolute deviations (Minmaxad). In this section we present and explain the Minmad method. In the next lines we will make a presentation summarizing the method somewhat. A complete study of this and some interesting variants are made by Arthanary and Dodge (1980). For each  $i = \overline{1, n}$ , the relation (1) becomes:

$$Y_i = a + bX_i + e_i \quad (2)$$

Because

$$e_i = Y_i - a - bX_i \quad (3)$$

we can write (in the absolute value):

$$|e_i| = |Y_i - a - bX_i| \quad (4)$$

By definition, the Minmad method consists in minimizing the sum:  $\frac{1}{n} \sum_{i=1}^n |e_i|$  (5).

An equivalent formulation is:  $\min_{a, b \in \mathbf{R}} \frac{1}{n} \sum_{i=1}^n |Y_i - a - bX_i|$  (6).

We can ignore the number of observations (which is predetermined and equal to  $n$ ) and we get the relation:

$$\min_{a,b \in \mathbf{R}} \sum_{i=1}^n |Y_i - a - bX_i| \quad (7)$$

The point called centroid plays an important role in the regression analysis. It can be written in the form  $C(X_c, Y_c)$ , where:

$$X_c = \frac{1}{n} \sum_{i=1}^n X_i \quad (8)$$

And

$$Y_c = \frac{1}{n} \sum_{i=1}^n Y_i \quad (9)$$

The solution of the Minmad is simplified if we require additional feature of regression line that contain a particular point. In literature are treated both variants, with and without the additional restriction. Be noted that the centroid is contained in the regression lines obtained by using methods LS and TLS (De Groen, 1996; Petras and Podlubny, 2007; Iacob et al., 2010). It's actually an average of coordinates of the known points. Is therefore a natural choice as the fixed point through which pass Minmad regression line coincide with the centroid. Next step is to make the substitutions:

$$x_i = X_i - X_c \quad (10)$$

$$y_i = Y_i - Y_c \quad (11)$$

Thus,

$$X_i = x_i + X_c \quad (12)$$

$$Y_i = y_i + Y_c \quad (13)$$

More, we have:

$$Y_i - a - bX_i = (y_i + Y_c) - a - b(x_i + X_c) = (y_i - bx_i) + (Y_c - a - bX_c) \quad (14)$$

Relation (6) with the condition that  $C(X_c, Y_c)$  belongs to the regression line lead to the model with restrictions:

$$\min_{a,b} \sum_{i=1}^n |Y_i - a - bX_i| \quad (15)$$

$$\text{s.t.} \begin{cases} Y_c = a + bX_c \\ a, b \in \mathbf{R} \end{cases}$$

Using (14) we find that (15) is equivalent to:

$$\min_{b \in \mathbf{R}} \sum_{i=1}^n |y_i - bx_i| \quad (16)$$

We denote:

$$g(b) = \sum_{i=1}^n |y_i - bx_i| \quad (17)$$

In the next lines we present some fundamental properties of the  $g$  function.

The graph of  $g(b)$  is piecewise linear and convex. It's composed of a finite set of straight lines.

On the other hand, if  $d_1, d_2, \dots, d_{n+1}$  are, in order, the lines which compose the entire quasi-polygonal graphic, then:

$$d_1 = \alpha_1 + b\beta_1 = \alpha_1 + b \left( - \sum_{i=1}^n |x_i| \right) \quad (18)$$

$$d_{k+1} = \alpha_{k+1} + b\beta_{k+1} = \alpha_{k+1} + b(\beta_k + 2|\gamma_{k+1}|), \text{ for all } k = \overline{1, n-1} \quad (19)$$

$$d_{n+1} = \alpha_{n+1} + b\beta_{n+1} = \alpha_{n+1} + b \sum_{i=1}^n |x_i|. \quad (20)$$

The set of grid points of  $g$  coincides with:

$$G = \left\{ \frac{y_1}{x_1}, \frac{y_2}{x_2}, \dots, \frac{y_n}{x_n} \right\} \quad (21)$$

The previous set, as presented in the form (21), has not necessarily the elements arranged in ascending order, but  $G$  must be rearranged as follows:

$$G = \left\{ \frac{y_1}{x_1}, \frac{y_2}{x_2}, \dots, \frac{y_n}{x_n} \right\} = \left\{ \frac{y_{i_s}}{x_{i_s}} < \dots < \frac{y_{i_n}}{x_{i_n}} \right\}, \text{ where } \gamma_{k+1} = x_{i_k} \quad (22)$$

The grid point which makes the transition from a line with a negative slope to a line with a positive slope is uniquely determined and gives the solution to the problem. This particular point is of the form  $x_{i_s}^{-1} y_{i_s}$ , where:

$$\beta_s < 0, \beta_s + 2|\gamma_{s+1}| > 0 \quad (23)$$

Finally, the regression line is determined as:

$$Y = a^* + b^* X \quad (24)$$

Where

$$b^* = \frac{y_{i_s}}{x_{i_s}} \text{ and } a^* = Y_c - X_c b^* \quad (25)$$

### 3. Numerical application

In this section we apply Minmad regression to study the evolution of wheat price (expressed in euro/ton, according to the Romanian Ministry of Agriculture and Rural Development) on Muntenia market. Initial data,  $(X_i, Y_i)$ , are collected over a period that includes the first ten weeks in 2010, as in Table 1.

**Table 1: Wheat price on Muntenia market**

Week	Price
1	129.06
2	124.79
3	132.99
4	128.82
5	128.12
6	132.72
7	128.51
8	141.56
9	130.67
10	124.90

The centroid coordinates can be computed as follows:

$$X_c = \frac{1}{10} \sum_{i=1}^{10} X_i = 5.5 \quad (26)$$

$$Y_c = \frac{1}{10} \sum_{i=1}^{10} Y_i = 130.21 \quad (27)$$

The next steps of the method are presented in Table 2.

**Table 2: Preliminary calculations**

$X_i$	$Y_i$	$x_i$	$y_i$	$x_i^{-1} y_i$	Index $k$ from $i_k$ (after rearranging $G$ )
1	129.06	-4.5	-1.15	0.25555	5
2	124.79	-3.5	-5.42	1.5485	7
3	132.99	-2.5	2.78	-1.112	3
4	128.82	-1.5	-1.39	0.92667	6
5	128.12	-0.5	-2.09	4.18	8
6	132.72	0.5	2.51	5.02	10
7	128.51	1.5	-1.7	-1.1333	2
8	141.56	2.5	11.35	4.54	9
9	130.67	3.5	0.46	0.13143	4
10	124.90	4.5	-5.31	-1.18	1

Note that the previous calculations lead to  $\sum_{i=1}^n |x_i| = 25$ , that is  $\beta_1 = -25$  and  $\beta_{11} = 25$ . According to (22) and (23), we must calculate the successive slopes obtained on the graph of  $g$ , as in Table 3.

**Table 3: Calculation of the component slopes**

Line	Slope
$d_1$	-25
$d_2$	$-25+9=-16$
$d_3$	$-16+3=-13$
$d_4$	$-13+5=-8$
$d_5$	$-8+7=-1$
$d_6$	$-1+9=8$

We can conclude that  $b^* = 0.25555$  and we obtain the partial result:  
 $Y = a + 0.25555X$  (28)

Taking into account the constraint from (15), we obtain  $a^* = 128.8$ . Thus the Minmad regression line is:

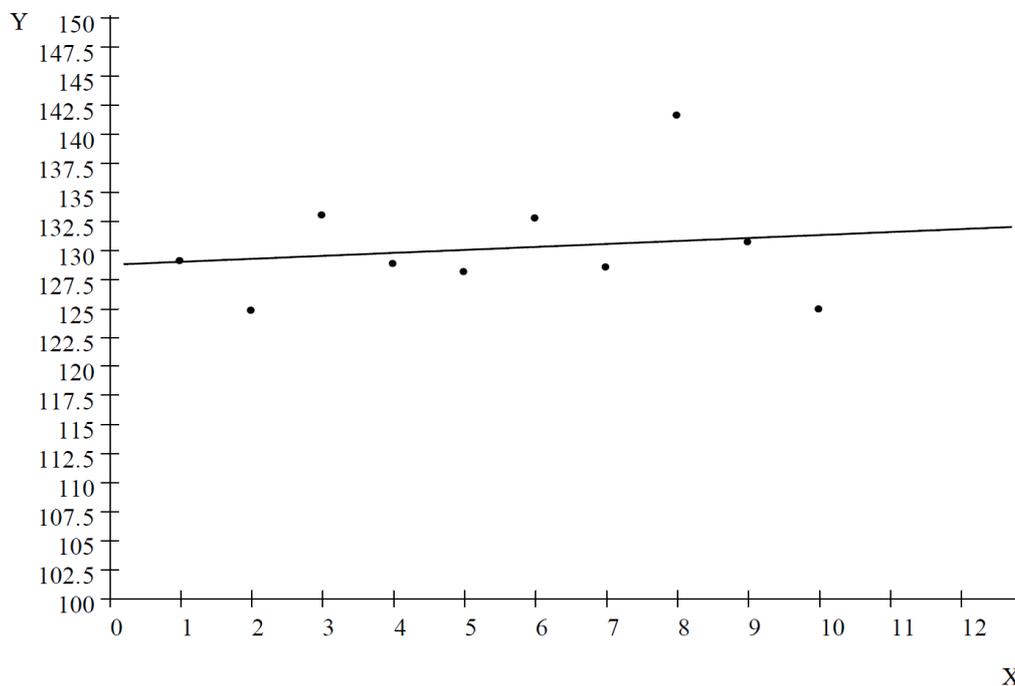
$$Y = 128.8 + 0.25555X \text{ (29)}$$

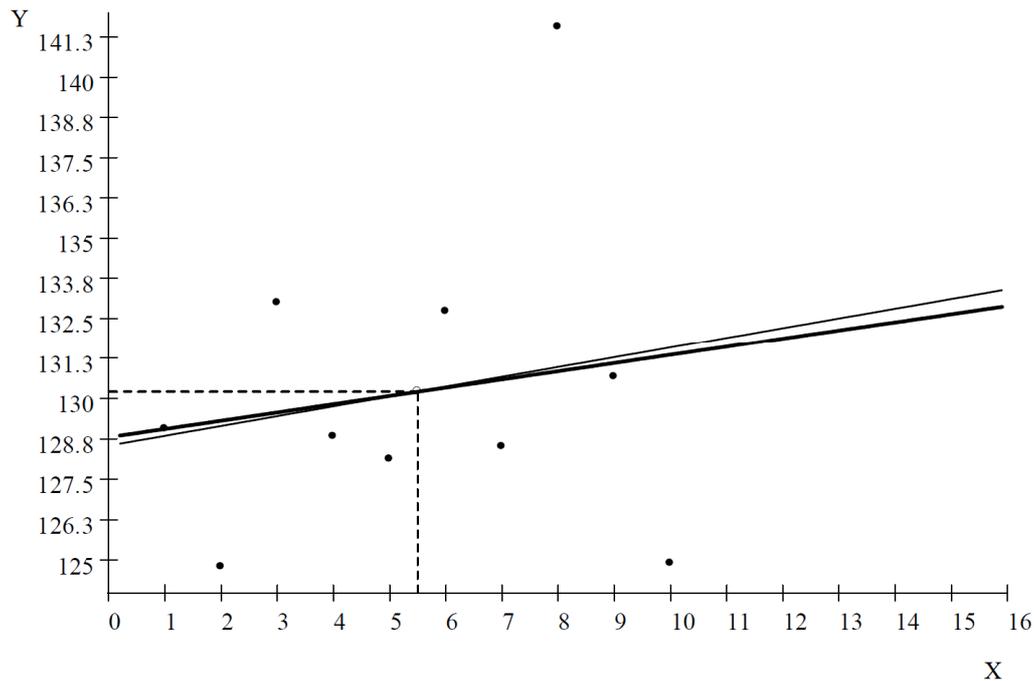
For comparison, the equation obtained by applying least squares algorithm is:

$$Y = 128.54 + 0.30448X \text{ (30)}$$

The latest results, (29) and (30), are highlighted in Figures 2 and 3.

**Figure 1: The Minmad fitting line**



**Figure 2: Comparison between Minmad (thick line) and LS (thin line)**

#### 4. Conclusions

In this work, we have presented a regression method, which is a viable alternative to the classical approach of least squares (LS). It was applied in a numerical application. Also, the results were compared with those obtained by using LS algorithm.

#### 5. Acknowledgements

*This work was supported by CNCSIS – UEFISCDI, project number PNII – IDEI code 1793/2008, financing contract no. 862/2009.*

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## STRATEGIC APPROACH OF CORPORATE SOCIAL RESPONSIBILITY KEY-DRIVERS FOR INCREASING COMPETITIVENESS AT THE EUROPEAN LEVEL

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**Abstract:** *The aim of the paper is to analyse how CSR pillars, strategically approached, can contribute to the operational competitiveness of the responsible European companies. The research goals emphasize the identification of main domains or pillars of CSR, the setting of the links between CSR and competitiveness, the analysis of CSR key-drivers in Europe, in general, and in Romania, in particular, the proposal of a set of recommendations and conclusions in order to consolidate the competitiveness of the responsible companies. The expected and achieved results reaffirm the link between strategic CSR and competitiveness and offer a general framework for increasing them.*

**Key words:** corporate social responsibility (CSR), competitiveness, stakeholders, business strategy

**JEL classification:** M14, L22.

### 1. Introduction

In recent years, corporate social responsibility (CSR) has significantly increased its importance in theoretical and practical terms and more and more companies acting on local, regional or global level have developed policies and business strategies based on CSR. While there is a never-ending debate on the reasons that should guide corporate involvement in CSR, the pragmatic approach becomes even more obvious in the context of the economic and financial crisis.

Empirical and practical evidence had showed that CSR can contribute to a number of economic, social and environmental objectives for the responsible company and for the community it is acting on, confirming the bidirectional relationship between corporate financial and social performance. Following this argumentation line, CSR should be strategically connected with the operational business objectives of the companies in order to consolidate the competitiveness at the level of individual companies. In the European Competitiveness Report 2008, it is stated that CSR is becoming a competitive necessity for an increasing number of companies in a growing number of industries or, other way put it, strategic CSR is something that the companies cannot afford not to do anymore if they want to gain a unique competitive advantage compared to their competitors.

### 2. Definition and Main Domains of CSR

There is no general consensus regarding the definition of CSR in the specialized literature, but considering the specific purposes of the present study the most appropriate one was offered by the European Multistakeholder Forum on CSR in 2004 (p. 3): "CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis". The most important premises for putting CSR into practice are the following:

- CSR is *the voluntary integration* of environmental and social considerations into business operations, over and above legal requirements and contractual obligations. CSR is about going beyond these, not replacing or avoiding them.
- CSR is driven forward essentially by *the commitment of corporate management*.
  - CSR is about the core business activities of a company, and an approach which integrates environmental and social considerations and is based on dialogue with stakeholders is likely to contribute to *the long-term sustainability of business in society*.
  - CSR is one mean amongst many for achieving *the economic, social and environmental progress*, and for integrating these concerns into business practice.
  - CSR practices and tools are developed and added value by *the dialogue with relevant stakeholders*.

- CSR is *the complementary approach for ensuring high environmental and social performance* besides the governmental one: there are limits to CSR and it should not be used to shift public responsibilities to companies.

- CSR is *an ongoing learning process for companies and stakeholders*. Companies need to consider their approach carefully and choose tools which suit their needs and respond well to stakeholders' changing expectations. In order to implement successful CSR, companies should search for flexibility, innovation and refinement of their responsible practices.

- CSR practices and tools can converge by applying *voluntary bottom-up and multi-stakeholder approaches and other drivers*, and this can achieve quality and a good balance between comparability, consistency and flexibility.

- CSR can bring benefits for responsible companies because of their *transparent and meaningful communication policy*. A company's response to the transparency challenge will depend on its activities, capacity and the needs of its stakeholders, which may be difficult to reconcile.

- CSR is about taking also into account *the environmental, social and economic impacts of a company's activities up and down its supply chain*.

- When operating in developing countries and/or in situations of weak governance, companies need to take into account *the different contexts and challenges*, including poverty, conflicts, and environment and health issues (EMF on CSR, 2004, p. 3-4).

In a recent paper of the Research Institute for Managing Sustainability (RIMAS), Martinuzzi, Gisch-Boie and Wiman (2010, p. 16) emphasize that CSR can include economic issues, social issues, environmental issues or a combination of these three pillars. The overview presented in the table below (Table 1: CSR Pillars) includes the wide range of topics covered by the term "CSR" and is derived from key subjects covered in most commonly applied CSR guidance documents, e.g. OECD Guidelines for Multinational Enterprises, Global Reporting Initiative (GRI), UN Global Compact, ISO 26000, SA 8000, UN Human Rights Norms for Business, ILO Declarations, and the like.

**Table 1: CSR Pillars**

CSR – Economic topics	CSR – Environmental topics
<ul style="list-style-type: none"> <li>• Pursue sound corporate governance practices</li> <li>• Ensure transparency through economic, social &amp; environmental reporting</li> <li>• Engage in fair competition</li> <li>• Foster innovation</li> <li>• Combat bribery &amp; corruption</li> <li>• Employ socially responsible investments (SRI)</li> <li>• Protect intellectual property rights</li> <li>• Offer safe and high-quality products/services</li> <li>• Foster sustainable consumption &amp; production</li> <li>• Implement sound risk management systems.</li> </ul>	<ul style="list-style-type: none"> <li>• Support the protection of air and water, land biodiversity</li> <li>• Minimize the amount of toxic substances, emissions, sewage and waste</li> <li>• Conserve natural resources, apply renewable energy &amp; avoid the usage of raw materials</li> <li>• Engage in climate protection</li> <li>• Boost innovation for improvement in efficiency</li> <li>• Consider the whole product life-cycle and facilitate reusability &amp; recyclability of products.</li> </ul>
CSR – Social topics (S)	CSR – Global topics (G)
<ul style="list-style-type: none"> <li>• Engage in fair and efficient human resource management (HRM)</li> <li>• Guarantee safety, occupational health &amp; security</li> <li>• Respect freedom of association</li> <li>• Abandon discrimination &amp; encourage diversity</li> <li>• Respect consumers' interests.</li> </ul>	<ul style="list-style-type: none"> <li>• Raise stakeholders' awareness for social &amp; environmental topics</li> <li>• Practice sound stakeholder management</li> <li>• Facilitate sustainable supply chains</li> <li>• Respect human rights</li> <li>• Engage in poverty reduction</li> <li>• Involve in the development of public policies.</li> </ul>

Source: Martinuzzi, Gisch-Boie and Wiman (2010, p. 16).

### 3. Links between CSR and Competitiveness

Generally, it is assumed that CSR increases competitiveness at the level of individual companies (also called "corporate level" as opposed to "sector level" or "macroeconomic level"). In its 2008 report regarding competitiveness, the European Commission considers the economic effects of CSR on six determinants and indicators of competitiveness where CSR is most likely to have a positive influence: a) cost structure; b) human resources; c) customer perspective; d) innovation; e) risk and reputation management; and f) financial performance (European Commission, 2008, p. 106).

A comprehensive literature review (presented in Martinuzzi, Gisch-Boie and Wiman, 2010, p. 17) has shown the competitive advantages of CSR on a corporate level. The so-called "business case for CSR"

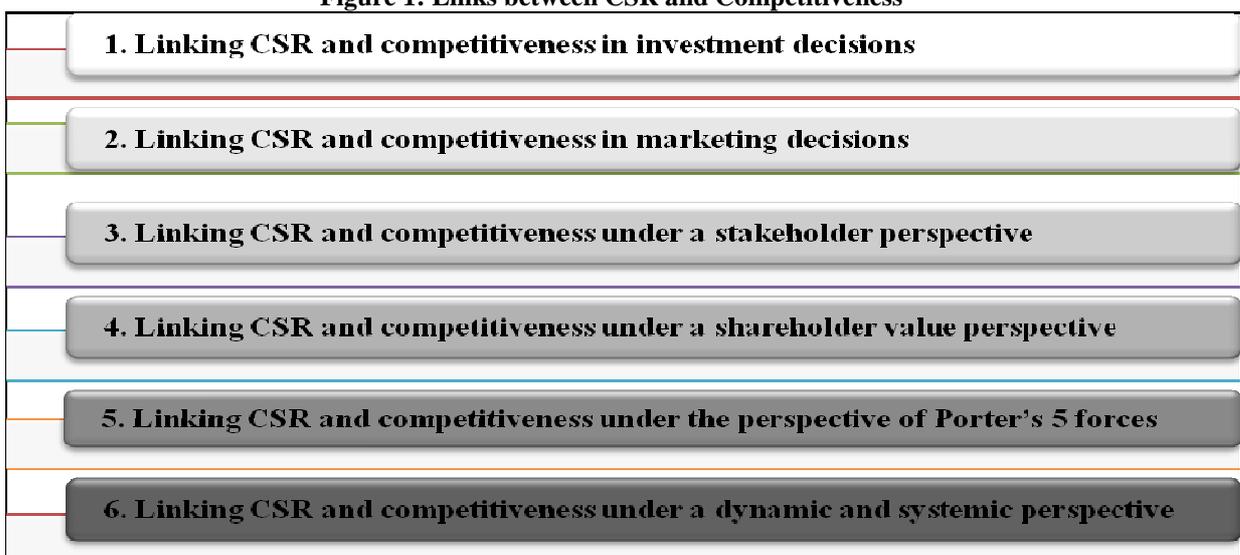
discusses added value companies might gain through responsible behaviour. On one hand, companies view the possibility of furthering their economic success, for example, through added shareholder value, enhanced market share, reputation and image gains, increased customer loyalty and trust, staff motivation and retention, increased share prices. On the other hand, the business case perceives CSR engagement as a source of opportunity, innovation and competitive advantage, as a focus on societal issues and interaction with external stakeholders leads to the development of new products, services and business models. Competitive differentiation is among the core drivers of responsible competitiveness at the company level. Companies need to align CSR with their operations in a way that allows them to operate in a cost-efficient and competitive manner in order to secure their position in the face of augmented global competition. Positive impact of CSR seems to be particularly evident with regards to human resources, risk and reputation management and innovation.

In brief, the CSR competitive advantages for responsible companies are at least the following:

- Obtaining a social operational licence from the main stakeholders of the company, not just from the shareholders
- Harmonizing business practices with the expectations of all the stakeholders
- Increasing efficiency and cost reduction
  - Achieving sustainable competitiveness: improving corporate image, reputation and brand; increasing buyer’s loyalty with respect to the seller; increasing the efficiency of sales, productivity and quality; improving financial performances
- Creating new business opportunities and winning a comparative advantage
- Differentiating from competitors and achieving production or commercialization brand loyalty
- Increasing possibilities of recruiting and retaining high quality employees
  - Attracting and retaining high quality investors and business partners: increasing the shareholders’ value; reducing the volatility of the shares; decreasing the cost of the capital; obtaining good access to socially responsible investment funds; reducing risks by adopting the best practices of the business partners
- Cooperating with local communities
  - Avoiding crises due to CSR deviations and better managing operational and commercial risks
- Obtaining governmental support and avoiding stricter governmental regulations
- Building political capital (Iamandi, 2010).

Martinuzzi, Gisch-Boie and Wiman (2010, pp. 70-76) identified and clarified the different causal relations between CSR and competitiveness, emphasizing six different types of links between the two concepts and drawing relevant conclusions for CSR policies on national and European level (see Figure 1: Links between CSR and Competitiveness).

**Figure 1: Links between CSR and Competitiveness**



Source: Author’s adaptation and graphical representation using Martinuzzi, Gisch-Boie and Wiman (2010, pp. 70-76) information.

**4. Analysis of Key-Drivers of CSR in Europe**

CSR Europe, the leading European business network for CSR, published in October 2010 a revised edition of “A Guide to CSR in Europe: Country Insights by CSR Europe’s National Partner Organisations” in order to provide a brief overview of the current state of CSR and key trends in different European countries, focusing on CSR policies and legislation, key drivers of CSR, main organisational actors, and recent developments in various thematic areas (CSR Europe, 2010, p. 2). A synthesis of the Key-Drivers of CSR in the European Countries is presented in Table 2, taking into account the main domains of CSR implication. Because CSR Europe is formed by 70 multinational member companies and 27 national partner organisations in 23 European countries, not all the countries of the European Union are presented in the following table (some of them are missing: Denmark, Latvia, Cyprus, Estonia, Lithuania, Malta, Slovenia, Bulgaria and Romania), meanwhile part of the countries presented are not EU members (Croatia, Norway, Serbia, Switzerland and Turkey).

**Table 2: Key-Drivers of CSR in the European Countries**

<b>1. Austria (AT)</b>	<b>2. Belgium (BE)</b>	<b>3. Croatia (CR)</b>
<ul style="list-style-type: none"> <li>Eco-efficiency</li> <li>Sustainable consumption</li> <li>Sustainability measures (ex.: reduction of wastage or efficient use of resources).</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable development</li> <li>Non-discrimination</li> <li>Public procurement</li> <li>International investment</li> <li>Socially responsible investments</li> <li>Dissemination of best practices</li> <li>Fair trade</li> <li>Stakeholders’ dialogue</li> <li>Transparency</li> <li>Reporting.</li> </ul>	<ul style="list-style-type: none"> <li>Environmental protection</li> <li>Strong environmental regulation system</li> <li>Labour and human rights</li> <li>Employees’ satisfaction and education.</li> </ul>
<b>4. Czech Republic (CZ)</b>	<b>5. Finland (FI)</b>	<b>6. France (FR)</b>
<ul style="list-style-type: none"> <li>Environmental protection</li> <li>Stakeholders’ well-being</li> <li>Corporate philanthropy.</li> </ul>	<ul style="list-style-type: none"> <li>Environment and climate change</li> <li>Fair employment practices</li> <li>Ethical consumption.</li> </ul>	<ul style="list-style-type: none"> <li>Growing stakeholder expectations</li> <li>New standard ISO 26 000</li> <li>Socially responsible investments (SRI).</li> </ul>
<b>7. Germany (DE)</b>	<b>8. Greece (GR)</b>	<b>9. Hungary (HU)</b>
<ul style="list-style-type: none"> <li>Ecological issues</li> <li>Social issues.</li> </ul>	<ul style="list-style-type: none"> <li>Environmental protection.</li> </ul>	<ul style="list-style-type: none"> <li>Environmental protection</li> <li>Reporting</li> <li>Accountability</li> <li>Transparency</li> <li>Equality and social cohesion</li> <li>Sustainable purchasing.</li> </ul>
<b>10. Republic of Ireland (IR)</b>	<b>11. Italy (IT)</b>	<b>12. Luxembourg (LU)</b>
<ul style="list-style-type: none"> <li>Community investment</li> <li>Employees’ engagement</li> <li>Climate change</li> <li>Sustainable procurement.</li> </ul>	<ul style="list-style-type: none"> <li>Climate change</li> <li>Safety in the workplace</li> <li>Employees’ problems.</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable development</li> <li>Environmental protection</li> <li>Equal opportunities.</li> </ul>
<b>13. Netherlands (NL)</b>	<b>14. Norway (NW)</b>	<b>15. Poland (PL)</b>
<ul style="list-style-type: none"> <li>Social issues</li> <li>Water and climate change</li> <li>Biodiversity</li> <li>Demographic change</li> <li>Social cohesion</li> <li>Use of natural resources</li> <li>Supply chain responsibility</li> <li>Sustainable purchasing</li> <li>Sustainable building and agriculture</li> <li>Technological innovation</li> <li>Labour force participation</li> <li>Certification procedures.</li> </ul>	<ul style="list-style-type: none"> <li>Responsible investments</li> <li>Engagement in social problems abroad</li> <li>Public procurement</li> <li>Environmental qualifications</li> <li>Sustainable business community.</li> </ul>	<ul style="list-style-type: none"> <li>Eco-efficiency</li> <li>Sustainable development</li> <li>Compliance with existing laws and regulations.</li> </ul>
<b>16. Portugal (PT)</b>	<b>17. Scotland (SC)</b>	<b>18. Serbia (SB)</b>
<ul style="list-style-type: none"> <li>Fighting exclusion and poverty</li> <li>Corporate community involvement</li> <li>Environmental protection.</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable business practices.</li> </ul>	<ul style="list-style-type: none"> <li>Fighting poverty and unemployment</li> <li>Environmental protection.</li> </ul>

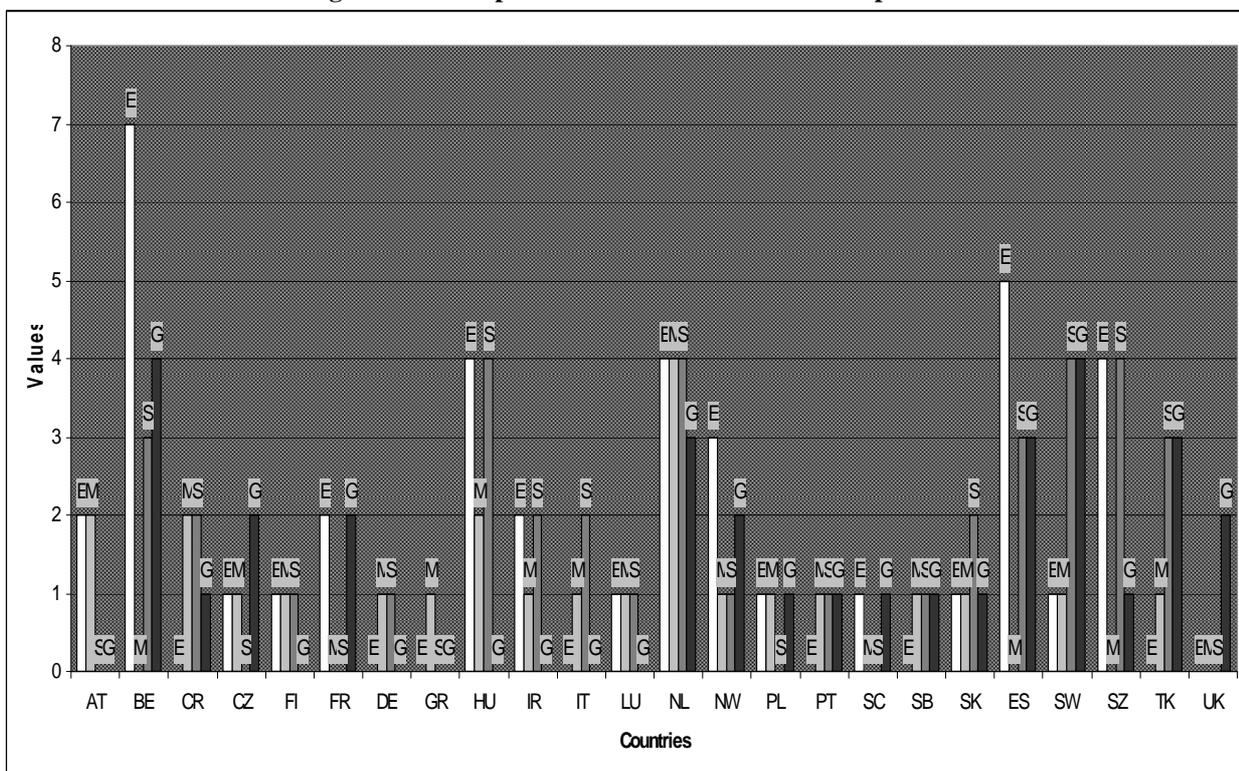
19. Slovakia (SK)	20. Spain (ES)	21. Sweden (SW)
<ul style="list-style-type: none"> <li>• Transparency and communication</li> <li>• Environmental protection</li> <li>• Stakeholder dialogue</li> <li>• Equal opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>• Diversity management</li> <li>• Social cohesion</li> <li>• Cooperation development</li> <li>• Economic sustainability</li> <li>• Transparency and communication</li> <li>• Reporting procedures</li> <li>• Socially responsible investments</li> <li>• Education sustainability.</li> </ul>	<ul style="list-style-type: none"> <li>• Responsible performance</li> <li>• Human rights</li> <li>• Engagement in social problems abroad</li> <li>• Climate change</li> <li>• Labour market and social issues</li> <li>• Employability and integration.</li> </ul>
22. Switzerland (SZ)	23. Turkey (TK)	24. United Kingdom (UK)
<ul style="list-style-type: none"> <li>• Demographic change</li> <li>• Youth unemployment</li> <li>• Working poor</li> <li>• Equal gender opportunities</li> <li>• Responsible consumption</li> <li>• Fair trade</li> <li>• Sustainability.</li> </ul>	<ul style="list-style-type: none"> <li>• Community development programs (ex.: donations)</li> <li>• Sponsorship activities</li> <li>• Social projects organized with NGOs</li> <li>• Environmental protection.</li> </ul>	<ul style="list-style-type: none"> <li>• Stakeholders' well being</li> <li>• Philanthropic approach.</li> </ul>

Source: Author's synthesis and adaptation using CSR Europe (2010, p. 6-87) information.

By analysing the framework and the information presented in the publication of CSR Europe, three categories of countries could be identified: a) countries that do not put a great emphasis on CSR and that do not correlate their business strategies with CSR practices (e.g.: Greece); b) countries that consider CSR a very important aspect of their business activities and try to develop all the four dimension of it – economic, environmental, social and global (e.g.: Nordic countries); and c) countries that already included most of CSR considerations in their public policies, rules and regulations, shifting the focus from voluntary to more or less compulsory business practices (e.g.: Germany).

After quantifying the CSR policies based on the four components (Economic – *E*, Environmental – *M*, Social – *S* and Global – *G* dimensions) in the countries presented above (the methodology could be presented by the author on request), a general picture of CSR development in Europe was obtained (see Figure 2: Development of CSR Pillars in the European Countries).

Figure 2: Development of CSR Pillars in the European Countries



Source: Author's synthesis, adaptation and representation.

Legend: **E** – Economic Component of CSR; **M** – Environmental Component of CSR; **S** – Social Component of CSR; **G** – Global Component of CSR.

In general terms, a specific focus is put on economic and global aspects of CSR in countries where they appear, meanwhile the social and environmental ones are more frequently and equally distributed in the analyzed countries. The empirical evidence showed that all of them could be considered sources of competitive advantages if properly co-related with the operational objectives of the responsible companies.

All in all, general assumptions are impossible to be made at the country-level especially because of the different character that CSR policies have in different European countries (see European Commission, 2007): in some countries, CSR practices are included in the national or regional public policies letting little or no space for corporate voluntary measures and having a more regulated and centrally-imposed nature (e.g.: Bulgaria, Cyprus, Denmark, Finland, France, Germany, Portugal, Sweden etc.) and, in other countries, CSR practices are more prescriptive than mandatory in nature, the governments just supporting and encouraging companies to involve in voluntary CSR measures (e.g.: Estonia, Greece, Ireland, UK, Netherlands, Slovenia etc.). This is why (differences in CSR data collection methodology, different inclusion of CSR measures in public policies, different reporting schemes etc.) a country-level analysis is difficult to be achieved and it should be replaced with a sectoral- or corporate-level one in order to offer more specific information about the strategic CSR key-drivers.

### 5. The Case of Romania

CSR in Romania initially appeared (in 2000s) due to the imitation of excellence business models in Europe and the USA, and not because of the necessity to evaluate the stakeholders' needs and to become corporate conscious of the societal needs. The multinational companies (MNC) were the main promoters of socially responsible initiatives in Romania and they were "importing" the responsible practices and objectives from their countries of origin. In current days, CSR is also present into the business strategies of the companies acting on the Romanian business environment.

**Figure 3: CSR in Romania**

**The key-drivers of CSR projects in Romania** refer to the following social implication areas:

- *Environmental protection* (e.g. Alexandrion Group Romania, Cosmote, Elpreco, Lafarge Romania, Mol Romania, Petrom, United Business Development, Vodafone Romania)
- *Social issues* (e.g. A&D Pharma, Cardinal Motors, E.ON Gaz, Intercontinental Bucharest, McDonald's Romania, Prod Ardealul)
- *Civic behavior* (e.g. Angst Romania, Coca-Cola HBC Romania, Pro TV, Procter & Gamble Romania, Tuborg-URBB, UPC Romania)
- *Human rights* (e.g. Banca Transilvania, Baneasa Investments, Ginkgo & Sarantis Romania, The Body Shop, Romanian Radio Broadcasting Company, Romanian Television)
- *Health* (e.g. Carrefour Romania, Dedeman, Petrom, Philips Romania, Prais Corporate Communications, Vodafone Romania)
- *Education* (e.g. BRD-Groupe Société Générale, Holcim Romania, IBM Romania, Motorola Romania, Orange Romania, RBS Bank Romania)
- *Research* (e.g. Agricola International Bacau, Continental Automotive Romania, Fujitsu Siemens Computers, Gorenje Romania, Siveco Romania)
- *Art and culture* (e.g. Automobile Bavaria, Brand Management, Electrica, Pambac, Piraeus Bank Romania, TNT Romania, Zentiva)
- *Sport* (e.g. BCR Leasing IFN, BRD-Groupe Société Générale, Mobexpert, CRE Trust, and Zentiva).

**The corporate involvement** in these projects has resulted in two main forms: *donations/sponsorships* in cash, products, equipment, building materials, educational materials, services, educational programs, training, expertise, logistical support, and *voluntary action*, supported by the employees of the socially responsible companies.

In what concerns **the CSR budgets**, of the 125 companies involved in the study conducted in early November 2008, only 59 of the responsible companies communicated the budgets of their CSR campaigns in 2007 and 2008.

Source: Ardelean (2008, p. 33-41) presented in Iamandi and Joldeş (2009, p. 162).

Most of the companies that develop CSR activities on the Romanian market usually confuse CSR with philanthropy or patronage, and CSR is mainly focused on occasional donations and/or sponsorships. At

the same time, CSR in Romania does not have a strategic dimension nor long-term commitment, coherence and unity; its impact is not evaluated; there is a lack of transparency in what concerns funds allocation.

The main domains of corporate implication are the same as in the European Union: ecological, social and cultural-educational areas. There are also some neglected or ignored domains from a corporate involvement point of view in Romania, but that are allotted a high importance in the EU: medical and scientific research, large scale cultural projects, civic and human rights, some socially controversially causes and management of goods' donations. A brief analysis of key-drivers of CSR projects, forms of corporate involvement and CSR budgets in Romania is presented in Figure 3 (see Figure 3: CSR in Romania).

The most important challenges associated to CSR in Romania are the following: need for a clear differentiation between CSR and philanthropy; strategic correlation of corporate social programs with corporate business development objectives on the long run; impact evaluation of the social programs; increase in transparency for funds allocation; affirmation of CSR induced competitive advantages in the medium and long term.

## 6. Recommendations and Conclusions

In order to increase the competitiveness of the socially responsible corporate practices at the European level, a set of measures could be proposed:

- CSR should be also correlated with the level of foreign direct investments (FDI) in each and every country and the necessity of efficiently attracting and using FDI is the very essence of the investment process, a process that ensures, to a large extent, social, political and economic welfare of each country (Munteanu and Tudor, 2009, p. 241).
- Competitiveness, CSR and their inter-linkages are not just country or sector-specific and promoting CSR often needs to be done at sector or sub-sector level in order to be relevant (Martinuzzi, Gisch-Boie and Wiman, 2010, p. 2).
- Leading companies, business associations, trade unions and NGOs should jointly develop a common agenda for different industrial sectors in order to make CSR concrete and targeted in each sector. The European Commission could play a strong convening role in promoting this agenda-setting (Martinuzzi, Gisch-Boie and Wiman, 2010, p. 3).
- Companies need to align CSR practices with their business operations in a way that allows them to operate in a cost-efficient and competitive manner for securing their position in the face of augmented global competition (Martinuzzi, Gisch-Boie and Wiman, 2010, p. 3).
- Environmental protection, sustainability issues, stakeholders' management, transparency and coherence of reporting methods, social aspects mainly based on employees' associated issues, corporate responsible practices and adaptation and integration of CSR practices and measures are the most frequently encountered CSR key-drivers in the analyzed European countries and, properly addressed, they should be applied at strategic, tactical and operational levels of the responsible companies in order to become unique competitive advantages.
- More analyses should be done in the field of CSR key-drivers in the European countries in order to identify those specific factors that offer competitive advantages for the responsible companies and to create an optimal framework for CSR at the European level.

CSR can make a valuable contribution to the goals of the European Growth and Jobs Strategy. The Member States, in cooperation with other stakeholders, should promote CSR as part of their national reform strategies (European Commission, 2008, p. 119).

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#### **Acknowledgements:**

*This work was co-financed from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/89/1.5/S/59184 “Performance and excellence in postdoctoral research in Romanian economics science domain”.*

## LEADERSHIP - A PRINCIPLE OF QUALITY MANAGEMENT IN THE CONTEXT OF AN ORGANIZATION OF FACULTY TYPE

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**Abstract:** *In the first part are presented some definitions of leadership, as a principle of quality management. In the second part of the work are presented the main activities that result from applying the principle of leadership in a faculty and the importance of communication manner in the leadership - change relationship. Leader must communicate messages in a positive and effective manner so that he encourages the transition to change. The paper summarizes the main features of a faculty leader. In the paper is also proposed a questionnaire to self-evaluate a faculty leader in relation to requirements imposed by the quality management system.*

**Key words:** quality, leadership, faculty

**JEL classification:** I290

### 1. Introduction

The problem of quality is very important in the world, it concerns both specialists involved in the production, research, design, education processes and sociologists, psychologists and politicians.

To achieve quality objectives, there must be a complex process of identification and management of needed activities. Thus, it becomes necessary to implement a quality management system through which quality management becomes the responsibility of all levels of management but mandatory the quality management should be directed at the highest level.

When designing and implementing a quality management system in a higher education institution, there must be kept in mind that academic work differs greatly from industrial and business activities.

The University is a system composed of several subsystems, which in turn can be considered systems. A university consists of faculties, departments, libraries, technology transfer centers, auxiliary services necessary for the conduct of research, education and social services for students.

In the following we will address the leadership issue in the quality management system for a faculty. For a faculty to be led and to work successfully it is necessary that it be coordinated and controlled in a systematic and transparent manner. The faculty management system, including the quality management system, should aim at continuous improvement of performance.

ISO 9001 standard provides eight quality management principles, that can be used by management from the highest level (dean) to lead the faculty in order to improve performance.

Compliance with quality management principles reflect a particular organization's and people's culture. Implementation of these principles is a vital duty of those who wish to survive in a competitive world as university education space.

One of the basic principles of quality management is "leadership-management involvement. This principle was defined in the literature in several ways:

1. " The leaders of an organization must be those who establish the unity of purpose and direction of the organization. They must be willing, able and they must know how to create and maintain an internal environment which must be suitable to full involvement of staff in achieving objectives ", Paraschivescu (2006);

2. "The leadership of the organization establish the goal and direction in which runs the organization. It creates the organization's internal environment in which people can be involved in fulfilling the objectives of the organization ", Severin (2005);

3. "The leadership ensures the consistency between the university aim and its internal environment. It should create such an environment in which people can fully involve to achieve the objectives of the university ", Olaru (2003);

4. "Leadership means a process of guiding a group (or groups) of people, mainly through non-coercive means, in order to achieve the defined objectives" , Kotter (1990).

Leadership is a very much approached theme on global scale, both in works on leadership and in works of quality management.

Application of the "leadership" principle involves a series of activities which are customized according to the type of processes taking place in that organization. If the organization is a faculty, dean carries out activities which are specific to higher education.

One can also say that today we are witnessing an ongoing process of change in all areas of economic, social and cultural life, that involves a leadership-change relationship, which is essential in providing guidance to development. In the leadership-change relationship, the main tool of the leader is communication, through which he has to make correct transmission of information. Starting from the activities that a leader needs to develop, they can be defined some key features of a faculty dean and, therefore, it can be developed a self-assessment questionnaire.

## **2. Implementing the leadership principle to a faculty**

Implementing the leadership principle to a faculty requires a range of activities that are determined by processes taking place in the college.

The specific processes to such a system are:

- teaching process
- scientific research process
- the insurance of financial and administrative services and resources,
- the design and development process
- university-marketing process
- the process to achieve national and international relations
- the process of continuous improvement through monitoring, evaluation, self-assessment, Quality Management System certification, laboratory accreditation.

All these processes lead to a certain level of efficacy, assessed by the degree of satisfaction of clients (students and economical agents that employ college graduates) and measured by the following indicators:

- I.1. Theoretical and practical professional skills,
- I.2. The results of scientific research (scientific papers published, grants, research contracts, national and international research contracts, scientific books, etc.)
- I.3. Prestige, the recognized importance in the university education field, recognition in local, national, and international relations,
- I.4. Interconnection to the European system of higher education
- I.5. New opportunities, which are favorable to faculty development.

Among the most important activities conducted in a college, by applying leadership, we can highlight:

- faculty-defined objectives
- implementation of the strategies necessary to meet the faculty aims.
- continuous training of teachers to achieve the proposed goals and to meet the demands required by the galloping development of all scientific fields,
- encouraging the independent or group activities, that teachers wish to develop towards achieving the faculty objectives
- pro-active attitude by anticipating changes in the labor market and by taking the necessary measures in terms of schooling as a priority in areas that will be required by the market
- stimulating the faculty activities by providing the personal model to teachers
- timely notification of changes in economic environment and adopting the necessary measures to match the educational programs to requirements of students and employers
- establishing a permanent system of evaluation of the needs of educational services beneficiaries (students and college graduate employers)
- future-shaping a faculty perspective, based on predictions about the future evolution of the economy (for a good correlation between the competencies of graduates of different specialties and the labor market would have to make long term predictions, up to 30 years, on various fields of activity)
- cultivation, development and respect to a scale of values universally accepted by all university employees
- supporting teaching and scientific research activity by providing all necessary resources

- supporting individual creativity, innovation through constant stimulation of teachers with outstanding results, regardless of their teaching degree
- cultivation of relationships based on trust and professionalism among teachers - students - teaching/non-teaching staff,
- support of honest and fair relationships, with no hidings, among all university employees.

### **3.The importance of communication in leadership-change relation**

In the leadership-change relationship the main tool through which the leader has to make a correct expression of messages is communication.

Communication policy of a college dean can be done in three ways:

\* *the relational model*, that aims to open and dynamic collaboration among teachers regardless of their teaching degree and between teachers and other employees who perform activities related to faculty teaching and research,

\* *the cultural model*, which has as a goal to build all the perceptions, language and practices that enable life in the faculty team, that consists of: teachers of all grades, researchers, staff with design-research-development activities, marketing staff with university activities, faculty secretariat staff, library staff, staff with administrative activities, IT staff activities, auxiliary staff - engineers, technicians, laboratory department,

\* *strategic model* which has as its objectives: the dissemination of fundamental orientations, deduction of the organization goals, the determination of teachers especially but of the other employees also to participate in strategy development, monitoring performance achieved.

The communication policy is chosen depending on the information specific to be transmitted at a time and depending on which group is addressed to. One faculty leader should send the information mainly to teachers, auxiliary staff or students. Regarding target groups, communication must be arranged so as not to have unpleasant repercussions in their behavior. Consequently, the leader needs to consider the following essential parameters in a communication: WITH WHOM?, WHAT? WHEN?, HOW?.

Qualities of a faculty leader must be translated into effective way to communicate messages to teachers, students and other staff employed by the university. In this sense, the leader possesses certain instruments of message control, to verify the correctness of the received message and to stimulate change within the team. It is very important that the message reaches the recipient undistorted, and the leader will take care to check this. Also, the communication will be more effective if the leader will reveal his own feelings and beliefs in relation to the proposed change in front of employees: personal involvement, acceptance of discussions on how to make the proposed change, emphasizing the idea of team fot success in achieving and recognizing the advantages and disadvantages of changing products.

### **4. The main characteristics of a college leader (dean)**

It should be borne in mind that the processes that take place in a university are mainly teaching and researching processes, that differ substantially from the processes of production or other processes in the economic sphere. Following the process conducted in a university it results a finished product that is given by the skills obtained by students during the years of study. This product must meet the requirements imposed by the client and in this case we have internal clients, represented by the students / graduates and external clients, represented by organizations interested in hiring a college graduate.

In this particular context, a faculty leader should have the following main features as:

1. A good listener of the college staff, internal customers - students, and external customers-employers,
2. To develop and implemet strategies and policies in accordance with the objectives of the faculty
3. To involve more than all the leadership team, all college teachers and students in making decisions
4. To identify constraints that influence the activities in education and research
5. To delegate authority for certain activities in the vice-deans, chancellor and heads of department,
6. To take proper decisions at the right time,
7. To promote faculty development, according to the received feed-back and to always have openness to new
8. He is constantly preoccupied with his business of improving its employees through continuous training.

It is of great importance the evaluation and self-evaluation of a faculty mananger (dean) in relation to the requirements imposed by the quality manangement system.

It proposes the following questionnaire with 13 questions for self-evaluation of a faculty dean:

No.	QUESTIONS	1	2	3	4	5
1	Am I loyal to the faculty?					
2	Do I listen to the views of teachers, students and auxiliary staff?					
3	Do I recognize the my colleagues improvements?					
4	Am I an example for the faculty and for my collaborators?					
5	Do I encourage the values which I defend?					
6	Are these values shared and validated by my colleagues- teachers ?					
7	Is the employees appreciation system based on values?					
8	Am I using benchmarking to improve my quality of leadership?					
9	Are priorities clearly established and known to all teachers?					
10	I am pro-active?					
11	Me , vice-deans and scientific secretary , do we train and inform us constantly?					
12	Do I take decisions in consultation with my management team?					
13	Can I encourage changes in order to achieve best practice?					

Evaluation of responses can be made on a scale from 1 to 5 (1 = totally disagree, 3 = do not know, 5 = totally agree).

### 5. Conclusions

Communication in the leadership - change relation, at a college level is very important considering the topics that should be communicated, as well as the training degree of employees group to whom is addressing the information to be transmitted.

To have an efficient quality management system it is important to correctly identify all the activities to be conducted for applying the principle of leadership.

The role of a college dean is a fundamental one, and this statement is supported by the main features that he should have.

The paper proposed a self-assessment questionnaire with 13 questions to check the 8 features proposed for a college dean. The report is  $13 / 8 = 1.62$ , very close to the "golden number". Did we make a balanced correspondence between the proposed questionnaire for self-assessment of a leadership-dean and the features proposed for him?

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**STRATEGIC LEADER AND INFORMATION SYSTEMS****MAREȘ Valerica<sup>1</sup>, MAREȘ Marius Daniel<sup>2</sup>, CARAIVAN Mitruț<sup>3</sup>**<sup>1</sup>*Teaching assistant / Ph.D. / Faculty Accounting and Management Information Systems / Department Management, Spiru Haret University, Bucharest, Romania*<sup>2</sup>*Professor / Ph.D. / Faculty of Financial and Accounting Management / Spiru Haret University, Bucharest, Romania e-mail: maresdaniel@yahoo.com*<sup>3</sup>*Teaching assistant / Faculty of Physics, Chemistry, Electronics and Petroleum Technology, Ovidius University, Constanta, Romania, e-mail: caraivanmitrut@yahoo.com*

**Abstract:** *The Internet is based technologies being developed at the time were increasingly accepted. The Internet, described as the “new information highway”, provided information in a manipulable form available to many across the world in almost instantaneous fashion. The growing emphasis on price, quality and satisfaction of consumer needs, along with the substantial increases in competitive rivalry.*

**Key words:** new information, new technologies, complex network of relationships, strategic leaders

**JEL Classification:** M14, M20

## 1. Introduction

The new competitive environment for the 21<sup>st</sup> century included increasing strategic discontinuities and disequilibrium conditions; a blurring of industry boundaries; hypercompetitive markets; extreme emphasis on price, quality, and customer satisfaction; a growing emphasis on innovation and continuous learning, and, finally, changing employee expectations and careers. Strategic discontinuities are largely triggered by new and highly valuable technologies that drastically reduce the value of current technologies and cause major changes in markets, or even create new markets while eliminating old ones. Discontinuities can also be created by major changes. New technologies and major shifts in economic activity, along with hypercompetitive markets and blurring of industry boundaries, created significant challenges for managers. These challenges required managers to balance the needs for stability to conduct planning and make decisions with the need for flexibility to adapt to a dynamic environment.

Changes in markets and technologies, many firms were beginning to compete across existing industry boundaries. For example, television, telecommunications, and utility companies were competing across these three industry boundaries. In this same environment, software companies were providing financial services, and auto manufacturers were developing large insurance operations while at the same time offering financing.

The changes explained above, along with increasing globalization, contributed to the development of hypercompetitive markets. Firms had begun to compete in multiple markets: both goods and services markets, as well as multiple geographic markets across country boundaries. These actions led to more current and potential competitors were more resourceful, thereby increasing the challenges for domestic competitors.

## 2. Globalization and new technologies

The new competitive landscape, suggesting it would be driven by the continuing technological revolution and increasing globalization of business and economic activity. Largely driven by the Internet were the increasing rates of technological change and diffusion: the growing emphasis on knowledge intensity (e.g. emphasizing knowledge for competitive advantage); and the emergence of positive feedback industries, where returns accumulate at an increasing rate, building on the new knowledge created. Moreover, the rate and effects of technological changes were heightened by technological convergence.

Globalization enhanced the development of cross-border relationships and the number of multinational – or transnational – firms, many based in emerging markets. Globalization occurred not only in markets for goods and services (outputs), but also in the supply chain, as firms increasingly sourced activities in their value chains to companies in other countries. Therefore, globalization resulted in a complex network of relationships across country borders, with enhanced interdependencies among organizations in many parts of the world-and, consequently, between countries and their economies. These changes alone were expected

to amplify the challenges experienced by top executives of large and small organizations, while simultaneously enhancing their opportunities for growth and development.

The changes explained above, along with increasing globalization, contributed to the development of hypercompetitive markets. Firms had begun to compete in multiple markets: both goods and services markets, as well as multiple geographic markets across country boundaries. These actions led to more current and potential competitors in any given market, and many of those competitors were more resourceful, thereby increasing the challenges for domestic competitors. The growing emphasis on price, quality and satisfaction of consumer needs, along with the substantial increases in competitive rivalry (hyper competition) and new technologies as a means of achieving efficiency while simultaneously differentiating products, has led firms to develop an integrated low cost-differentiation strategy.

The personal benefits of having a positive attitude towards change:

- helps you discover the inner talents within you;
- gives you the skills to carry out effectively your current and future jobs;
- leads to higher job satisfaction;
- demonstrates to employers that you take your career seriously;
- provides with opportunities to network with others;
- enables to make a contribution to the development of your profession;
- keeps personnel employable.

The firm benefits of having a positive attitude towards change:

- helps the organization to achieve its corporate objectives;
- creates a climate of innovation and experimentation;
- helps make the workplace an enjoyable, fun place to be;
- motivates staff;
- ensures that staff have the necessary knowledge and skills to carry out their jobs effectively;
- helps the organization be customer-oriented;
- guards against complacency;
- helps the organization to retain its best staff.

The continued development of new technologies places pressure on all firms to engage in continuous innovation. In addition, increasing emphasis on knowledge as a major source of competitive advantage enhances the importance of continuous learning. Therefore, firms were expected to focus on learning, building knowledge flows (e.g., diffusion of new knowledge throughout the organization), and increasing investments to create innovation. Educational Innovation is a field that has been more subject to innovation than education, although educational innovation is not necessarily successful simply because it is in the context of an educational institution. Michael Fullan has spent decades researching and writing about managing change in education, and has reached some thoughtful conclusions on factors that influence success and failure in what he calls “educational reform”. He concludes that among the reasons for failure are the following:

- believing that complex problems can be solved quickly;
- adopting innovations which have only symbolic benefit;
- responding too quickly to fads;
- misunderstanding resistance as an attempt to block, rather than as indicating a need for help and support;
- allowing pockets of success to fail through lack of support.

Fullan goes on to suggest reasons for success, including:

- change is a learning process (and therefore needs to be regarded as such);
- change is a journey, not a blue print – it involves not just one-off solutions, but continuous planning and adjusting;
- problems arise from the change process; these are natural and expected and must be identified and solved;
- change is resource hungry;
- change requires local power to manage it; it can’t be managed by remote control from a central power source;
- change is systemic and it involves linkages and interconnections among many systems and issues in the organization.

### 3. Strategic leadership capabilities in a “new world”

The capabilities needed for effective strategic leadership in the new competitive landscape expected for the 21<sup>st</sup> century. In a new context the strategic leader had to:

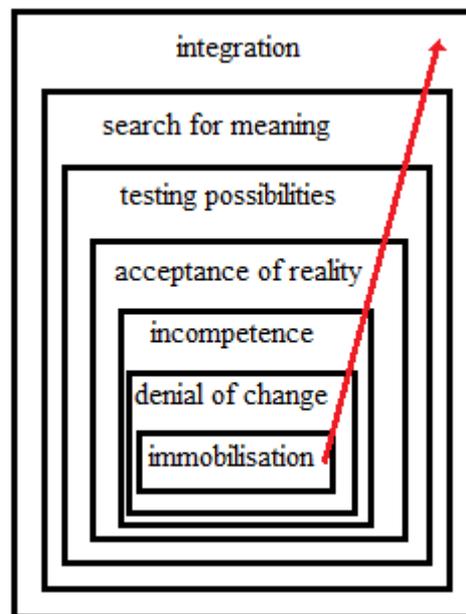
- develop and communicate a vision by help new technologies;
- build dynamic core competencies;
- emphasize and effectively use human capital;
- invest in the development of new technologies;
- engage in valuable strategies;
- build and maintain an effective organizational culture;
- develop and maintain intercultural skills;
- develop and implement balanced controls;
- engage in ethical practices.

Strategic leaders must develop a vision and communicate that vision broadly, to help guide the formation and implementation of strategies to achieve that vision. It is important to establish the way of the organization for its growth and it uses types of products and market focus and to achieve the desired targets. Without the guidance provided by a complex network of relationships, organizations can become chaotic and are unlikely to be as successful. For this reasons it is a major capability to perform important tasks quite well and makes a valuable contribution to a firm’s competence advantage. A dynamic core competence implies that the firm continues to develop and update the competence to be the leader, or at the forefront, in that capability. The strategic leaders and also the firms are prepared to develop a new competence to replace an existing one when necessary to maintain a competitive advantage and/or to build a new advantage.

The human capital suggests that strategic leaders attract and retain the absolute best employee talent available, and continue to develop employee skills and capabilities rewarding staff skill development and using that talent in the best ways for the organization. At the personal level some people are happier to embrace change than other. Some people have a more positive attitude in general. Imagine you had to introduce a change and you wanted to ensure that it went wrong and everyone found the process painful. In the globalization era change will inevitably mean resistance, however well-meaning and positive the change appears. There are a number of strategies that can be used to reduce or overcome resistance, depending on the situation.

Undergoing change go through the following stages:

**Figure 1 Stages of change**



Effective strategic leaders take the actions necessary to remain at the forefront of new technology, developing it internally or obtaining it externally. They must also exploit the technology to ensure that the firm operates in the most efficient way possible. Engaging in valuable strategies generally implied exploiting new global market opportunities, engaging in appropriate cooperative strategies and using an integrated system low cost-differentiation strategy.

Developing, maintaining and reingeneering a healthy organizational culture should be a priority of strategic leaders. A healthy culture places emphasis on core values of innovation, learning, and valuing human capital and team actions.

Control system help organizations manage financial capital and govern practices ensuring that potential courses of action are evaluated through a positive moral filter. The right types of controls can influence and guide actions in appropriate ways. Effective strategic leaders establish controls that facilitate flexible and innovative employee behaviors to help the firm maintain and/or gain a competitive advantage.

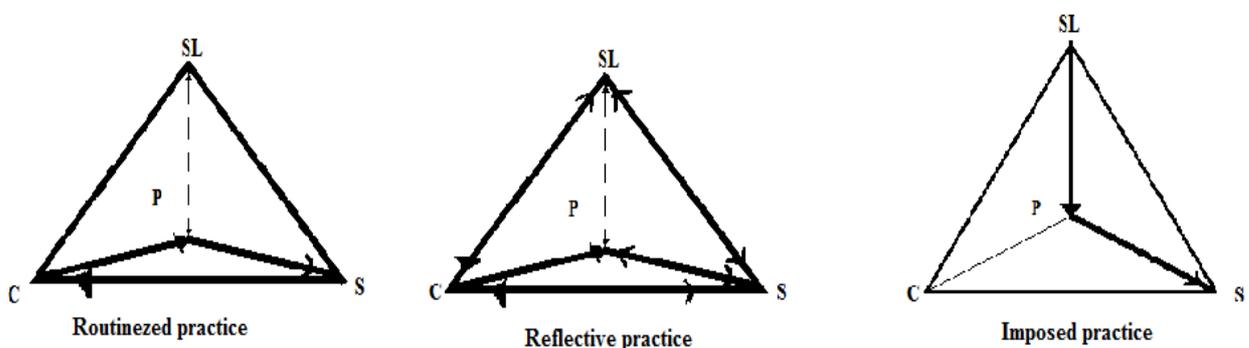
**4. Strategy leaders and activity frameworks**

Strategic leaders play a critical role in establishing ethical practices throughout the organization. Effective strategic leaders place a strong emphasis on honesty, trust, and integrity in the decision-making process and the implementation of those decisions. The core values of honesty trust, and integrity serve as moral filters through which potential courses of actions can be evaluates. These normative values must be instilled in managers and employees throughout the organization so that they are clearly understood and observable through their decisions and actions,

Strategic leaders must have a global mindset. The decisions make and the problems encounter to solve must be faced with an understanding of how the organization fits within a global competitive landscape. The global economy has changed in major and irrevocable way. To build new insights on methodology and tool deployment in strategizing, the interaction between practice and strategy knowledge must come to the foreground, redirecting the research emphasis away from strategy process, form and content. Strategy –as-practice (S-as-P) emphasis focuses on the tacit knowledge of how things works as opposed to the explicit knowledge of strategy. Activity theory provides that the perceptions, views and mental models of leaders as they strategize, within their organization’s structures processes, norms and value. The emphasis of practice offers an approach that can enrich understanding of roles and contribution of methodologies in contexts that exhibit variation in structures, norms, value and strategy leaders’ views on competitive strategy and the environment.

Social capital is also highly critical to the success of all organizations. The relationships with customers, suppliers, other partners, and stakeholders in general are vital. A portion of any executive’s human capital is also social capital. Social capital not only provides access to markets, but also access to important complementary resources. Access to new technology, new knowledge can be used in creating new technology and other types of innovations. It can facilitate access to key suppliers and/or governmental units that regulate or oversee these markets. Therefore, an effective strategic leader must capably manage the human capital and social capital of the organization. Finally, execution is absolutely critical to the success of an organization and, therefore, to effective strategic leadership. Such flexibility is required to be proactive, rather than reactive to others’ competitive actions.

**Figure 2 Activity frameworks in the data (SL=strategy leader, C=collaborative structures, S=strategizing, P=practices)**



The activity frameworks generated from the data reveled differences in leaders’ strategizing practice and describe tree types:

- routine practice;
- reflexive practice;
- imposed practice.

Strategy leaders' engagement with methodologies and tools exhibited clear differences across the activity frameworks, with practices rounded in the leaders' strategy perspective, their view of the operational context and their confidence in specific methodologies and tools to generate strategy-relevant knowledge for that operational context.

Complexity of strategic arenas in organizations was operating by globalization, industry restructuring and/or environmental shocks. Strategy leaders, collective structures and practices represented a dynamic system of engagement and challenging, embedded practices, systems priorities and/or methodologies in strategizing practice.

Competitive strategy was framed around how organization might meet the challenges of influence possible futures, as well as around learning and creativity, resulting in stakeholder driving initiatives as well as stakeholder driven options.

The competitive strategy perspective is successfully realized through engaging with various combinations of design and positioning methodologies, game metaphors and resource reconfiguration options.

## 5. Conclusions:

1. The global economic crisis is anticipated that the strategizing practice models will be adjusted to meet the challenges of the emergence of new business models and changes in cultures, structures and stakeholder relationships as consequence of economic down turn.
2. Effective strategic leaders have to operate under conditions uncertainty, they must view a volatile environment as presenting opportunities and employ an entrepreneurial mindset that allows them to identify and exploit opportunities in context with significant ambiguity.
3. The turbulent environment will require that strategic leaders must carefully manage resources and build effective human and social capital such flexibility to required, to be proactive rather than reactive to others competitive actions.

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**CONTROL SYSTEMS IN LABORATORY ACTIVITIES FOR QUALITY MANAGEMENT**

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**Abstract:** *This paper presented a control system able to give a solution to the quality management in a laboratory. The resulted system can determine an optimal assignment of resources, i.e. an optimal assignment of staff per procedure and an optimal assignment of procedures per apparatus. A criterion to be optimized is the minimization of every procedure cost.*

**Key words:** Laboratory activity management, Optimization problem, Control System

**JEL classification:** C31, C61, C67, C88, D24, D31, D61

## 1. Introduction

The complexity of activity flow within laboratories is given by the large number of parameters involved in tests as well as by constraints of the determinations.

Owing to the great costs of the resources involved in the laboratory activity, minimization is a must. The certified laboratory activities are performed according to the Quality Book specific to each laboratory. In this book are presented in detail all the procedures performed to accomplish a test/trial. Also, the book is taking over the up to date standards.

Going into such details allows quantification of the whole laboratory activity. The quantification makes possible the development of a software system. This system takes over the data concerning test/trial processes as well as the characteristics of the laboratory in order to assure optimum assignment of the resources.

## 2. Quantification of laboratory activities

The procedure involved in test operations are decomposed according to the Quality Book into elementary procedures described by a minimum parameters.

Considering the laboratory as a system, the input data are represented by the test/trial orders and by the raw materials supply. In this case the Quality Book contains the constraints of the system. The system outputs are the values resulting from the test/trial process.

- In order to quantify the elements of the environment (M) in which tests take place, a coordinate system for the locations (L) where the test equipment place is established. Also, access constraints for the determination of optimal routes concerning resources flow in the system are taken over.
- For the quantification of equipment (E) and tools (U), detailed work parameters are given for every equipment along with its operating conditions.
- The quantification of material resources (RM) involved in test and trial processes depends on quantities required by every elementary process needed by test/trial methods. This quantities are given in the Quality Book.
- Let the quantification of test and trial procedures be (P). The procedures are decomposed in subprocedures (SP).
- The last level resulting from the decomposition is called elementary procedure level (PE). Each elementary procedure takes over data concerning the quantified resources of the laboratory. The elementary procedures are performed in one location (L) and in a well determined time interval (T1-T2).
- The quantification of metrologic (VM) and nonmetrologic check up needs a complete chain of specific tests and trials. The check up procedures are system constraints. Metrologic check up

procedures are different from the procedures involved in control because the latest are more important for resource assignment optimization.

- Quantification of human resources (RU) is carried out according to a specific time location and to elementary subprocedures.

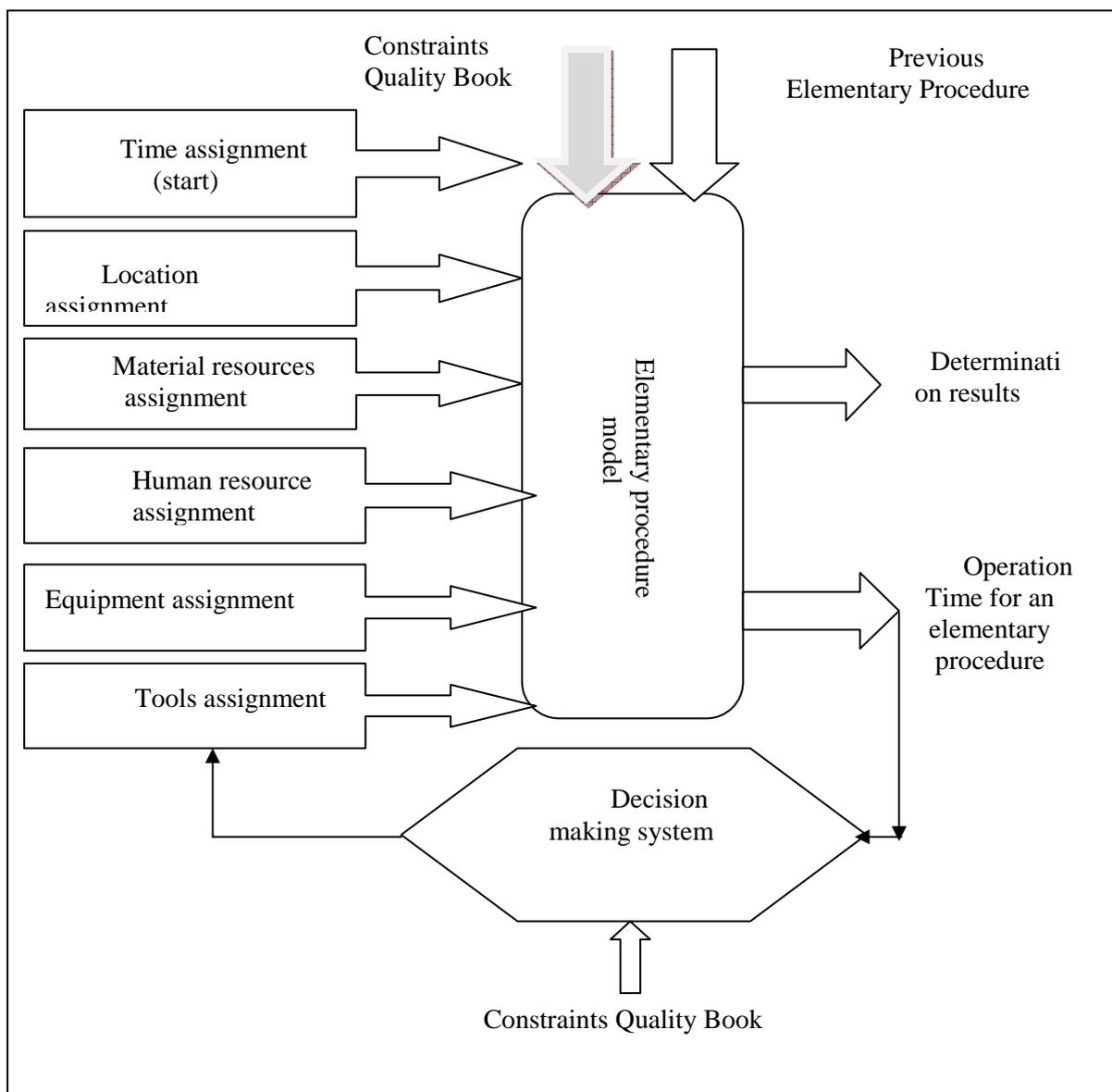
**3. Process modeling and optimization**

System decomposition into subsystems is performed down to the level of elementary subprocedure. According to the Quality Book, material and human resources are established for every elementary subprocedure.

To obtain greater flexibility in the assignment of elementary procedures, these are considered equipment dependent and so they can have different performing times depending on the specific equipment. The performing time of an elementary procedure depends also on the skills of human resources (this parameter is also quantified). The various performing times for the same elementary procedure type lead to the increase of the complexity of the decision system used for optimum assignment of all resources.

Figure 1 shows inputs and outputs for an elementary procedure represented as a subsystem.

**Figure 1: Elementary procedure model**



Source: Authors

The relationship <elementary subprocess, material resources> can be modelled by using classical procedures if an analytical model can be built or using regression when only the model structure is known and experimental data are available.

The relationship <elementary subprocess, human resources> can be modelled using fuzzy procedures by means of a staff assignment table. The skills of human resources represent constraints in the model.

The relationship <elementary subprocess, location> is a type 1:1 relationship, to each elementary procedure corresponds only one location.

The relationship <elementary subprocess, equipment> is 1:1 type. The constraints are given by metrologic check up procedures and by the operating conditions of the equipment.

The relationship <elementary subprocess, time> can be modeled using fuzzy procedures.

The criterion function for an elementary procedure is:  $\min_{T_2} (F_{PE} (E, U, T_2, RM, RU, L, PE_p))$  (1)

where  $PE_p$  is the previous elementary procedure. The Quality Book contains the detailed description of the constraints of the system at elementary procedure level.

#### 4. Synchronization of subprocedures used in test processes and optimization of their time assignment

Every elementary procedure has its own constraint system and in the Quality Book are presented the relationships between the elementary procedures.

Sometimes it is necessary to have a minimum or a maximum time interval between two elementary procedures. This may be implemented in the decision making system as another elementary procedure having only the time parameter.

The synchronization of elementary procedures (between the end of one procedure and the beginning of another procedure) is carried out using fuzzy procedures.

The performing time is given both by the constraints resulting from the Quality Book and by the decision made for optimum assignment of resources.

The conditioning of the start of an elementary procedure may also be the result of the end of one or several elementary procedures.

Part of the synchronization of elementary procedures is given by the constraints found in the Quality Book and the other part is given by the decision making system as a result of elementary procedures assignment in time.

The decision making system uses fuzzy procedures. The sets of rules resulting from the fuzzy procedures are at the level of elementary procedures

#### 5. Control system implementation

The quantified information is taken over using the procedures of object oriented programming which allows generic take over and easy configuration every time the procedure is operated. The consequence is system flexibility, meaning it can be used for any certified laboratory.

The process models are taken over by class constructors and the optimization function is implemented as a virtual function at class level. These are input data taken over at the moment the application is configured. The other input data are represented by the orders for tests and trials and by the supply with material resources (periodical inputs).

The system output data are: reports for activity monitoring, check up for conformity with the Quality Book, optimal work parameters (material and human resources assignment in time) so that the time for tests/trials achievement be minimum.

#### 6. Conclusions

The decision making system for optimum assignment of all resources is structured on several levels.

The basic level is the level containing elementary procedures.

Standard and non-standard modeling and optimization procedures are used. Standard procedures when models can be analytically or experimentally determined. For instance, there are relationships to determine material and energy consumption for each and every elementary procedure. Nonstandard procedures that are used at the basic level are represented by fuzzy procedures such as human resources assignment.

At higher levels fuzzy procedures are used.

The control system implementing such control procedures is structured on the basis of object oriented procedure. So, when the laboratory is extended and becomes more complex, new classes will be created, many of them by an inheritance mechanism.

The complete and accurate formulation of the problems given in the Quality Book leads to a valid set of constraints which makes possible to obtain accurate solutions concerning the assignment of laboratory resources in order to be able to perform test/ trial activities.

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## HUMAN RESOURCES – A DETERMINANT FACTOR IN OBTAINING MANAGERIAL PERFORMANCE OF COMPANIES

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**Abstract:** *The paper aims to show how important it is that any top manager and any professional team define their own duties in such manner to reveal every person involved in achieving the company economic results. The top manager is now a “wandering manager” which creates a new relation with customers involving them into its own activities.*

**Key words:** Management, Human Resources, Total quality philosophy

**JEL classification:** D01, D04, D23

### 1. Performance obtaining – central goal

In the past, decisions regarding the economical issues, even within the management of the big corporations used to be taken by reduce number of the top managers. The rest of the people used to be just workers. Today, the company's goals and vision are no longer imposed only by the top management alone. The decision responsibility goes to company top manager but the decision is a resolute of the collective thought to encourage the people with high qualification to bring their own contribution. The company need:

- To have clear view point regarding both its needs and what is achievable;
- To determine the best direction of action for obtaining the proposed results;
- To know the available means and those that need to be discovered.

The company may determine the science persons to get involved only if it has a clear idea about what it wants and if these targets are explicitly displayed. Today even the small companies are relying firstly on the people with higher education and less on the manual workers. Each employee with higher education takes economic decisions no matter if he is a researcher who decides to continue or renounce to a project, an accounted who decides what definitions of the costs are most suitable for his company, a seals manager who decides where to dispose the best sail agents or a marketing specialist who chooses the market within which his product is to compete. To take the best decision the employee with higher education has to know which are both the results expected and performances. In addition, he has to be an “enthusiast”, he cannot be supervised; he must lead himself. To do these, he has to know the manner in which his knowledge skills and labor contribute to the progress of the company. Therefore is it essential that the duties of each person of the top management and of the professional teams to be defined in such a manner to reveal the contribution which each of these persons brings to the achieving of the economic results proposed at the beginning of the process. For the low cost labor workers the definition of the duties takes into considerations the value of the effort and skills necessary to the respective job while for the people who needs intellectual skills, self management and motivational incentives the accent should fall on how they personal qualities and achievements.

If the company wishes to obtain the contribution that it needs, it has to reward those who provide such contribution. The spirit of the company is given by the people of the top management. The only way of control which any organization has resides in the decisions of the respective organization regarding the people and their promotion. These decisions reflect organization's targets and goals. From this point of view these are more suggestive and figures; to direct the spirit of organization. The promotions have to be based on the respective person's capability of fulfilling the economic duties. Such a promotion policy constitutes the “secret” of companies with high performances. The first promotion of a person is not the most important

for company although it could be the most important for these and for him and his career, nor the last promotion – the one to a top position – is not the most important; usually, the management chooses the person for such a position out of a small group of people already reselected. The most important promotion is the one into a group from which the future managers will be assigned. This decision is usually taken at a point where the pyramidal structure of the organization narrows abruptly. Up to this point each organizations has possibility to choose for each available position a person out of a larger group (40-50 people) starting with this point the assignment for each available position is made out of a smaller group (3-4 people). Also, up to this point the person works usually in a field department; starting with this point his decision target the whole company. If the company wishes to concentrate on the economic performances it has to promote to these essential positions the people who brought their distinct contribution to the companies performances, who have demonstrated special aptitudes in fulfilling economic duties and who have proved their will to work for the company and not only as an ordinary worker to any kind of company.

Capability and willing to fulfill economic duties are not the only requirements for a top manager. For many top positions these requirements are not the most important if compared with the capability to shape and lead an effective and homogenous team. However, for a general manager the capability of leading company to obtaining the economic performances constitutes the essential requirement. Achieving economic performances and including the goal within the organization spirit is a difficult task but essential. Actually, any company has a distinct strategy for performance achievements. It's managers imagine, define and implement such a strategy into practice. The economic results are not produced by economic forces, they are an achievement of the people.

## 2. From the police manager to the “wandering” manager

The predominant concept of the latest years in formulating the quality philosophy is reaching of excellence, producing goods, processes and services of quality superior to those offered by competitor to those offered by competitors, respectively.

The implementation of this philosophy necessitates the adoption of some specific managerial attitudes, the creation of new competencies for managers and who have to used adequate instruments.

The specific managerial attitudes are:

- Fast moving into acting;
- Maximum attention paid to the customer opinions;
- Favoring the innovative spirit;
- Inoculating the adequate motivation to raise the productivity;
- Mobilization of the employees around some fundamental values;
- Determination in the familiar fields;
- Creation of simple structures;
- Combination of the flexibility with rigor.

Today, the top companies in the world are relatively newcomers on the market, without prejudices that make the older ones to pay more attention to the detriment of the arisen problems; within the new companies have developed communications networks in all directions (it is not accidental that, in the new management studies, communications is always heavily underlined). At the same time, these companies choose the most stringent problems to solve (out of the current ones), organizing -- for this purpose – “ad hoc” groups. To detect these problems, the management monitors the customers’ reaction, creating thus a new relation with these and involving theme into its own activities; this constitutes a strategy of gaining and keeping the customers. This conduces to excessive attention, even obsession that companies display for quality. For this reason, many managers assert that costs are no longer on the first place on their list of priorities, but quality, the costs being only a consequence of the latter.

To ensure the success, there are necessary, firstly, people with innovative spirit who involve themselves into what they are doing. This kind of persons is necessary not only in innovation of the products, but for organizing the production. Even though such persons seem sometimes a little bit strange, due to the benefits they bring to the company, they are accepted; moreover, a team is created around them, after that going on to search the market and estimate profitableness.

Within the companies that have adopted excellence as their philosophy, a relationship of reciprocal appreciation between managers and their subordinates develops. Most of the managers try – starting from this relationship – to create a the team spirit; this implies identification and solving the contradictions, as well as absence of formalism.

The companies that tend towards excellence have identified the field that they master very well from the technical viewpoint, this allowing them to diversify the goods they produce and even the businesses.

Regarding the management structures, these should be matrix like. The small or new companies have adopted rapidly such an organization; the big ones though manifest a kind of inertia; however, even they have not developed such structures, the people are acting according to the same principles. Although they belong to a certain division, they are working within other teams for different projects too. It is visible too that all divisions tend to integrate themselves through developing activities like products, financing, personnel, and production. At the same time, the positions within the headquarters divisions are not occupied by career bureaucrats but by the members of the operative services.

Although they have to prove flexibility, the companies stay rigorous regarding their activity. To do so, they have to revise their regulations to be constructive not restrictive, in such a manner that the entire personnel to be able to make suggestions for improving activities. These attitudes are based on different managerial concepts than the classical ones; they require a new theory in management and a continuous process of instruction. Thus, the competencies that the manager has to possess and in which he can be instructed, are:

- Attention to the customer needs
- Continuous renewal of the products, used methods, and organizational structures.
- Stimulation of the employees to feel proud of their work.

In the field literature this type of leader is called “rover manager” – that means a manager continuously swinging between his subordinates and customers, and – we can add -- between practice and theory. In the first place, this manager has to pay attention to customers. For this he needs to gather information from the customers, to identify their wants, to break the barriers between him and them. The customer needs not be treated impersonally, and the satisfaction provided by the goods and services offered needs to be permanently measured. The customer must be served as he pleases, treated with all respect he deserves, while using an adequate language; he must often be visited.

Continuous innovation at all levels constitutes the second key that ensures the strategic advantage. To achieve this goal, it is necessary a permanent experiment of the products, methods, techniques, as well as a critical review of the “myths” about innovation. Thus, one of these is the conviction that strategic and technologic planning reduces risks; but, as it is well known, innovation is unpredictable. Another “myth” is the belief that complete technical specifications are indispensable premises for success; but, in practice, many go on with testing, even though the concept is incomplete. Then, it is believed that it is needed much time for reflection to get the desired results, although life demonstrates that the innovators are practical people, not dreamers. Also, the myth that it is necessary numerous teams to develop products is refuted by the effectiveness of the small teams. There is also an opinion that the beneficiaries talk only about the needs they had, although the important customers have always constituted information sources.

Then, the manager has to listen, innovate, and – the most important – learn to work with people. It is essential that the employees to be treated as individual persons, not as an amorphous group, their personality and dignity being respected. The managers must know to listen to the employees since they do not have answers to all problems that occur while those who are working directly in the process know the best the problem.

Among the manager’s responsibilities the one of directing has begun to get the greatest importance. The time of the “police manager”, impartial empire, cold analyst, decision maker, is past. The current manager has no magic formulas, but he tries to elevate the morale and to inoculate passion into his subordinates. For this, he needs to know the people, that imposes reducing the hierarchical levels and people’s education, supervising strictly the important actions, encouraging the personnel before promoting new actions, consultations when the problem to be solved demands performance, and alert when the latter persists.

To be a “rover manager” means to look permanently for direct contacts and discussions with people, not to wait for them to come with problems. This manager has to know how to teach the people and to bear permanently into his mind that performance and excellence appear at the intersection of the high goals with a pragmatic spirit.

### 3. Conclusions

Because the company is the initiative center of a modern economy, each employee with higher education has to act as an entrepreneur. In the modern organizations, where the specialty knowledge constitutes the essential resource, performance cannot be obtained exclusively through the effort of as

reduced number of the people from the top of the organizational pyramid. As the company becomes in a greater measure a “knowing organization”, it has more managers whose decisions have impact on the company’s results.

Any highly qualified professional has to assume the following responsibilities:

- To employ his skills and efforts to obtaining the economic results; his work has to be oriented towards contribution to the overall performance of the company, not to the result of a particular activity.
- To concentrate on the really important duties; to become manager, an employee with a higher education has to assume responsibility of allocating towards occasions and results of a resource which he really keeps under control: he himself.
- A systematic, conscientious, and organized engagement to fulfill the responsibilities specific to his position while keeping in his mind his responsibility for the overall performances of the company.

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## CAPITALISM, EFFICIENCY AND REGULATIONS INTO EMERGING ECONOMY

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**Abstract:** *In Romania all witnessed a generalized economic blockade. Lack of long term economic thinking is now the main element of arbitrariness in political decisions, decisions with negative implications on the Romanian private sector. The essential elements that lead to the Romanian economy are predictable to bankruptcy are negative incidence of anti-crisis measures on the real economy, and inadequate management of macroeconomic policies.*

**Key words:** Consumption; Saving, Business Fluctuations; Cycles, Efficiency

**JEL classification:** G3, E21, E32, D61

### 1. Consumption and Recession – a medium term perspective

The consumption nature of a population depends on education, which stimulating tastes and bents that produce specific products for a certain lifestyle. These issues can not be ignored in trends analysis and immediate developments of this trend.

The consumption of goods and services is stimulated directly proportional by the existence of larger or smaller amounts of money, which are in the market and the source of this money, may be the creation of surplus value or loans.

In the Romania cases, with an economy based mainly on consume, the lending has played an important role. In just a few years ago, almost anything can be bought in installments, the law allowed a relatively high degree of indebtedness, banks race to offer banking products more and more attractive, and people deprived of a minimum of economic culture increasingly into debt more and more. This picture seems now broken the story. The economic growth registered some years ago was due precisely by the credit and consumption growth, and also in a minor extent on the production of goods and services.

We have witnessed in the last two decades to mature of so-called "consumer society", a society that wanted to be capitalist, but had no real economic foundation. The consumption Increasing in Romania has been possible due to permissiveness banking standards and was stimulate gradually until the excess credit, which led to increased demand and hence the entry into a spiral of repeated increases in the prices of durable goods (e.g. real estate). The consumption and prices increased of various goods brought more money to the budget thru indirect taxes and local property tax. This artificially increased demand could be satisfied only with the help of banks, which led to an increase in the credit volume. Finally it came to what we know today as economic growth. We mention here the various ways available to local administrations to contract loans on behalf of various communities concerned.

Under these conditions it meant a drastic reduction of credit practically reflect a reduce in the "economic growth", and recording a downward trend of the general price index, all against the backdrop of the global financial crisis.

As a result, banks have started soon enough to adopt a prudential attitude exacerbated - if we think of time short enough that they changed their risk aversion - thus resulting in the insolvency of a significant part of potential demand and appease such prices.

The decreased consumption will reduce the funds collected from indirect taxes, as well as reducing profits; the budget will be quite poor in comparison to previous years and will result in a clear decline.

The secret of maintaining an economic slowdown in understanding the limits of affordability is given by management companies to reduce costs and increase efficiency on the one hand, and reducing

prices to levels that enable trading of the property market in terms of smaller amounts allocated to consumption of the population.

As we lose more time to understand that money and goods must travel in an economy for it to be a functional market economy, the more we will be hard to come back when the economic cycle will change trend.

## **2. The basis of the current crisis - a viewpoint**

In the international context, the crisis will continue to hit the waves and the Romanian economy. The difference in shock absorption will be induced on the economic potential of each country: sound economic policies, infrastructure, production capacity, skilled labor force, health and social protection systems performance.

If the economic trend remains, free Romanian initiative will give way soon enough for large companies with foreign capital, which may negotiate with the central government facilities and guarantees. At this point do not see any change in the medium term trend of economic thinking cruel lack of non-representation and the common interest that characterizes the current political class. The slowness with which we sailed in past decades will lose the momentum, when the value-added decisions become the only source of welfare community.

With a budget deficit and poorly managed, through loan financing from the domestic market will not only have the role for a time delay of the collapse. And here begins a vicious circle: Banks prefer to make repeated requests coming from the state loan - debit zero risk -. Basically, go on the liquidity of banks and securities provisions.

Unemployment increases the pressure on the budget, people and companies less able to repay the outstanding loans. Reducing the income of population, the perception of value is adjusted, the main result being decreased market value of bank guarantees.

## **3. Regulation and free initiative**

Continued economic crisis will perpetuate the state of fear / uncertainty of determining savings behavior. Reduction in real incomes will determine multiple consequences:

- The first consequence will be an increasing demand for low (compared to previous periods) for all goods and reduce further pressure on prices. The only exceptions will be indispensable products (food, medicine, utilities, energy) which is slightly inelastic demand, which will cause a change in the structure of individual consumption and the waiver as to certain services and other consumer durables;
- A second consequence will be to continue to decrease budget revenue.

Poorly constructed legal framework will still allow large companies that own investments in energy and resources to increase selling prices as they please, based solely on the fact that their products are vital for economy and unjustified increases in prices for monopoly products (fuel, energy) will push more firms to the area subject to taxation in the economy.

In this context, the political leadership intervened in time by various regulations of the market, more or less into the benefit of participants. Its main purpose consists in strengthening the economic power of government. Distortions and anomalies are manifested in new laws, which do not meet strict economic levers on the perception of creating value.

Such consolidated central power, supported by a particular political system designed to allow collaboration with various private economic interests in the community and unrepresentative, and also became the player the referee's main market through regulation.

Meanwhile, constraints on the free initiative and the freedom to choose one product or another have multiplied and dress shape for the next generation is the default pattern that builds on their thinking. Thus, the goods are not governed by market competition and natural selection, but quality standards imposed by law. The labor price is not directly negotiated, but has imposed the tax threshold. The transfer of ownership is constrained and conditioned. The mechanism generating inflation impoverishes or enriches certain groups.

Always, there were communities in history and community vassal ruler, but the forms which were established vassal relations have witnessed a continuous adaptation and transformation.

In terms of economic leverage is effective if it meets several conditions essential, first of all spending must be made so as to generate surplus value (profit) with a yield higher cost loan (interest). Second, debt service must not exceed in time a significant percentage of profits for the simple reason that the need for funding increases as increasing productive capacity, and that such investment will not be able to support

themselves and become economically viable, so you need by staggered payment terms in a rational timeframe.

The possibility of legal existence as a natural / legal person to be able to increase the indebtedness without a healthy economic foundation certainly leads to abuses. In order to avoid situations that present consumption of future resources may lead to new forms of slavery or bondage modern economy must be taken into account profitability, timeliness and efficiency of a competitive loan market conditions.

For individuals, the decision must be made based upon projected borrowing for real needs and costs / prices for the best in covering these needs. In this reasoning, thinking and greed and comparisons based only on imitation decisions only generate long-term bankruptcy. The main mistake is to ignore the cyclicity of the economy and change, leading the short and medium term to increased speculation.

In local communities, the economic foundation of contracting a loan must be the increased real income to the local budget and maintain of this trend. Revenue growth, meaning that community economic development and thus the capacity to produce value-added opportunity of a loan for investment in infrastructure is fully justified. Ignoring this criterion, any funds borrowed are intended for local public administrations and the bill will be difficult to have paid no means of income generation. The main danger occurs when due, through desperate measures to increase revenues by increasing local taxes, condemning this sense that community living at a level lower than that achieved before borrowing on their own.

In terms of companies, market conditions, more or less competitive and lead to bankruptcy or insolvency and business expansion and growth. This is the life in the application of an indebtedness decision reflect their positive or negative consequences directly on the person who showed free enterprise, without affecting the local community.

#### **4. Free initiative, whereabouts?**

As free initiative and entrepreneurship is restricted by various means, that as capitalism becomes a kind of socialism tacitly accepted in the subjection egalitarianism will form the main motivation of the masses to accept a range of voluntary and non-financial constraints of most unnecessary.

Also limited means restrict free enterprise and competition - key in a market economy, without which capitalism does not exist. Toxicity purpose of these tools is demonstrated by management constraints.

With the nationalization of fraud and legalization as main activity of the state voters' interests on the political representation disappeared with the freedom to choose and be chosen as an illusion maintained by the media.

From this high bluff will not delay deliberately created to make the appearance of actual rights holders to strengthen and establish new vassal relationships front of the crowd.

The means of enclosing the free initiative are financial (tax) and non-financial (settlement). The role of taxation has become almost useless in the light most finality. It collects taxes from the population with the stated aim of creating living conditions and infrastructure, but actually the destination of the funds raised is different. Let's look at what it looks like: health, education, roads etc., after years we were European champions in economic growth. The recent enlargement of the taxation for the sake of a budget will only lead to wrong sized sharp decline in living standards by increasing the unemployment.

If we analyze how labor remuneration, we notice that the added value created by all employees through hard work, some remain unpaid and the company is in profit, the rest being paid by the gross wages of employees who directly benefit from the addition of a small part value created, which would ensure existence. The mechanism by which the masses are basically immoral deprived of resources, limits opportunities for expression of free enterprise. In conclusion, the actual rights holders will be the leaders of a new order. They will represent the aristocracy, as opposed to the system and organizational form of democracy. Translation will be almost invisible at the individual level, and the crowd will continue to work to sustain their virtual freedom. Surrogate pompously called "functional market economy" will occur in the current crisis effects: harmful to some beneficial for others.

As will be deep crisis, the continuity problem for state pension system and medical assistance provided by the state will get worse and will become increasingly intractable. It clearly shows a decline in living standards throughout the whole country.

Decreased demand on the whole economy will stop only at levels that will be supported by community capacity to create added value, minus debt from banks, at which have to adjust production and sales.

The god called „consumer with any charges” died. It remains after: debts, regrets, or life lessons.

## 5. Where are we?

Absolutely all the changes that have taken place in human history in the way of community organization (from the smallest up to the great empires and nation states) had two main components: the social and the innovation. The two essential and interdependent elements represent the essence to any changes in the human organization.

Social organization has always been and is dependent on the existing level of innovation. Throughout history, civilizations that had a new weapon or a series of tactical knowledge or social organization civilizations have always been leaders. The Romans managed to build a great empire by superior social organization existing before, and the Vikings maintained their supremacy with boats that were built, very fast, and the weapons they possessed. All great civilizations have lost the rule only when the unique advantages of a social organization of innovation better or has disappeared or have been exceeded in efficiency by another more powerful system. Where innovation has been present in many communities the same level of social organization made the difference between dominator and dominated, between managers and managed. In fact, the link between social organization and innovation is an organic, the two sides unable to be completely separated. All aspects of community life depend on two variables, including economic.

Model of social organization and innovation creates social paradigm and define categorical way of thinking and human action, based on their sequence having criterion of efficiency and time efficiency as the factor that validates this. The emergence of currency in trade in goods, the appearance of scholarship, a precious metal standard, central banks, fractional reserves, financial derivatives and new carbon emission allowances are based on an evolution of innovation and their better adaptation / social organization. As an axiom, a better social organization has the potential to generate innovation and innovation present in a community can change even social organization.

Now, because of globalization, innovation and social opportunities offered by multiple innovations, the mankind is at a time when this paradigm of social should change.

Firstly borders fell before the capital, innovation has streamlined communication and trade up to levels unimaginable a few decades ago. Nationalism, societies focused on religion - Muslim states - or already belong to the totalitarian past, and their ineffectiveness was actually demonstrated. The two interrelated variables - social organization and innovation - creating history. Second alternative energy begins its expansion. The man charged and quantifies the value changes, the ongoing reforms, and innovation and research is based on teamwork.

A statement is required: change the social paradigms occurring at a time scale measured in decades / years, evolving innovation so as to adapt to the social rate of increase, the default duration of the change of social organization decreases.

**The economic system** is nothing but a part of social organization and change the paradigm mentioned means nothing more than an adaptation to the new realities of economics. The fact is that any social paradigm - as an organic combination of social organization and innovation - which has been proven inefficiency can not be experienced again. Nostalgia is good only as an exercise of imagination in this case. Contextualize any ideas for reform and further development and connecting it to the current social paradigm is the key test of its validity. The reform would increase the efficiency.

**The efficiency** is the cornerstone that governs human activity and social paradigm for change. The crisis is the generic name of the time period in which these social paradigms change. This evolution is natural, normal, and that we shall live and experience a new way of social organization more efficient than what we had until now should enjoy.

## 6. Capitalism now. What next?

Taken together, the economic crisis can be defined as a crisis of capitalism. As communism was applied in different forms compared with Marxist doctrine, resulting in specific socio-economic systems of each country, as well as capitalism was negatively influenced by several factors. This crisis is likely to actually represent the end of capitalism as we knew before. String transformation started with the massive financing of public money to private businesses considered too big to be dropped.

Economic growth was based on economic potential existence of differences between different regions, which led to lower costs and profit: EU accession countries with weaker currencies, trade extensively with the BRIC countries. The legislation was quickly adapted to facilitate the exchange. At this

time appeared irrational element in human behavior main target of profit at all costs in a relatively short time horizon: the future access and spending more than the profit generated by the economic capacity to produce surplus value, the justification being given by inflating "bubble speculative. " With maturity and decline, future access to money to close, sales fell and got to the present reality.

During this period of false economic boom, politics and strengthened its presence in the economy, becoming the arbiter of the market and a major fund manager, increased state involvement in the economy inevitably led to less representative of the community interests at the central level. Political decisions distort market and thus came the phrase "too big to fail" which induced the negative consequences of irrational market behavior, and revealing political partnership between big capitals.

There is also another problem: maintaining dollar supremacy. After several decades in which the benefits of this went to ensure the supremacy of free living (the only currency that oil is trading the dollar was, in conditions of increased demand and an inflated price of oil, print and use in procurement dollars was a sport of the day), accumulated dollar reserves in the market have reached high levels. Decreased demand for oil, so U.S. dollars and put the world's countries face a cruel reality: facing the prospect of dollar inflation, interest is directed towards supporting the dollar at any cost. Globalization has linked virtually exchange value, money market with the role of maintaining a relative balance: currency depreciates against each other in maintaining a reasonable parity between the currencies.

Hence the need for rules and regulations consist, rational to target the global economy. On the other hand, the existence of a large number of currencies now presents two dangers for the dollar's supremacy: the reorientation of national currencies and the ability of investors to the respective states to manage their monetary policy, a process that can bring local economic Benefits.

A clear trend is taking shape: the number of local currencies by restricting economic union that would encompass countries with different economic potentials. Interesting will be how the inside of these associations, developed countries will be able to cover its debt to capitalize on the potential difference and to revive economic growth.

Microeconomic efficiency and lower travel costs for moving the world toward alternative energy sources, cleaner and cheaper, also new technology might appear.

In this new context, in which the state is the referee and player in the economy is picking up speed economic changes. Acceptance of these changes is facilitated by the fear people in front of the sharp drop in living standards. However, maintaining the state of affairs artificially inefficient and uneconomic costs, extension of the recover time, the transfer trough the community is not a measure that belongs to capitalism.

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## CORPORATE SOCIAL RESPONSIBILITY IN THE CONTEXT OF SHARED SOCIAL RESPONSIBILITY

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**Abstract:** *This paper has as main goal establishing the defining aspects of the concept of "Shared Social Responsibility" in comparison to the concept of "Corporate Social Responsibility". Therefore, the research goals are built around this main aim of the paper and consist of describing the context of responsibility in the liberal model, defining the corporate social responsibility in this sense and, afterwards, establishing a conceptual relationship to the concept of shared social responsibility. The expected result is that shared social responsibility is an integrative concept including the corporate social responsibility.*

**Key words:** responsibility, corporate social responsibility, stakeholder theory

**JEL classification:** M14

### 1. Introduction

"We are at a moment in history which, in some ways, is comparable to the end of the Second World War. Then the prevailing system had actually collapsed and a new one had to be built from scratch. At Bretton Woods, the victorious powers proved equal to the task. Inspired mainly by Lord Keynes, they built a system that could accommodate the entire world (...). Now, the prevailing multilateral system – call it international capitalism- did not fully collapse but it has been greatly weakened, its inherent flaws have been revealed, and it is challenged by a viable alternative. (...) We are at the end of an era, but we are not fully aware of it. (The Way Ahead, George Soros, Oct. 2009, Central European University, Budapest)

The present article comes to establish, in a today research climate of doubt towards the classic economic model, a new way ahead for the theory of corporate social responsibility, in an era of a new paradigm. This research establishes mainly the theoretical framework, having as starting point the speech of George Soros at the Central European University in Budapest and the discussions in Brussels on the European Charter on Social Responsibility.

### 2. The concept of "Social responsibility"

The responsibility itself is understood in the model of the liberal paradigm based on a simple allocation of social responsibility between the two main social institutions, the market and the state (Sacconi, 2011).

The market, along with the agents operating within the market, is assigned the responsibility to allocate the resources in an efficient way. On the other hand, like Sacconi mentioned, the other actor held responsible in the classical economic model, the state, has the role of allocating in a responsible manner the public goods and reshaping the initial endowments with which individual agents enter the market process.

As a typical paradigm of the liberal model, is important that the actors are required to fulfill a very limited series of moral and obligations. "The optimal allocation of resources does not require them to account for the outcomes of their collective actions or their compliance with any overarching ethical principle, other than the need to respect the commercial law and specific contracts" (Sacconi, 2011).

The liberal economic model considers the individual need of fulfilling a basic need as the main trigger for all economic actions. In this sense, a concept like "Corporate Social Responsibility" raises various reactions for economists. The critic to this concept comes more vehement from Milton Friedman.

In his article published in The New York Times Magazine, September 1973, he considers that the solely responsibility of businessmen is to increase their profits. He considers the theories of social responsible business as "preaching pure and unadulterated socialism." The company, being an entity, not a person, could not be considered responsible; therefore the responsibilities are those of the executives. His arguments are conducted from the idea that the responsibility of executives is primarily to the shareholders of the company. While spending resources for social causes, the executives "would be spending someone else's money for a general social interest" (Friedman,1970). In his article, he also offers a clear definition for what the liberal economy consist of:" The political principle that underlies the market mechanism is unanimity. In an ideal free market resting on private property, no individual can coerce any other, all

cooperation is voluntary, all parties to such cooperation benefit or they need not participate. There are not values, no social responsibilities in any sense other than the shared values and responsibilities of individuals. Society is a collection of individuals and of the various groups they voluntarily form” (Friedman, 1970).

The idea that collective interest are best being served through the natural pursuit of individual interests form the doctrine of classical and neoclassical economists that argue that the pursuit of the of sole interest is the only benefit to the society as a whole (Keinert, 2007).

Sacconi describes in a concluding manner two versions of social responsibility of the two main actors in a classical economic system, the state and the market. Therefore, on one hand, he refines the broad moral responsibility as being almost impossible in these circumstances, because the actors could not intentionally affect the market outcome, because the market finds its equilibrium in a social optimum that fully respects negative freedoms. The second version of the social responsibility has at its core the standard of self-interested behavior understood as being the trigger of the individual pursuit of interests in the society, as being the main condition for the perfect functioning of the market. Not adopting this attitude would mean not respecting the moral of the market, being “a violation of the ethics of the market” (Sacconi, 2011).

Even if we can determine the liberal theory as being an environment where the concept of corporate social responsibility will be inopportune or as an environment where pursuing the individual interests consists the ethics of the market, as described both by Keinert and Sacconi, the shareholder approach as described above consists of a inappropriate model for the fully development of the concept of social responsibility in its corporate vision.

Another approach on social responsibility is brought by Ewan and Freeman, 1988: the concept of stakeholder. A stakeholder could be defined as any group or individual that has a vital interest in the doings of the corporation (Keinert, 2007). Through this theory, Freeman declares not only the owners of a firm have a legitimate interest and claims on the firm, but every individual or group that may affect or be affected by the company’s activity has a right to be considered in the process of decision-making (Garriga and Mele, 2004). This theory considers the fact that the corporation integrates interests when possible, mediates between parties when there are conflicts taking place, and they only trade off interests when some attempts of conciliating the interests fail repeatedly.

Another theoretical approach on social responsibility is the social contract approach. This is similar to the stakeholder’s approach in terms of recognizing that are several groups that surround the corporation and have vital interests that depend on the doings of the corporation. In this perspective, the integrative alliance between stakeholders, broadly described as a social contract between the members of the society and the powerful ones governing the society (Crowther, 2004) decentralizes the corporation and alternatively visualizes each stakeholder as the center for the purpose of framing problems and generating solutions (Werhane, 2007).

The work by Donaldson and Dunfee propose what they call Integrated Social Contracts Theory (Werhane, Freeman, 1999). This theory was firstly proposed by Thomas Hobbes and states that “human beings tacitly consent to join together in societies and tacitly agree to laws and regulations on their behavior so that they can live in harmony and achieve their own ends in relation to others” (Werhane, Freeman, 1999). Donaldson and Dunfee argue that: “All rational humans aware of the bounded nature of their own rationality would consent to hypothetical social contract, encompassing a macrosocial contract, that would preserve for individual economic communities significant moral free space in which to generate their own norms of economic conduct, through actual microsocial contracts” (Donaldson and Dunfee, 1995).

The way the shift in responsibilities takes place between the members of a macro-space, parts of the same social contract, takes place is described by the theory of the “We Thinking” and “Team Reasoning” (Bacharach 1999, 2006, Sugden 2000, 2003, Tuomela 2005). According to Sacconi (2011), Team Reasoning requires the following premises: for each individual member of a group, it is true that he/she knows that he/she is a member of the group; the group has a goal, every member of the group identifies with the group and hence takes the group’s goal as his/her own goal, there is a joint action that satisfies the group’s goal better than any other and members of the group calculate it. From that calculation each member knows the individual action which is the projection of the common action onto the individual strategy set of each player, the part of the collective action that is under the control of each individual player. Team Reasoning bases on Group Identification (Sacconi, 2011). According to Bacharach, group identification is linked to cognitive mechanism of framing. In case an individual enters a “We” Frame, then he will perceive the group as the unit of agency and the rest of reasoning will follow. In case he enters or remains within “I” Frame, he will perceive himself as the unit of agency. In this care, the typical consequences are the collective action

paradoxes. The responsibility for a group could be assumed only if the individual enters indeed the “We” Frame (Bacharach 1999).

### 3. The concept of “Corporate Social Responsibility”

The company’s role inside this theoretical framework is translated from the old model of classical theory. In this model, business along with the state carries out the responsibility towards the environment. Beginning with the 70’s, mostly in the United States of America, the donations started to be a part of the activity of the companies and state, therefore, a form of manifestation of their responsibility towards the society. The reasons behind assuming this responsibility lie behind several motivations. The business role inside the society lies under mutual influence. The political sciences encompass the business as a good citizen, as for the more business-oriented theories about the good governance of the firm, the accent is set on the “economic side of transparent and just relations with various stakeholder groups, especially with investors and employees” (Keinert, 2007). According to Sacconi, the main reason that motivates the responsibility of business towards society at large is the cause of externalities. “Interest in this case is claims to redress for social costs and externalities that spill over onto stakeholders – individuals, groups or entire communities – as the external cumulative effects of multiple individual decisions” (Sacconi, 2011).

According to the same author, externalities are effects of some interference of market transactions with the allocation of public or common goods, or could be defined as failure of collective actions aimed at their production or preservation (Sacconi, 2011). Externalities occur when parties involved in a market transaction consume some public resource and generate social costs that spill over other stakeholders.

From this point of view, we can introduce the concept of corporate social responsibility as describing the relationship between business and the larger society surrounding it and as aiming at redefining the role and obligations of private business within the society (Keinert, 2007). The concept of corporate social responsibility gains in its meaning together with the changes that take place in the society, with the growing concern for social issues all over the world, with the activity of international organizations like the International Labor Organization, but also with the concern for environmental issues, pollution and the consume of resources, which are very scarce. The externalities that the companies cause on the various groups of stakeholders and the influence that business has on every aspect of the society, including political and social, determine the social responsibility of business as a must in this sense. On the other hand, Broadhurst (2000) defines CSR as “corporate compliance with universal norms and guidelines”.

In order to catch all the implications of the concept of Corporate Social Responsibility, is necessary to describe the historical path which brought this concept in front of the public conscience. The beginning of this concept in the United States of America is marked by a study proposed by the Federal Council of Christ’s Churches in America, study called „The social responsibilities of the businessmen”, written by Howard Bowen, year 1953. This study concentrates on the responsibility that businessmen has to assume, in case the entrepreneurial society continues to exist (Bowen, 1953). Even if this study is considered to mark the beginning of the concept of corporate social responsibility, two years before Frank Adams, a member of Standard Oil, published in Harvard Business Review the article with the title: „Management’s responsibilities in a complex world”. The both editorial events mark the interest for the field of economical ethics, but concentrate on the responsibility of the manager inside the society, not on the responsibility of the corporation itself inside the society.

Carrol describes in year 1991 the constitutive elements of the concept of corporate social responsibility as follows: the first is the economic responsibility to produce goods and services for the society, in exchange of profit. This is completed through the legal responsibility of the corporation to fulfill its economic mission, with regards also to the legislation. As a third responsibility, one can state the ethical responsibility, which describes the ethical expectations that the society has towards a company, including its need for a licence to operate in the field where this company acts. The last is the discretionary responsibility (philanthropy), which is valuable for the companies, but not compulsory

Frederick (1998) classified the evolution of the concept of corporate social responsibility as: the first phase, CSR 1 (1960/1970), meaning doing the right thing. The next phase, CSR 2 (1980), implies an open approach of the concept. The third phase, CSR 3 (1990), is based on conformity in respecting the concept, as in CSR 4, starting with the year 2000, will mark a concentration on the cosmological and spiritual aspects.

The academic research introduces the concepts of explicit and implicit dimensions of corporate social responsibility. (Keinert, 2007).

The explicit dimension of corporate social responsibility refers to the corporate policies through assuming the responsibility in the interest of society. This dimension could be described by volunteering,

specific policies, strategies and programs of companies, dedicated to the problems of corporate social responsibility.

The implicit dimension consists in the practices initiated autonomously from the public sector, and the state creates the proper institutional environment for social, environmental and ethical norms and rules. The fact that some of the forms of corporate behavior represent a manifestation of the implicit corporate social responsibility in some countries and of the explicit corporate social responsibility in other countries is due to the different capitalist traditions, to differences in the business environment, social wealth and industrial relations (Matten and Moon, 2008).

The academic literature also presents different points of view in respect not only to the need of one corporation of being part of diverse activities included in corporate social responsibility programs, but mostly in respect to the degree in which these activities will take place voluntarily or under legal obligation. By example, Gohri (2004) considers that the corporate social responsibility policies start where the legal obligations of companies finishes.

Even if there are some inconsistencies respective to the nature, voluntary or not, of the activities of social responsibility developed by companies and multinational corporations, there are no different views respective to the scope of the programs of corporate social responsibility. In the last years, in USA and in the west-European economies most companies run activities in the field of corporate social responsibility. A study from Ernst&Young in 2002, where representatives from 114 global companies were questioned, revealed that 73% of these companies develop this kind of activities in their corporations. (De George, in Fisher, in: Keinert 2007).

In this sense, a company has not only the duty of creating financial value, a measurable value or profit, but the duty of creating value on a triple line, concept generically called „Triple Bottom Line”. According to this concept, a company has to create value from the economic, social and ecologic point of view.

If the policies of corporate social responsibility are the result of professional campaigns, not only out of the wish to bring an image capital for the company, even if this is a benefit of these policies, the companies can transform the corporate social responsibility programs in competitive advantages for companies, through creating valuable intellectual capital. Therefore, like Roberts and Dowling (2002) show, other encouragements to socially responsible behaviour include the achievement of competitive advantage, especially through the creation of valuable intangible assets, attractive options to enter new markets and, as recent CSR research has shown, a correlation between social performance and sustained superior financial performance can be detected.

#### **4. European Union's Policy on Corporate Social Responsibility**

If we consider the society as the group of agents referred to in the theory of „We Thinking”, and the European Union another appropriate group this respect, then the status of a citizen part of the Union gives him the possibility and requirement to assume a responsibility for complying with the rules of the union, where according to the term of Social Cohesion, one of the third pillars of the Union and also to the Agenda 2020, social responsibility is one of the central notions. If we consider a corporation as active player in a globalized economy, at the European level, the compliance with the Corporate Social Responsibility Policy of the European Union also becomes a Must this respect.

The European Union Policy on Corporate Social Responsibility is integrated in the global policy of the international institutions like United Nations, which design multiple guidelines in order to promote the various aspects of corporate social responsibility and sustainable development, mostly in the era of the economical rethinking, when the need of new business models, of re-defining prosperity and growth gain a huge relevance.

In 2002, ten years after the Rio Summit, at the World Summit on Sustainable Development in Johannesburg, all countries agreed that „Poverty eradication, changing unsustainable patterns of production and consumption and protecting and managing the natural resource based of economic and social development are overarching objectives of, and essential requirement for, sustainable development” (Johannesburg Plan of Implementation).

The cycle 2010/2011 functions on transportation, chemical, waste management, mining, a 10-year framework of Programs on Sustainable Consumption and Production. Therefore, the pillars and themes developed for the Strategy 2020 of the European Union are included in the terms of the United Nations Policy.

In Europe, the adoption of CSR policies by corporations as well by the small and medium-sized enterprises complies with the overall policy in the Union. Even so, increasing attention is being paid to the implementation of a more structured approach inside the enterprises in Europe. Many social and environmental responsibilities, which may fall under companies' voluntary CSR engagement elsewhere, are in Europe legally defined. However, the increasing interest in business opportunities associated with innovative CSR approaches, together with the growing stakeholder expectations for corporate accountability and responsible business practices both within and outside Europe, continue to push the CSR agenda forward. In the context of the crisis of the known business model, along with the crisis of the old classic economic model, it is crucial for companies of all sizes to contribute to rebuilding trust in business and shaping a more responsible and sustainable economy in Europe and globally. In this context, the Enterprise 2020 Initiative brings out what for the European Union is called the Enterprise of the Future.

## 5. The meaning of Shared Social Responsibility

The Importance of the Social Cohesion in the Europe of the 21st Century and the increasing role of corporate social responsibility gain in their dimensions while the new concept of Shared Social Responsibility is being presented and while the European Council and the European Commission describe the term, both from political and from economical point of view. Therefore, a Charter on shared social responsibility is proposed, until now, only in a form of a draft, to the member states of the Union.

For the purpose of the charter, the terms of „responsibility”, „social responsibility” and „shared social responsibility” are defined in the Draft recommendation of the Committee of Ministers to member states on the Council of Europe's Charter on shared social responsibilities.

„Responsibility is defined as the state or ability of individuals and institutions to be accountable for the consequences of their actions or failure to act in all fields of public and private life, with due regard for the relevant moral, social or legal rules or obligations;

Social responsibility is defined as the state or ability of individuals and institutions to be accountable for the consequences of their actions or failure to act in the fields of protecting human dignity, the environment and common goods, the fight against poverty and discrimination, and the pursuit of justice and social cohesion, with due regard for diversity and for the relevant moral, social or legal or obligations;

Shared social responsibility is defined as the state or ability of individuals and institutions to take action and be accountable for the consequences of such action or failure to act, in the context of mutual commitment entered into by consensus, agreeing on reciprocal rights and obligations in the fields of protecting human dignity, the environment and common goods, the fight against poverty and discrimination, the pursuit of justice and social cohesion, with due regard for diversity.”

This initiative of the Council of Europe comes in a moment when the achievements of the idea of a unified Europe are under threat. The actual contexts of crisis and of public indebtedness, the economic changes, the shift in employment and the changes that are needed to be performed in the today's understanding of the economic model cause concern and force the member States to act. The Draft for a Charter of Shared Responsibilities has as main reasoning the need in assuming responsibilities at all levels and the need of change. „A succession of economic and financial crises, as well as climate change, depletion of natural resources and environmental limits to the absorption of waste show clearly that the current model of production and consumption has a range of negative consequences” (Draft recommendation of the Committee of Ministers to member states on the Council of Europe's Charter on shared social responsibilities, 2011). The current economic status has shown the lack of the European states in possibilities of tackling these issues and challenges, whereas the traditional forums for negotiation and social dialogue are no longer suited to the complexity of the challenges. That is why the social responsibility needs to be shared equitably among public authorities, companies, civil society organisations, families and individuals, as parts of the „We Frame” that is considered to be Europe.

A shift in the responsibilities of the stakeholders takes place along with the concept of shared social responsibility. This concept gives a new meaning to the individual responsibilities, obliging social actors and individuals to act with full transparency and to account for their actions. In order to apply this principle and new form of relationship between stakeholders, is necessary that each stakeholder has the ability to take a decision with an effect in the public arena, each stakeholder must be able to have access to information on the impact of their actions, according to these norms and principles, which must reflect a collective identity, creating a feeling of solidarity and reciprocity between stakeholders motivating them to action and to honouring their mutual commitments.

In order to reduce conflicts and friction between diverse stakeholders and members of the society, it is essential to put in place cooperative solutions which can ensure for all stakeholders an equitable share of social and economic benefits.

According to these principles, of a great importance are the social, environmental and intergenerational justice, describing the three pillars on which the concept of shared social responsibility is based. Respecting these principles, a climate of confidence in the future is created, along with the development of social and moral resources for the citizens of Europe to work together for the well-being of all, for social cohesion and for sustainable development.

The major dilemmas that the European society is facing nowadays and that require the attention of all stakeholders are: the budgetary policy of the public authorities, the economic policy, the intergenerational policy and policies for harmonious co-existence in plurality (Draft recommendation of the Committee of Ministers to member states on the Council of Europe's Charter on shared social responsibilities, 2011).

The economic policy faces the question: What type of growth can reduce poverty and narrow inequalities in wealth while preserving the quality of the natural environment? On the other hand, the intergenerational policy faces questions like: how can one preserve the quality of life and interests of future generations and how can one uphold the social rights of the elderly without creating conflicts between their social protection and efforts to avoid the financial and employment insecurity of the younger generations. In terms of policies for harmonious co-existence in plurality, the question that raises is how can one develop institutional capacities to promote both equity and diversity? A new economic and societal pattern based on the concept on shared social responsibility presupposes producing performance indicators able to measure societal progress in terms of well-being for all, the reduction of disparities in the living conditions, the implementation of forms of partnership, multi-stakeholder and multi-level governance that make it possible for a plurality of actors to be engaged on a sustainable basis.

As actions that need to be taken into account, a high importance is given, in terms of understanding corporate social responsibility integrated in shared social responsibility, to strengthening of social ties and networks by establishing partnerships and collective decision-making processes that are rooted in an understanding of the differences between stakeholders and the need to reconcile their interests while reducing imbalances in power. The process of devising and propagating sustainable lifestyles in terms of production, consumption, mobility, housing, savings and investment is also sustained by this new framework.

A new business model is proposed, in terms of setting up enterprises and cooperatives incorporating into their accounts all social and environmental costs, and the interests of the other stakeholders in their forms of governance (Draft recommendation of the Committee of Ministers to member states on the Council of Europe's Charter on shared social responsibilities, 2011).

In respect to the forms of governance and organization of the companies in this new business and economic model and promoted by this new economic paradigm, the Draft recommendation mentions that the companies are encouraged to adapt their forms of governance to incorporate the general principles of shared responsibility:

- Integrate the viewpoints of workers, consumers, institutions, relevant civil society organisations in the process of decision-making
- Rethink their strategy and operational principles in the context of environmental, intergenerational and social justice
- The conflicts that exist within the communities they activate in must be managed in a spirit of dialogue, confidence, mutual respect.

Companies that are encouraged to take part at creating and implementing the model based on shared social responsibility may extend their concept and understanding of corporate social responsibility and take into account the interests of all stakeholders, make the product life cycle transparent, publish periodical reports on the social and environmental impact of their activities, including those of a financial nature and seek competitive advantage focusing on sustainability through innovation in products and production processes, rather than exclusively on reducing labour force costs.

## 6. Conclusion

The economic crisis has brought a raising need for redefining the pillars of the current economic thinking and redesigning the economic motivators. Nowadays, the need for cooperation at all levels, for active partnerships and for societies with active multi-stakeholder performance determine the

implementation of a concept called „Shared Social Responsibility”. Being an integrative concept, shared social responsibility compensates and enlarges the term of corporate social responsibility. Alongside with business, the political arena and the non-governmental stakeholders need to act together in terms of redefining new growth indicators and assuring sustainable prosperity and stability, all in the frame of an united Europe:

„To achieve a sustainable future, we must already look beyond the short term. Europe needs to get back on track. Then it must stay on track. (...). It’s about more jobs and better lives. It shows how Europe has the capability to deliver smart, sustainable and inclusive growth, to find the path to create new jobs and to offer a sense of direction to our societies.” (Jose Manuel Barroso, 2010).

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## MANAGEMENT AND MANAGERIAL BEHAVIOR : UTI COMMUNICATIONS SYSTEMS

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**Abstract:** *The rate which things are developing in the world surpasses many of them who have no inspiration or strength to understand that the future is closer than it seems. Managers possess essential role in making profound changes in organizational culture, who can influence the particularly feeling existing within the organization, individual perceptions and attitudes shared by its members.*

**Key words:** leading, management style, manager

**JEL classification :** M100, M120

### 1. Introduction

Today, few professions and occupations are as challenging as that of manager and it is because it appears often the need for leaders able to act effectively and permanently in terms of complexity and uncertainty, to make decisions on people, work and life, both now and in the future. Therefore, management of an organization is not an easy task because a manager today is to be responsible to the employees and their welfare, the achievement of organization goals and objectives, its efficiency and performance, by providing products, goods or services and last but not least responsibility towards the society in which acts, confirmation and promotion of values and ideals that define the society. In an ever changing society the demands on management skills constantly evolving. Managers who are unable to cope and adapt to changes begin to lose their jobs. In national companies there are still many managers who, although, have achieved success in their work, they begin to lose ground because they do not know how to adapt social and economic change, still practicing a management style that does not accept the delegation of responsibilities and limits any real initiative of subordinates.

To better illustrate the management style adopted in the organization, we analyzed the behavior of management in the UTI Communications Systems. The company is part of the group UTI GROUP and it is the leading provider of Internet solutions, IT services, solutions for voice and data communications, radio in Constanta Harbour. With a total of 40 employees, who are direct subordinated to the general manager, the main objective is to maintain and increase UTICS reputation as a provider of Internet solutions, IT services, solutions for radio and voice communications in Constanta Harbour, at the highest level of quality in order to satisfy the customer needs and requirements. UTICS is the leading specialist, holding a market share of 80% of telephone market and 70% of internet market. Among all major strategic objectives pursued by the company are included: customer satisfaction respecting contracts and delivering services in accordance with the requirements and expectations, continuous improvement of processes and their observance precisely in order to ensure competitiveness and quality of services, staff awareness on the relevance and its importance and how it contributes to the objectives achievement.

### 2. Management style in UTI Communications Systems(UTICS)

In any organization management function involves a large number of skills and orientations, many of which involve skills related to statistics, information technology, accounting and mathematics, management emphasis on solving rational and logical reasoning problems. Leadership means the concrete way to exercise the role of manager, in managerial practice been known more than one leadership style.

The evaluation of manager's perception and assumptions about people, about their work, and means that one can get the desired professional performances in humans, underlying the development of a particular style of leadership. To identify the UTICS manager's leadership style two tests were conducted. The first test aimed at identifying leadership style, whether it is an autocratic management style, based on an authoritarian leading or democratic style, based on the growth and development. The second test aimed to show the

manager’s orientation on task or to human nature. The two tests were conducted in the form of questionnaires. The managers were given different situations and have been asked to answer multiple-choice questions and according to the answers given, the management style was framed in a certain type. Finally, the analysis based on the responses provided, was defined UTICS manager style.

The first test, assess perceptions about people and their work consists of a set of 15 questions which the manager had to answer, questions relate to the possibilities of improving performance in labor, ratio responsibilities-money, accountability, behavior towards employees. The manager had to choose between "totally disagree", "disagree", "agree" and "totally agree". He had to choose one answer for each question, and the final total score was calculated. It may vary between 15-60 points. Between 15 to 30 points is a democratic leadership style, and between 30-60 points is autocratic leadership style.

The second test, the test orientation to tasks or to human nature, aimed to identify management issues in order to identify manager orientation on task or orientation towards people. Manager have been asked 34 questions in which were presented various situations to see how he reacts, behave, take decisions, and the frequency which these actions are repeated. These statements are related to the manager behavior as a representative of the group, encouraging employees for overtime, for a greater effort, for the initiative at work , managing conflicts, programming tasks, the refusal to explain the action way towards subordinates. In the 34 cases submitted, the manager had to choose the best answer that describes the frequency of his behavior. Possible response options were: “always”, “frequently”, “occasionally”, “rarely”, “never”. After evaluating the test results the score obtained was 15 points for orientation towards human nature and orientation of eight points for orientation tasks.

Thus, after performing the two tests and analyze results, it can be said that the leadership style practiced by UTICS manager is a democratic style, oriented mainly to human nature.

**3. Old style versus new style of management**

To make an analysis of managerial capacity and the management style adopted in the past compared with today's management style, was carried out an investigation which involved interviewing 40 UTICS employees , who were asked questions about how organization was headed in past and its current leading style.

**Table 1- Comparison between old and new style of management at UTICS**

<b>Old management style</b>	<b>New management style</b>
autocratic management	Democratic Management
Gives orders	Delegates tasks and responsibilities
Focus mainly on individual performance	Emphasize team performance and its promotion
Do not provides additional information employees	Communicate information and events
Takes decisions individually	In adoption decisions he consults with those directly involved in carrying out activities
emphasis on quantity of work performed	Emphasize the quality of work performed
The results of the company are his personal merits	Company results are credited to the whole team
Considered himself as a leader	Consider as a team coordinator
Believes the material recognition as the main motivating factor	The main motivating factor is to recognize the efforts and quality of work performed
Respect the hierarchical order	Collaborate with anyone to fulfill the tasks
Shows the way to execute a task	Delegates tasks, the execution is the responsibility of delegates
assign tasks only to the employees he consider to be competent	Keep a balance between those of poorly performing tasks, following the participation of all employees in its activities
Believes control and authority. as a factor to success	Believes that reasoning each team and getting credit are elements that positively influence the quality of work performed by employees

Source: own processing based on the results from questionnaires

This analysis was possible due to the fact that 90% of UTICS employees are in the same company during establishment. The second study involved completing questionnaires, in which employees were asked to classify a number of traits and behavioral characteristics. Each person has attributed these characteristics to the previously manager, but also the current one, by comparison. These characteristics refer to the way the manager acts: focuses on individual performance, do not provide additional information, limiting it only to give orders, takes decisions individually, evaluates work based on the number of hours provided, assumes its

own merit for the results of the company, focuses on individual promoting, he is not delegating tasks, adopt the same style of leadership to all employees, participate effectively in the development activities, acknowledges the merits of employees, employee motivation aims by creating a suitable working environment, explains the purpose of a task, attention is directed towards promoting the team, employees and managers have a relationship of collegiality, which implies respect for both sides, adjusting his leading style depending on the personality of employees.

According to the results received after interviewing staff, the information was centralized in the table below, where are defined the leading styles of the two managers.

The results summarized in the table above shows the majority opinion. While old style was authoritarian and realistic one, based primarily on the exercise of control by the manager, the new management style is defined as a democratic, participatory, based on the delegation of responsibility to subordinate staff. The analysis resulting after filling these questionnaires by employees strengthens the fact that the UTICS manager approached a democratic style, based on the delegation of tasks and people-oriented.

The manager has as primary purpose increasing direct involvement of employees in company targets, considering that this is the most efficiently way to maintain a proper working environment of employees and a growing interest for the company's overall goals.

### 3. Romanian manager versus German manager

During February-May 2010 UTICS had a project in telecommunications, the beneficiary was a German company, UNISYS. This project has given the possibility of making a comparison between management style practiced by UTICS manager and management style practiced by UNISYS manager, consisting in identifying the main features and characteristics. A first analysis was performed on the responsibilities that returned in charge of the two managers: the fulfillment of the objectives defined in each phase of the project, while respecting the framing and budgets, exercise control, staff motivation, delegating tasks, time management, risk identification and control of adverse effects, compliance and enforcement of specific performance, achieving quality standards, initiating corrective measures where is the case.

**Table 2 – UTICS Manager versus UNISYS Manager**

<b>UTICS manager</b>	<b>UNISYS manager</b>
Democratically-oriented management style based on trust in subordinates	Management objective oriented
Style organizer, acting on grounds of economic rationality	Style entrepreneur, the principal objective being the best result recorded
Realist style, based on trust and respect of employees	Realist style, based on respect for employees
Leadership is based on interest for purpose, result, benefit	Leadership is based on interest in order to achieve quality standards
The most important function of management is planning	The most important function of management is controlling
Consider that the manager is a leader for his team	Clearly delimits the difference between manager and leader
Manager proactive, trying to guess and to prevent problems before it appears	Manager proactive, trying to guess and to prevent problems before it occurs
Focuses on self-assessment in the same way that follows the assessment of the subordinate	The attention is mostly focused on evaluating subordinates
Open-minded, ready to learn	The whole attention is focused on the personal objectives
Rational traditionalist, give great importance to human resources	Procedurally, calculated, objective, sometimes rigid
He believes in partnerships and long pleasure of working together, it is important that employees believe in the decisions he takes	Develops long-term projects, budgets and forecasts, as a word person

Source: own processing based on the results from questionnaires

Following this analysis we can affirm that for the Romanian manager are more important responsibilities relating fulfilling the objectives defined in each phase of the project, while respecting the framing and budgets, staff motivation is a key element in an organization. Delegating tasks is an important issue for the Romanian manager, delegating tasks can be made towards all the employees, this will contribute towards the final results of the enterprise. Also, the Romanian manager focuses on initiating corrective action where is the case, measures aimed at training and developing staff. Unlike the Romanian

manager the foreign one considered to be important the exercise of control responsibilities, time managing in order to carry out all the tasks given, identifying risks and methods for preventing and eliminating those risks, achieve performance and quality standards, the foreign manager considering that organization's performance is based on a competent staff, able to perform any tasks they were assigned.

The study was conducted by interviewing the two managers, the results of the interview being centralized in the following table.

Currently, all industrial, commercial or service enterprises face a competitive market laws and manage to survive only because of their innovation capacity, organization and management, materialized in the existence of a system run by a manager able to adapt to the pace required in all areas of life. Success in business management consists of a manager permanent focusing on objectives and constantly adapting to changing environment in which it operates.

#### 4. Conclusions

Evolution makes the management company and managers inevitably be subject to change. This paper highlights the importance of constantly adapting to changing environment in which we live, act, form, and we form others. This paper aims to show that the modern manager must be an example for his team, he should not be the most loved and most popular in the organization, but a manager must be visionary and a leader who knows the path, being able to guide his team and those around him. Manager's tasks will become more complex, requiring a deep specialization since the company is in a constant process of change and improvement.

The study realised at the company UTICS allowed analyzing the management style adopted in the organization today. Of those presented, it follows that the current manager has adapted to future requirements, he is focusing primarily on the recognition of merit employees, on a restricted cooperation, the delegation of tasks and responsibilities and last but not least, by creating an environment which allows training and motivating employees. Comparison between old and new style of management practiced reflect the importance of changing and adapting to future requirements, these became the key to success in business, because without a flexible and professional management will not achieve desired performance. Tests have reflected a democratic management style, focused on development, the current manager considering that the future is of those who, besides all the practical knowledge management, have true leadership qualities and skills.

Also, the analysis performed by interviewing the two managers, the Romanian and the foreign one, revealed the main trends and approaches to management strategy in another country. It was noted that both managers were focusing on performance and quality. The differences consist in orientation, the Romanian manager was primarily oriented towards human nature and the stranger manager towards goals.

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**STATISTICAL ANALYSIS OF THE WORK ENVIRONMENT OF SURVEY OPERATORS**

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**Abstract:** *In this study we wanted to do a statistical analysis of the work environment of survey operators. The necessary data were the results of an enquiry and were processed with the statistical software SPSS. The results show that survey operators would be much more satisfied with their work environment if the managers improved the quality of the collaboration at department level and if there were a stimulating salary package.*

*These results are not universally valid, but they may be a point of view that could help improve the operator's productivity and to a better resource allocation of the results of an enquiry.*

**Key words:** survey operator, work environment, multiple correspondence analysis, multiple regression analysis

**JEL Classification:** C38, C83, O15

## 1. Introduction

As in the operators departments of the public survey companies are frequently problems concerning communication, organization, personal relationships, satisfaction with work or salary package (Ticu Constantin, Ana Stoica-Constantin, 2002, p. 88), we must take into consideration an analysis that could enable us to get an explanation of the situation. This analysis is important both for finding solutions for the problems of the operators department and for providing the managers of a public survey company/ research centre with valuable information, useful in motivating the operators, identifying future threats or opportunities for improving the efficiency of the activity.

The problem we want to solve has as its starting point the principle that there should be an analysis of the work environment at the level of the operators departments of the public survey companies. The main purpose of this study is identifying those aspects of work that lead to better results of the survey operators. In order to reach our aims we used statistical data resulted from an enquiry conducted in the Iași branch of a public survey company.

## 2. What is a survey operator

Each enquiry is unique and implies a certain effort, during a certain period of time, complex activities and categories of resources. One of the important categories of resources is the workforce. This category comprises, alongside specialists in different fields, survey operators. By using them, even if the costs are bigger, companies have representative samples and the appropriate respondents for the questionnaires.

Generally, „operator” means a qualified worker that supervises the functioning of a machine, of a device or of equipment and that does certain actions with these. An „operator” can also be the person that handles the camera during filming or that projects movies on to a screen. In mathematics an „operator” is: a function between two vector spaces, compatible with the vector structure of those spaces. (Vasile Breban, 1987, p. 711)

There are different approaches to defining the survey operator in specialty literature. The survey operator is considered a key element but also a critical one of surveys, because his/her attitude and abilities can lead to the success or the failure of the enquiry. (Graham R. Walden, 2006, p. 116). The sociologists Traian Rotariu and Petru Iluț (2006) write that conducting surveys implies that the questions of the questionnaire are read for the respondents, the latter answer orally, the answers being recorded by the people conducting the field survey, the so-called *survey operators*. Vlăsceanu Lazăr, Zamfir Cătălin et al. (1993) provide another definition. In their opinion, the survey operator is a person qualified for interviewing persons in sociological enquiries and surveys. In sociological research, the operators must find the persons that fit the sample, get their consent for the interview, asking questions according to the interview guide or the questionnaire and recording the answers.

Adam Kuper and Jessica Kuper (2004) have a different point of view. This authors consider that, the survey operator is an indispensable specialist that contributes with his experience and abilities to creating

connections with the respondents, explaining the purpose of the survey and recording the answer of the respondent.

A comparison of these definitions shows that they are not complete. A survey operator records not only the answers to his questions but also supplementary observations regarding the context of the answers and the spontaneous reactions of the respondents. Moreover, the operator expresses his social status by the way he/she speaks, by his/her clothes and his/her behaviour. The respondent perceives the social status of the operator and adjusts his/her verbal behaviour according to what he/she thinks the operator expects or should learn from him/her. (Chelcea Septimiu, 1975, p. 181)

Trying to give our own definition we can say that a survey operator is a specialist employed (temporarily or permanently), according to the purpose of the research, the method, the characteristics and the abilities that he/she has, in the observation stage of a survey. This definition can be considered more complete because the observation stage of a survey does not imply only a dialogue or communication, but also a certain methodology.

The survey operators' activity in public survey companies implies many tasks: finding the respondents, making sure that they cooperate, preparing and motivating the respondents to answer the questions, asking questions, offering explanations, recording and checking incomplete answers. In the observation stage of a survey the operators must also have information regarding the aims of the survey and the final questionnaire, the way of choosing and approaching the persons that must answer the questions, the way the questionnaire must be actually applied and problems must be solved, the activities that must be carried out after applying the questionnaires. In the stage of preparing the data for statistical analysis the survey operator verifies the questionnaires, post-codes and stores the data in the computer. We can see that by defining the survey operator and identifying his/her tasks we have a primary image of this category of employees.

### 3. The work environment of survey operators

The concept of work environment is very complex. It appears in many articles and studies by researchers in management and organizational psychology. Generally, „environment” means certain conditions, social, moral or other type of atmosphere, ambience. (Vasile Breban, 1987, p. 184)

There are different definitions of „work environment” in specialty literature. E.g. Cătălin Zamfir et al. (1980) define it as the organizational, social and human conditions of each work group, the general ambience of its activity. Ekval (1990) has opinions similar to those of Cătălin Zamfir et al. (1980) about the definition of „work environment”. He describes the work environment as a conglomerate of attitudes, experiences and behaviours that characterizes life in an organization (apud Eugen Avram, Cary L. Cooper, 2008). Another author, Păun E. (1999) thinks that work environment means a phenomenon linked to groups and collective psychology. It refers to the intellectual and moral conditions of the group, to the group's feelings and perceptions. In the opinion of this autor, the environment expresses the general attitude to the activities of the organization, to work conditions, managers and colleagues. Also, the environment can be a strong mobilising factor for the entire staff or, on the contrary, a demobilizing factor.

By analyzing the equation developed by Kurt Lewin (1936) (Lewin's Equation):

$$B = f(P, E) \quad (1)$$

where B is the behaviour, P the person and E the environment, we infer that the behaviour depends on the person and the environment. Adapted for an organization, this formula separates it into three components: employee, environment and behaviour. The most important component of the three is the employee. Therefore we can infer that the employee plays an extremely important part in the activities of an organization. The information he offers can provide an objective description of the problems and solutions for the latter. Eugen Avram and Cary L. Cooper (2008), agreeing with this approach, write that the work environment of an organization is a result of the employees' perceptions, that have a major influence on their behaviour during a certain period of time, and represents both a individual interpretation and a collective interpretation of the organizational culture.”

In specialty literature there are many authors that define the significant variables of the work environment. E.g. Teresa M. Amabile et al. (1996), Göran Ekval (1996), Garry A. Gelade and Mark Ivery (2003), A. Neal et al. (2000), Ticu Constantin and Ana Stoica Constantin (2002), Cătălin Zamfir et al. (1980) and Constantin T. and Zaharia D.V. (2007).

By reading these authors' works we can see that some of them have identified as variables that define the work environment internal communication, organizational structure, political environment, development opportunities, evaluation, promotion, help or work satisfaction. Other authors emphasize management efficiency, authority, involvement, sociability, bureaucratic procedures or work standards.

Taking these into account, if we want to analyse the work environment of survey operators, we must evaluate their degree of satisfaction with work conditions, collaboration, salary package and career development opportunities.

#### 4. The assumptions of the study

In order to improve the activity of a department of survey operators, we want to identify the problems they face. This evaluation could be used for adopting a management strategy that could ameliorate the deficiencies of the department. These arguments led to checking the following assumptions:

**H1:** *The work conditions, the quality of collaboration, the salary package and the opportunities of career development have the same effect on the degree of satisfaction of the respondents with the situation of the work environment.*

**H2:** *There are significant statistical connections (associations) among the variables that express the work environment of the survey operators department at a certain time, the problems and the solutions offered by the employees of that department.*

#### 5. The research method

In order to obtain relevant information that could allow us to identify or use solutions or long term strategies, we have used statistical data gathered from 7<sup>th</sup> January 2008 to 20<sup>th</sup> February 2008. The necessary information about the staff working as survey operators have been offered by the Human Resources Department of the company. Thus we have found out that there are 107 survey operators and that the staff fluctuation is very high. Therefore, the new-comers (still in training) have not been included in the survey, because they had not been part of the group for long enough and they did not have enough experience or information to answer the questions.

The estimate of the resources necessary for the enquiry has been made with the help of a schedule of the activities. The monitoring of the activities of the enquiry has been made with the help of a time budget, while for the other category of resources we have made an aggregate budget.

The technique we have used in order to interview the survey operators was face to face. Each operator has been stopped from work and invited to another room to answer the questions. This aspect was very important to make sure there is a larger amount of objectivity and appropriate conditions for the interview.

The questionnaire was made of questions that allowed us to gather objective information (age, sex, studies) and subjective information (opinions, attitudes, motivations). A short introduction was made in order to present the aim of the survey to the respondent, then there were questions about the person's profile (sex and age), while at the end, in order to make a better statistical classification, we placed the studies and the seniority in the company. The questionnaire has questions about the work environment, the quality of collaboration, the salary package and the career management. Some people hesitated when answering somewhat awkward questions.

In order to make sure that this questionnaire is totally suitable to the objectives and without words leading to misinterpretations and confusion, we have conducted a pre-survey on an echantillon of 20 survey operators. We have paid special attention to the authenticity and quality of the data, aspects that made the survey more efficient. All the employees of the survey operators department accepted to express their opinions, therefore we made 107 interviews.

#### 6. Variables

As we want to make a general estimate of the existing situation of the survey operators department, we choose the following variables: *Q1* (Work environment satisfaction), *Q2* (Cause of the problems), *Q3* (Future evolution), *Q4* (Solutions), *Q5* (Sex of the person), *Q6* (Age), *Q7* (Studies) and *Q8* (Seniority). In order to classify the operators according to their belonging to a characteristic we have used nominal scales. This implied giving a code to each characteristic.

Taking into account the dimensions of the work environment identified in specialty literature, the second category of variables expresses the degree of satisfaction of the survey operators with the existing situation: *Q9* (Work environment), *Q10* (Quality of collaboration), *Q11* (Salary package satisfaction) and

**Q12** (Career management). These variables were given in the data base numerical codes for each variant of answer. We used the simple ordinal scale for this.

## 7. Data analysis

To test the first assumption, we estimated a multiple regression model. This model assumes that the errors  $\varepsilon$  are normally distributed with a mean of zero, a common variance, and are uncorrelated. The general model is written as:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_k X_k + \varepsilon \quad (2)$$

where:

Y - dependent variable;

$X_1, X_2, \dots, X_k$  - independent variables (predictors);

$\varepsilon$  - error variable;

$\alpha, \beta_k$  - regression coefficients. (William D. Berry, 1985, p.21)

Variables which had no significant effect on the dependent variable Q1 in the exploratory regression were dropped from the final equations. For this we used the Backward elimination method. We began with all candidate variables in the model, and at each step, we eliminated the least useful predictor (lowest F-to-remove). Variables are removed until an established criterion for the F no longer holds.

In order to check the second assumption we can use many methods of multidimensional statistics: factorial analysis, multidimensional scales, discriminator analysis, multiple correspondence analysis etc. Taking into consideration the purpose of this study and the nature of the variables we shall analyse, we have thought that the most appropriate method of Multivariate Analysis is that of Multiple Correspondence.

It is one of the statistical methods that reduce the dimensionality resulted from the whole of the initial data. It has been developed by Jean-Paul Benzécry in 1960-1970. The method of Multiple Correspondence Analysis implies a large number of variables, so it is considered an extension of Correspondence Analysis. Generally, its purpose is to emphasize the coordinates regarding the connections of the changes of the variables and to find the measures that delimitate the categories of variables as much as possible. This implies that homogenous measures are projected close together, while those that do not belong to the same category are projected far apart on the graph. (Donna L. Hoffman, Jean de Leeuw, 1992, p. 260)

## 8. Results

By applying the *Multiple Regression Analysis*, in which the dependent variable was **Q1**, we obtained the following results :

- **Q11** has the highest correlation (0,531) with the dependent variable **Q1**; **Q10**, the next largest (0,518); and the **Q9** ratio, the lowest (0,050).

- the value of  $R^2$  for the model with all eight predictors in step 1 is 0,418 and adjusted  $R^2$  is 0,395.  $R^2$  for the last model with two variables is 0,398, a negligible drop from 0,418 for the full model. We notice that if we include more and more variables in a model,  $R^2$  and standard errors will continue to increase.

- we obtain for  $F$  statistic high values and for associated probability (*Sig.*) small values ( $< 0,0005$ ). These results denote that each coefficient is 0 is rejected, but does not imply that each of the independent variables makes a meaningful contribution to the fit of the model.

- in the Coefficients table we obtained results regarding each step in the model selection process. It contains the coefficients and statistics for the equation at step 1, which includes all four candidate predictors. For this four variable model we obtained one small  $t$  statistics and several low values of tolerance. Thus, **Q9** and **Q12** are candidates for removal. The backward method removes **Q9** first because it has a small  $t$  and the biggest associated probability (*Sig.*=0,251). The statistics obtained for Model 2 show that the variable **Q12** has the smallest  $t$  (1,625), so it is removed next. The model identified by the backward method is:

$$\hat{Y}_1 = 1,250 + 0,406 x_2 + 0,338 x_3 \quad (3)$$

Replacing the  $\hat{Y}_1$  and  $x$ 's with variable names we have:

$$Q1 = 1,250 + 0,406 Q9 + 0,338 Q10 \quad (4)$$

*Eigenvalues* obtained for this model are closed to 0 and we can say that the variables are highly intercorrelated. Continuing with the interpretation of the estimated equation, we see that the coefficient values obtained for **Q10** and **Q11** are positive, but not high. In this case, we can say that, on average, the degree of satisfaction of survey operators with the work environment increases if the quality of collaboration and the salary package increase.

By applying *Multiple Correspondence Analysis* we emphasize the coordinates regarding the connections of the analysed variables. We notice in Table 1 that for the Cronbach Alpha Coefficient we got high values, which proves that the scales of the analysed variables have a good level of fidelity. We also notice that the first dimension accounts for 35,05 % of the inertia of the cluster of points while the second dimension accounts for 30,21 %.

**Table 1 Values for the first two vectorial axes**  
Model Summary

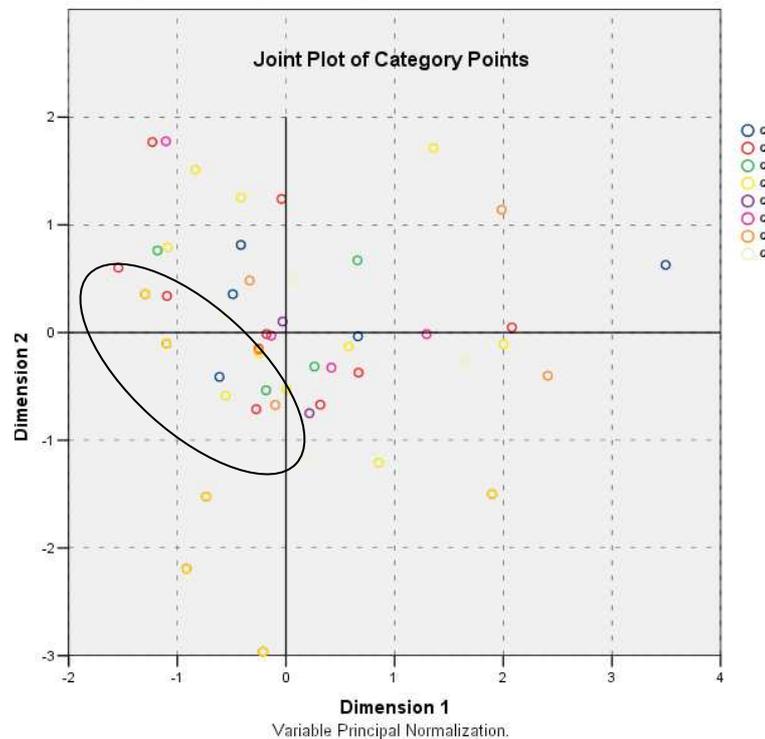
Dimension	Cronbach's Alpha	Variance Accounted For	
		Total (Eigenvalue)	Inertia
1	,817	3,505	,438
2	,765	3,021	,378
Total		6,526	,816
Mean	,793 <sup>a</sup>	3,263	,408

a. Mean Cronbach's Alpha is based on the mean Eigenvalue.

In Figure 1 we notice that the variables that have values belonging to certain categories are close to the origin, while the variables that have unique characteristics are projected far from the origin. Looking at the values of the coefficients for the first dimension (the horizontal axis) of the graph, we infer that the survey operators are rather satisfied (3,673) with the work environment.

They say that the problems of the department result from the insufficient qualification of the staff in this field (1,580), but also to the pursuit of personal interests. The solutions recommended by the employees of this department aim at a radical change of this situation (1,744). As for the future evolution, the operators think that the situation will worsen (1,005) and that will not change (0,870). This diagnosis is given by persons with 1-2 years seniority, aged 25-30, with a master's degree.

**Figure 1 Graphical representation of the variables**



In the case of the other dimension (the vertical axis), by analyzing the values of the coefficients that we obtained we can see that the operators of this category are rather satisfied with the situation (0,775). In their opinion the problems that appear frequently are the result of the lack of constant evaluation (1,422) and of the pursuit of personal interests (1,245). This category includes operators that have been working in this company for less than 6 months, are over 30 and are studying for a master's degree.

Looking at the results in Table 2, we notice that the highest values of the coefficients for the first dimension are recorded for the variables *Q4*, *Q1* and *Q2*. For the second dimension the highest value of the coefficient is recorded in the case of the variable *Q4*.

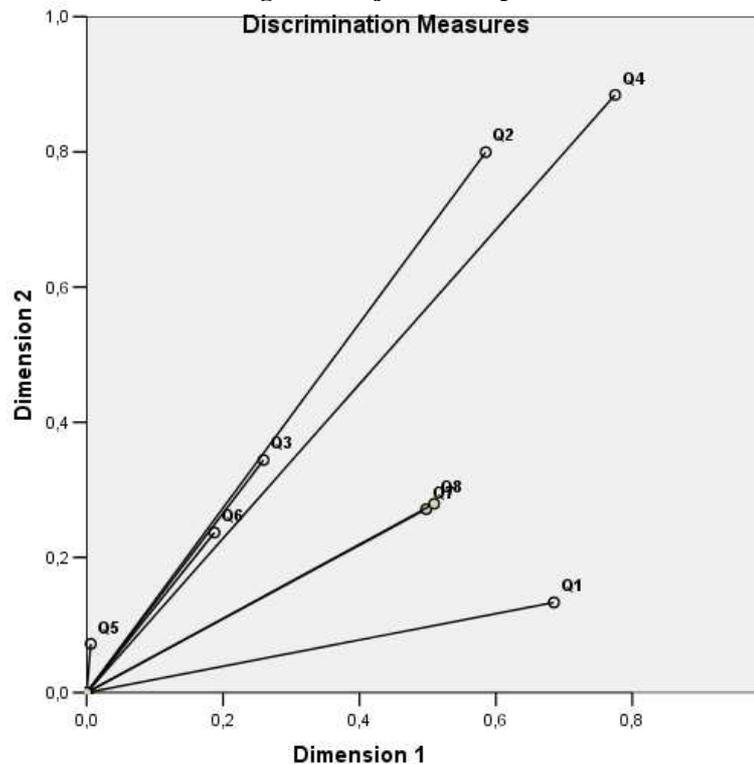
From Table 2, we see that variables *Q4* and *Q2* make a good delimitation for both dimensions having big values of the coefficients.

**Table 2 Discrimination according to variables and dimensions**  
**Discrimination Measures**

	Dimension		Mean
	1	2	
Q1	,685	,133	,409
Q2	,585	,800	,692
Q3	,259	,344	,302
Q4	,775	,884	,830
Q5	,006	,072	,039
Q6	,187	,237	,212
Q7	,498	,271	,385
Q8	,509	,279	,394
Active Total	3,505	3,021	3,263

A delimitation of the categories of variables according to the dimensions is made in Figure 2. We infer from Figure 2 that the variables *Q1*, *Q7* and *Q8* have a high value/score of delimitation for the first dimension and a low value/score for the second dimension. The variables *Q5* and *Q6* are very close to the origin of the graph and have the smallest influence. *Q2* and *Q4* are the variables with rather high values/scores for both dimensions.

**Figure 2 Object scores plot**



We notice that in the case of the variables *Q4* and *Q2* there is a very strong statistical connection.

**9. Conclusions**

The purpose of this article was to offer a statistical analysis of the work environment of the survey operators. In order to do that, we had to conduct an enquiry in the Iași branch of a public survey company. The results show that the operators' satisfaction with the work environment of the department would increase if there were a motivating salary package and a better communication.

The employees of this department say that the problems are due to poor qualification of the staff in this field, inefficient management style, carelessness and pursuit of personal interests. The solutions recommended by the employees of this department aim at a radical change of the situation. They would be motivated to work hard if the salary package would be bigger, if there were a more efficient communication and real promotion opportunities. As for future evolution, survey operators said that the situation would worsen and that there would be no progress in the absence of efficient management measures. After this study we can conclude by saying that these results are only valid in certain cases. They are a point of view that can help people to improve the operator's productivity and to allocate better the resources of a survey.

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## CHANGE AS A DEFINING ELEMENT OF THE ECONOMIC DEVELOPMENT IN THE XXI-ST CENTURY

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**Abstract:** *The last decades have witnessed an unprecedented period of transformation in all fields, organizations being in a vast and complex process of transformation.*

*The pace of change is now so fast that people and organizations are facing with constant changes in all spheres of activity and must react very quickly to survive. Keeping up with the fast pace of change is one of the biggest challenges for the XXI century managers. Change is driven by new technologies, new markets and customer preferences, political and governmental pressures, social expectations and, according to experts change is an ongoing process, so there is never an end point. At present the complexity of the external environment is so great that even experts can not predict "the future configurations".*

*Today it takes "the mentality to continue development on certain stability of the procedures we use, and in the XXI century it is clear that stability is an illusion." (Clarke, L., 2002)*

**Key words:** leadership, change management, economic development

**JEL classification:** O11, Q56

### 1. Defining the concept

The concept of change is not quite clearly defined in the specialized literature.

Regardless of the optics and the approach, the term is derived from "time analysis" of acts, events, processes, human behaviour, the situation in a field or other (social, economic, cultural, educational, technical, scientific, political, etc.). But to reflect and appreciate all their changes over time there are used words like: transformation, development, growth, change, reproduction, progress, etc.

In the literature, Costel Florescu and Nicolae Popescu (Florescu, C., Popescu, N, 1998) in the paper "Moving to a new quality through scientific leadership of change" believe that "change is any substitution, amendment, or transformation in form or content of an object, product, work, business or organization."

In its general sense change is a large category that includes also the applied novelty.

From this perspective, is considered that in a very dynamic and inspired organization, the constant changes of objectives, roles and procedures, should not just be allowed but also encouraged and supported as the organization is fighting for innovation. Reality has shown that open societies are more tolerant to new ideas, have a greater capacity to adapt, managing to focus their changes much better, than the rigid ones, centralized, undemocratic.

P. Drucker (Drucker, P. F., 2004) says that "all institutions exist and operate in two time periods: that of today and tomorrow. The future is now preparing, in most cases, irrevocably. And this future is not necessarily a continuation of the present." Therefore everything that happens in organizations should aim the future and not the past.

Organizational change is a permanent and multiform phenomenon, whose manifestations are rooted in the past. Therefore, organizational changes are rarely "revolutionary", even if their appearance or their neologisms make you think otherwise. In organizing production and labour, historic branches between Taylorism (labour rationalization, specialization of tasks), Fordism (redial, standardization of tasks), flexible systems (the variety of production, production at the time) are at least as important as organizational innovations introduced by each of successive forms. Change refers to changes in goals, plans, structure, motivation and control systems, starting from the premise that organizations are not static and that very often there are significant changes in internal and external factors prompted the change.

Change is in McCalman and Paton authors' opinion, "a continuous process of confrontation, identification, evaluation and action." Change issue is an almost obsessive concern in the sociology of

organizations, perhaps because of the emphasis and also proved bureaucratic rigidity, or the concrete problems facing incessantly, both business leaders and managers of administrative reforms.

In Romanian specialized literature, Costel Florescu and Nicolae Popescu (Florescu, C., Popescu, N, 1998), in their paper "Moving to a new quality through scientific leadership of changes" consider that change is any substitution, amendment, or transformation in form and/or content of an object, product, work, activity, organization."

On the basis of several findings, it can be concluded that the environmental changes occurring or anticipated, causes a redefinition of the strategies used by productive organizations, which also produce changes more or less radical in the organizational plan. In other words, organizational change is primarily driven by strategic needs (real or perceived) to maintain and develop the organization in an evolutionary or disturbed framework. This causal chain is, of course, unequivocally, because, in dynamics, organizational strategies can "contribute" to amend certain size, shape or orientation of the development environment of firms.

In conclusion, the historical dynamics of organizational change seems to have enrolled in a complex interaction framework in which technological and institutional determinants have a fundamental role.

## **2. Change and change management**

In recent decades, business has become very aggressive and continuous change has become a custom, exceeding its exceptional character. Companies must constantly adapt to developments of internal and external factors to have success, and this requires better management. Change occurs as a continuous need to adapt to the social, technological, political, human and economic environment. Change management is a complex process and involves going through different stages in which the process lider has to optimize it, as time and effects.

A general definition which is considered the essence of change management is a set of skills, techniques and disciplines that by the complexity and specialization are transformed into actions and results through the organization.

Change management has been defined by the year 1970 as an attempt to clarify the legalities that manifest in modern organizational system. Change Management provides conceptual and practical elements necessary for employees to form teams benefiting from organizational culture and work together with their leaders for the understanding, acceptance and implementation of Innovative measures in an effort to minimize negative effects on both the professional and personal plan.

One of the main threats to the successful management of organizational change is the resistance to change. Summary of change management lies in the use of a set of skills, techniques and scenarios which the complexity and specialization of new environmental conditions are translated into actions and results through the organization. Overcoming resistance to change is a necessary process to make a change possible, so that companies can be maintained in a market that continues to change.

Currently in Romania there are specialists who provide organizational development services, support and improvement of communication within the group and aims to strengthen local organizational culture, the satisfaction of individual professional growth and the implementation of a new system of activities provided within the organization.

The scale and pace of discoveries in science and technology can help solve the problems raised, making inevitable the objective requirement to reflect deeply on how to collect and receive, but more importantly, to think and design the social and economic development. The more so because, from the twenty-first century, the chance of survival of economic financial – banking entities is proportional to the value of leadership act, action known in specialized literature as change management. To be successful, however, this process must be a creative one, prospectively type and, where possible, non-confrontational.

### 3. Crisis and it's changes on economic development

Organizations are subject to continuous change. Some of these changes are driven from within, from the organization's desire and need to adapt to new demands of markets, but there are changes that occur through no fault of the organization.

It may have major implications for the entire organization's management plan. One such change that has hit almost all organizations in the past three years - came after the global crisis. And the impact was particularly strong one, which required rapid adaptation to new global economic requirements.

Romania's economy has been one of the most severely affected of the European Union. In 2009, the impact on the economic environment has had an extreme hardness, especially as Romania came after two years of economic growth.

Statistics (INS), in 2008 Romania's economy grew by 7.1%, 1.1 percentage points over 2007 levels. After the boom, year 2009 brought a decline in gross domestic product (GDP) of Romania, the main indicator of economic size by 7.1% over 2008, according to INS. The main branch that was affected by the economic crisis industry, which recorded a decrease of 7.7% over the same period in 2007, while real estate activities, financial, renting and business services also fell by 1.5%.

Inevitably, the 2010 wage cuts and the difficulty that banks began to grant loans led to a significant decrease in consumption.

With reduced revenue and banks beating at doors to pay rates on loans taken out during 2006 - 2008, but rising unemployment determined the people to restrict at the maximum their expenditures.

Thus, household final consumption decreased by 4.7%, biggest drop was in the case of services rendered to population, 14.7% respectively. Reduction resulted in a 17% reduction of food imports in January 2011 compared with January 2010, leading to reducing the trade deficit in January, with 60% from the first month of last year, according to INS data, advance amid higher if exports compared with imports.

Small and Medium Enterprises (SMEs) were the first and most affected by economic crisis. The conference on financial crisis on SMEs: problems and opportunities of financing "President of the National Council of Private Small and Medium Enterprises - sized ventures in Romania (CNIPMMR), Ovidiu Nicolescu identified six main effects of economic crisis on small sites.

In his opinion, this phenomenon is a result of current inability of society to adapt in terms of legal, institutional, at this new created situation.

The six main effects of the economic crisis in Nicolescu's opinion are: shortness of funding, reducing credit availability "kill" viable business, the slump in exports, domestic demand reduction; financial bottlenecks created on the one hand, by the state through the private sector debt and, on the other hand, by other companies that have financial difficulties, reducing investment. This latter effect should not, in his view Nicolescu, be neglected because the "crisis syndrome" occurs in psychologically by inhibiting investments for the SME's.

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## STRATEGIC APPROACHES FOR BUSINESS NETWORKS ON INTERNATIONAL MARKETS

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**Abstract:** *The connecting problems of the companies to the strategic networks were mostly ignored in the specialty studies. By analysing the approaches accomplished in the specialty studies, this paper identifies the levels of developing the business networks. In relation to the level of developing the business networks, we may also define the developing level of the field market regarding the sales volume and the increasing potential in the future. Considering the common elements of all the approaches and the developing level of the field market, the paper classifies and analyses the categories of the operation types on the international market, basing on the approach principle from simple to complex and on the essential criteria defining each strategic alternative.*

**Keywords:** international approach, strategy, market, business network

**JEL classification:** D, F, G, L, M, O, M21

### 1. Introduction

International Strategic approach means creating, developing or entering the networks of companies and international relations of production and exchange.

In the past, there were suggested different models of stages of internalization (Bilkey, 1978; Cannon and Dawson, 1977). During recent years, there have been registered a series of criticisms regarding the stages model, as long as many companies have not followed the predictions, especially the ones of the companies in the high technology sectors having short living cycles of the products. Recently, the company increase outside the local market or the national one and the approaches regarding the networks of the international exchange relations are being studied by a bigger and bigger number of papers and specialty approaches based on the networks theory. Famous authors in the European and American scientific literature, such as P. Ellis, D. Blankenburg, A. Salmi, W. Danis, A. Parkhe, J. Johanson, L.G.Mattsson developed the "strategic network" term, a term regarded as an ensemble of inter-organizational interactions between international companies.

The connecting problems of the companies to the strategic networks were mostly ignored in the specialty studies. A network featured as an independent, organic structure acting like a whole, being sensitive to the environment where it works and to the context where the business relations are developed. It is found that it is more and more difficult for the foreign companies to make the network connections in the foreign markets where they extend, such as some Asian markets or in the transition markets in Eastern Europe (for example, Estonia, Hungary, Romania). These difficulties in building strategic business networks in the new markets occur especially due to the fact that the local companies are still developing, being unable to develop networks and the institutions of regulation on the market do not develop yet the supporting role typical to a market economy.

Johanson and Mattsson (1988) approach the internationalization typology of the business environments and of the companies by means of the contextual environment existing in every market, also introducing a time dimension called the developing stage of networks. This time component is also identified at the market level, by identifying developing types of the market.

### 2. International business networks

By analysing the approaches accomplished in the specialty studies, we consider that there are four levels of developing the business networks: the primary networks, the independent networks, the mature

networks and the leader networks. In relation to the level of developing the business networks, we may also define the developing level of the field market regarding the sales volume and the increasing potential in the future.

In the initial developing stage, at the level of the market of a business field, there is a reduced number of productive companies having a low penetration degree in the big distribution networks. From the viewpoint of the participation to the international economical circuits, when the market internalization degree is still low and the size and resourcefulness of the companies in the network is reduced, there are developed only **primary networks** where the business connections are mostly bi or trilateral between supplying, producers and distributors. Most of the producer companies accomplishing international operations have direct contacts with the companies supplying raw materials or distributors on other markets. These primary networks may be also called bilateral networks. They have a small significance and they are not integrated in the big international economical circuits but, at the same time, they have no viability in time, having a surviving rate of a few years.

As long as the economical activity in the field or the ensemble economy develops, the market allows the appearance of several primary networks reinforced by the appearance inside them of new local participants outside the market. This allows the network to be permanent and to work independently even in the conditions of the disappearance of one or another of the participants to the network. The ability of working independently but, at the same time, the lack of the integration connections with big international networks determines us to call these structures of international business as **independent networks**. The control of these is divided among a few companies dominating the producing and commercial operations. If the initial networks are numerous, the independent networks are limited, as number, in a market, being focused either on business segments of the field, or on certain geographical areas of commercializing the products and the services. Another important aspect is the fact that they belong to the market, being built around certain autochthonous companies having the power to act, acting at the regional level on different other markets. At the same time, these independent networks are connected to powerful world networks and often act as networks associated to the big mature networks or leader ones.

During the development, the independent networks tend to be associated, by forming **mature networks**. In the lack of the association, many of the independent networks are absorbed by mature networks and by leader ones by purchasing processes of the existent companies. The mature networks contain a few big-sized companies and many small companies placed in correlation with the big internationalized companies. They are actually the first real networks having the power to act at the regional level. The structure of these networks is well outlined, being formed of very many competitors occupying well established positions in frame of the business network, being very difficult for them to establish new positions in frame of the network. It is very difficult for a market to reach the moment when it can generate a mature network and only if it becomes a power in the technological field. In most of the cases, the markets may develop only independent networks and initial ones and, if the market develops, other international networks occupy this market.

Finally, when the market is globalized, there are the **leader networks** containing an ensemble of mature networks integrated or interdependent at the global level. In these networks, we find companies with a strong global position dominating the world production and commerce. The smaller companies willing to enter these leader networks are able to activate in smaller interconnected networks to these global networks.

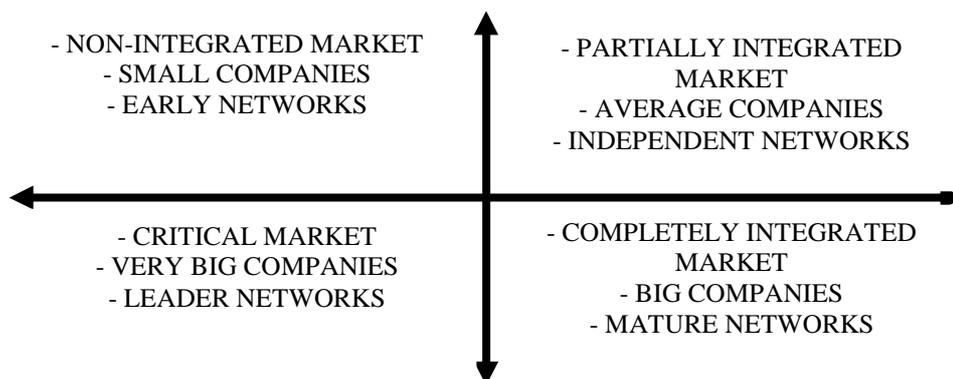
### 3. Developing levels of markets

At the basis of these four types of networks there are four types of markets, starting from markets with transiting market economy (from the national stage to the international ones) to the globalized markets. D. Blankenburg (1995) considers that the entry in a foreign market is obtained by the companies using social business connections tending to develop only at the same time with the ensemble development of the market. Thus, the network, from the perspective of an international company, is a sum of different direct and indirect relations considering that the actors are connected to other actors. The companies in the network are also indirectly connected to the clients of the clients and to the suppliers of the suppliers.

The interaction process develops technological, cognitive, time, social, economical and juridical relations between companies, in order to create connections to the international network on a foreign market. A. Salmi (2000) identified the lack of tight networks in the transition markets where the international visibility and the market sizes are too reduced to create connections, fact that makes more difficult the development of connections to the networks in the international market. This type of context establishes a typology with four types of network environments, or in other words four types of business markets.

Therefore, companies and capitals may face four types of the foreign markets (see figure 1), being forced to classify markets depending on their importance in the ensemble strategy of the company. Another purpose is connected to the desire to cover as many markets as possible in maximum efficiency conditions, by obtaining incomes as high as possible in the conditions of certain purposes that are more and more reduced. The effect of these classifications and characterizations of the markets will favour the development of the capitals and the increase of the business on the international market as a central interest element for the stakeholders of this business. The international markets have several strategic positions, being specific by their feature especially to a certain international marketing approach. (Toyne B., Walters P., 1993)

**Figure 1. Types of business markets**



A first strategic position of the international markets may be considered the one of the markets having a reduced capacity of absorbing the capitals by forming a category of the **export markets** or of the **non-integrated markets**. Their main feature is represented by the fact that they are under the most reduced influence of the institutional factors, being the markets the most difficult to control and organized of all the markets.

Therefore, these markets are characterized by a big diffusion of capitals but also of the categories of consumers having a weak structure and grouping of the demand and of the offer. This means that these markets cannot offer concentrating areas of the market that could support sales big enough to provide certain profits big enough and possibilities of reducing the global costs.

Also, the export markets are characterized by a weak cultural and social influence, not defining specific consumption segments and possibilities of diversifying the production, by implicitly developing a non-differentiated consumption. In these conditions, it is not enough to develop certain proper production and distribution facilities, being enough to product in frame of the adjacent markets and the import on these markets of those sorts of products on which we can delimit a supported demand that may create a subsequent available market.

The most important risks are the ones related to the political and legislative factors accomplishing the institutional environment unable to provide a certain stability and certitude regarding the business development. In these conditions, companies see these markets as risk markets that they partially integrate in the business portfolio, waiting for the moment when they will have a development big enough to enter directly. We may consider that these markets become interesting as long as they present economical conditions attractive enough for achieving the product export. The companies acting on international market integrate these markets by achieving exports using production and supplying bases placed in the neighboured markets.

Another major risk of these markets is the one related to the intermediaries' use that are mostly independent and that may decide on the price policies. As at the entry on a new market the price is one of the basic elements, next to the product, for the creation of a sufficient demand, it is absolutely necessary to adopt an exclusive distribution policy based on short distribution channels. This option is the only one that could favour the subsequent development when the company wants to integrate this new market on an average term and a long one.

The promotion being an element that becomes too expensive for the export markets in the conditions of a too reduced sales volume and of the limited control on the actions, it is enough to accomplish, in collaboration with the product suppliers, a department of public relations that could support the image of the producer company.

A second market category is represented by **the partially integrated markets**. At the same time, it represents another developing level and integration degree in report to the company wanting to enter a certain market and to the business developed with it.

These markets get across time or own a big importance by the economical and technological factor, but more by the demographical and cultural factor and by the consumption specific close to the culture of the provenience markets of the foreign companies. They are generally markets where the demand is only formed, it is only needed the diversification of this consumption and the enlargement of the product range or the activity fields the company may develop on these markets.

The company generally has much tighter relations with the respective extern market, being possible a primary integration in the business structures inside it. Thus, we may achieve a much stronger control on the developed operations. The company tends to consider these markets more and more important, basing on a quickly increasing demand and its weak cover by the competition. Even if the production is generally accomplished on other markets or by means of the partners in this market, there are also direct investments inside it, especially at the level of the commercial and auxiliary facilities represented by the agencies of the company, logistics, auxiliary production etc.

The main working ways are represented by types of partial delocalisation of business such as franchising or licensing, but also operationally by commercial agencies and production subcontracting and supplying contracts and service performances.

In these conditions, companies successfully develop the offered product, making possible the gradual adaption of the products to the local conditions and the positioning on supporting segments in frame of the demand that may offer consumption models in the new market. Also, the support of the sales starts to develop by strong promotional campaigns especially based on public relations funded on the direction of the previous collaborations when the market was not integrated but also on advertising taken over from the traditional markets where the company works and that is similar to the new market.

At the same time with the extension on the new market, the company will be able to manage commercial interests much better, being able to successfully develop a marketing strategy concretized by the possibility to administrate better the prices basing on the specific investments but also of the demand in frame of the market. Also, the company will be able to have a stronger control on the distribution in frame of the market, by gradually using types of intensive distribution on certain favourable channels, at the same time having the possibility to stretch these channels by intermediaries that could cover bigger and bigger areas of the new market. The aggressive promotion on the new markets will be able to be administrated better by the careful selection of the advertising environments using mass types and, at the same time, better oriented on audience segments. The advertising expenditures will have to be shared between these partially integrated markets and the completely integrated markets in order to provide certain more reduced expenditures and a more flexible policy regarding the prices.

Across the market evolution, it may express a volume increase and an effective manifestation at the level of all the consumption groups and on the entire area of the market, by transiting towards a new level specific to the **completely integrated markets**. These represent very important markets for the international business of the company, being winning markets from where the company collects substantial incomes and profits.

The completely integrated markets benefit from a coherent institutional frame favouring the development of the foreign capital and, at the same time, a multiculturalism allowing the development of certain multiple types of business and products, having bigger consumption availability than any other market type.

The disadvantages of this type of markets are connected to a certain type of limitation of the sales on medium term as a consequence of more reduced possibilities of innovating the offer and the consumption re-stimulation. The addiction of the segments and of the consumer groups on a certain type of consumption makes easier the appearance of the leader companies and of the oligopolies. In the same time, all the types of suing and all the types of product begin to be used, as there is not possible anymore the existence of a new potential increase, being replaced with an available one. The perspectives of economical increase and technological development gradually decrease, appearing on an average term a certain economical limitation of these markets and the development of a direct competition between the strong competitors on the market.

A company that manages to change a market of its own portfolio into a completely integrated market will pass to direct investments in that market and to portfolio investments in the respective fields and that are able to support the main activity. Being strategic markets, companies will tend to allocate more and more capital, both their own and the one of some Strategic partners in the respective market. Many times, these

markets are regionally integrated, accomplishing products by the participation of several neighbored markets. From these completely integrated markets, we achieve exports towards third states in the area, whose markets are more weakly integrated.

Gradually, the promotion will be accomplished independently, as in these markets there are allocated additional capitals in order to accomplish advertising on all the existent channels for a stronger support of some portfolios of extremely diversified products on the areas of this market. Beside the advertising types, there are also well organized aspects related to the sales force that tends to represent the main force of entering the market. The more and more elaborated merchandising types and the commercial negotiations become the strength, by providing lower and lower costs on a product unit for the commercial activities. Also, the research-development and the market studies allow a more and more intense adaption of the products with more and more reduced costs as a consequence of gaining some experience by means of a long activity in the respective market.

Bigger problems may appear regarding the product tending to become a volume one and an old one, allowing, across the time, the success of certain derived products that could integrate new utilities. At the same time, there are aspects related to the production prices that cannot get out of control if the production volume is increasing basing on the demand fund on the foreign market and on the third export market.

**The critical markets** represent the maximum developing level of a market in the markets portfolio of a company. These markets are considered as being national markets under the direct leading of the company headquarters. From these markets, it is provided the maximum of profits and incomes of the company, being markets on which the success and also the survival of the company depend. The falls of some critical markets may generate the bankruptcy of certain global companies.

All the critical markets placed in the company portfolio are integrated in what the companies call a basic or central market. These are constituted as a unitary whole, as a unique market on which unitary marketing policies and strategies develop.

The company production is accomplished in an integrated way, being about its specialization on products and markets. Thus, in order to share the risks, each activity may be administrated separately and, at the same time, identically for every perfectly integrated foreign market. Thus, there are created production points supporting the supply for many markets, and at the same time the model gets close to the classic export types with the difference that there are some products with identical price and quality for all the portfolio markets and with selective distribution networks. In order to accomplish the production, we will choose those markets providing cheap sources of raw materials and energy, but also cheap, but qualified manpower. At the same time, these basic production markets will have to provide an easy access to technology with costs as reduced as possible.

A second type of sharing the risks may be accomplished by specializing the markets and allocating to each market a certain part of the ensemble activity of the company. Thus, the Japanese producer companies in the cars building industry accomplishes different subsets on different markets, avoiding allocating complete capitals towards only one market. This involves a maximum development of the services of supplying and outlet sector where we will have to achieve a very strict control on the costs.

Irrespective of the way of allocating the capitals, the strengths of the companies on such markets will be constituted of the integration types of the distribution and post-sale services developed in every market, but also by the reduced levels of the costs obtained by allocated the capital in markets where we obtain reduced costs but also by scale economy resulted from the product specialization and standardization.

#### **4. Establishing the operation approach on the four types of markets**

This stage represents the choice of different types of business internalization. In this sense, the company may choose different types of commercial operations, in order to implant actions abroad, in order to accomplish strategic alliances or cooperation, etc.

**Anglo-Saxon literature** classifies the operating types in: direct and indirect penetration, abroad production, strategic alliances and own companies. Other American authors refer to three classic ways of penetrating, respectively the ones consisting in associations, the one in the direct contact to the market and the ones in the transferring of the logistic actions and of the commercial ones towards the thirds with no possibility of control. The ways of basic entering are, in other authors' opinion, the direct export, the contractual arrangements with unequal contribution of the partners such as licensing, the key objectives and the management contracts involving the knowledge sale, the expertises and the property rights, rather than physical products and direct investments abroad.

**German Literature** groups the operating types as follows: direct and indirect export, international know-how contracts and the subsidiaries.

**Other European approaches** classify the penetrating types depending on the risk degree and the level of the obtained profit. According to the two criteria, as long as the risk and the profit are increasing, the penetrating way is changed for the indirect export, licensing, franchising, direct export, mixed company, production abroad and contracting with direct investments. Penetrating the international market may be classified also in: export, production abroad and strategies based on alliances and cooperation.

**Romanian authors** classify the types of international operation in: international commercial operations, implementation abroad and international alliances and cooperation.

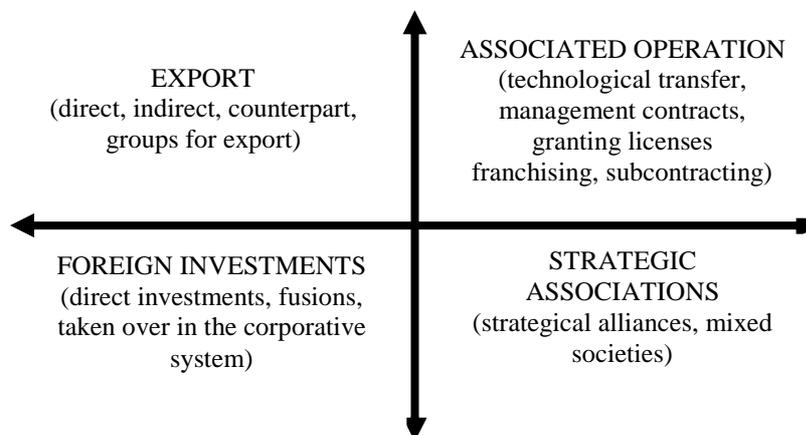
The analysis of all the subsequently reviewed options allow the finding that, beside the big variety of opinions depending on a number of features such as complexity, risk, costs, the offered control, the provided flexibility that are less explicit in most of the cases, there are also different criteria related to which we classify the penetration strategies and there are also confusions between the strategic alternatives and their types of accomplishment.

Considering the common elements of all the approaches and the international practice in the field, **we will classify** and analyse the categories of the operation types on the international market, basing on the approach principle from simple to complex and on the essential criteria defining each strategic alternative.

Depending on the mentioned elements, the strategies of penetrating the international market suggested by us are the following ones (figure 2.):

- The export, with its two types: indirect export and direct export and marketing groups for export;
- Associated operation types or contractual arrangements. The associated arrangements are met when the company has a certain competitive advantage, but it is not able to fructify it by itself, generally because of the necessary resources;
- The international Strategic alliances, the mixed companies, the complex dynamic networks;
- The direct investments and the abroad capital ones that represent the strategic alternative of penetrating the international market presenting the biggest degree of involvement, risk and profit.

**Figure 2. Types of international operation**



## 5. Conclusions

Adopting an international Strategic approach equivalent to the choice to entry a business network is based on the stimulants they represent for the companies the perspectives offered by the international markets, and also on the complex problems generated by the leading of such companies (making some international Strategic decisions, choosing the way to enter international markets, estimating the influence owned by the economical and political risk on the performance level and of the innovating power of the respective companies etc.).

The approach of the type of international network adopted by a company has impact on the selection and implementation of the subsequent strategy at the business level.

The need to enter an international strategic network appears when the complexity level of the products or services increases and the company considers being ready to address to certain multiple markets. The

entrance in the strategic network (Strategic approach) is based on the results of the opportunities analysis or of the risks and of the diagnosis analysis priority accomplished.

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## INTERNATIONALIZATION STRATEGIC MULTI-LEVEL PLANNING – REQUIREMENTS OF THE COMPANY 'S SUCCESS ON THE OUTSIDE MARKETS

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**Abstract:** *The paper follows the identification of an ensemble plan in order to coordinate and to make efficient efforts of international development, so that we could reach the objectives established in the (corporative) company's strategy, the business strategy and in the strategic and operational plans. The international strategy establishes the principles and shows the ways due to which the company hopes to get competitive advantages, to attract foreign buyers and use the resources owned by the company at maximum. As a part of the general and business strategy of the company, the international strategy should correspond to their stipulations by adapting the international activity at the functional and operative level.*

**Keywords:** strategy, internationalization, market, business portfolio

**JEL classification:** D, F, G, L, M, O, M21

### 1. Introduction

**International strategy** constitutes a set of long and medium-term objectives established at the level of a company and of the business developed by it together with the options and the actions a company wants to follow on the outside markets, based on the owned resources. The international strategy is a part of the company and business strategies but, at the same time, it is also a functional and operations strategy representing the managerial orientation for the functioning and the operation of the international activities of the company.

A company wanting to penetrate or to extend on the outside markets **within the framework of the company's strategy**, will have to find the answers to the following questions:

3. “Which are the target markets corresponding to the considered strategic approach and which of them will be chosen for operation on each development stage?”;
4. “What should we produce and what current or new products (business) will be introduced in the outside offer and activity of the company?”.

**At the level of business strategy**, the international component should clarify some basic questions that are asked at the internalization time:

- “Which is the market segment that should be aimed by each product?”;
- “What are the resources the company should allocate in order to accomplish and support the competitive advantage?”.

From the **functional** viewpoint, **the international strategy** should consider:

3. “Which are the functional features needed by the product?”
4. “Up to what level can we raise the prices?”;
5. “What should we communicate to the market segment?”;
6. “How should we distribute the respective product or service?”.

**As an operational approach**, the international strategy should consider which the penetration moment on the outside market is and what the life cycle of the portfolio products is.

### 2. Underlying the strategies of the international business company

Extending the company from outside is accomplished in a **business environment** defined by a big cultural diversity where the national cultures coexist with sub under- or over-national cultures.

On the other side, companies that are internationalized are featured by a certain **corporatist culture**, namely a certain mentality and a certain way of understanding inter-culture. As a consequence of these premises, the ensemble strategy, on a long term, of the international business company is determined by a series of **factors**:

3. The company’s history consists of: the experience accumulated abroad, the successes registered in the development of certain international relations, the failures of the development of certain international relations;
4. The corporatist culture, namely the international opening traditions, the interest on the foreign markets, the geographical extension of its contact networks;
5. The behaviour of the parties involved in the company’s activity (shareholders, managers, wage-earners) expressed by conservatism or entrepreneurial spirit, the attitude reported to risk and incertitude etc.

The success strategies are the ones by means of which we determine the market opportunities and the competitive advantage, based on the **results of the analysis regarding**: risks, favourable situations, strong and weak points of the company. By transposing them in practice, we should create such a report system between the company and the surrounding environment so that we provide its placing on a position as good as possible in facing the other competitors. (Ohlin, 1967)

A **surveying system of the business environment** should associate, in a systemic permanent approach, the following components:

- *The inside and outside information sources;*
- *Quantitative and qualitative information;*
- *Statistical and dynamical analysis of the business environment;*
- *The field information – are achieved from the outside competitive environment;*
- *The information before the strategy wording;*
- *The information achieved during the process of applying the strategy.*

An essential role of this surveying system of the business environment is to permanently offer the manager information as complete (concrete) as possible, as upgraded (“hot”) as possible, based on which we could outline the strategic, functional and operative decisions.

This analysis of the environment business allows the establishment of the determining criteria of the localizations and of the potential international activities and the institution of a surveying system of the international business environment. The analysis goes from the evaluation in opportunity terms of the localizations and of the potential activities based on some large information regarding the business environment. We want to **study the features of the business environment**:

- 1) **Analysis of the solvable demand and needs** (market structure, potential, capacity and volume);
- 2) **Analysis of the concurrence** (concurrence nature, dominant companies on the market, owned market segment);
- 3) **Functional analysis of the market** (product specificity, prices level on the market, practiced distribution systems, marking and branding system);
- 4) **Determining the restrictions regarding the access and the risks on the market**:
  3. Cost differences between markets;
  4. Fluctuations of the exchange rate;
  5. Commercial policies of the governments on the outside markets;
  6. Feature of the international concurrence;
  7. Other risks: political risks; economical risks; financial risks etc.

**Table 1. Information needed in the strategic internationalization process**

<b>Strategic level</b>	<b>Necessary information</b>
<b>Strategic approach</b>	Estimating the demand of the global market and of the structure on business areas and fields; Comparing the opportunities on the global market with the ones of the national market.
<b>Generic strategy</b>	Arranging the markets depending on the attractiveness from the viewpoint of demand, of competitive intensity and of social-political climate
<b>Business strategy</b>	Estimating its consumption segments; Defining the market consumption specific; Assigning the target group and positioning the respective product or service.
<b>Functional strategy</b>	Consumer’s behaviour, competitive practices, distributing system, promotional environments and practices.
<b>Operational strategy</b>	Market size, tariff and non-tariff barriers, costs, local concurrence, political stability etc.

**Difficulties identified** in the plan of the analysis of the international environment are: the lack of a unitary structure of processing and management, the lack of the equivalence regarding different indicators, legal restrictions, a different degree of accessing the primary information of the market from a country to another, big differences between the possibilities of using modern technologies of gathering information, a different degree of receptivity for the researching means, major difficulties in the direct studies (language, communication problems, prejudices), a nuanced credibility degree of the data in certain areas. (Pop, 2001)

The ensemble of these elements influences the strategic options of the company on a medium, average and short term, by stimulating or discouraging its international involvement.

### 3. Strategic directions in the internalization process

The big variety of situations that can be met on the international markets and the strategic situation of the companies oriented towards these markets have as a result different strategic variants. In the international business, according to **the strategic level rule**, there may be formulated and used different alternative strategic variants, depending on:

- **The position of the market** by means of which we will establish the alternatives regarding the strategic approach (see chapter 5, part I);
- **The business portfolio** that will determine the choices regarding the company or corporative strategy;
- **The selecting way of the market segments and the business behaviour** that will determined solutions regarding the business strategy/policy;
- **The ways of entering and evolution on the market** that will determined the functional strategies/approaches;
- **The operating alternatives** as an underlying basis of the operational approaches at the level of the functional competences of the company. (Neamțu, 2010)

**3.1. The position alternatives on the market** consider the placing as advantageous as possible to other competitors, considering their own position, the involved resources, the offered products and services, the market segments to which the enterprise is addressed.

**The strategic approach of position** is a set of major, consistent, adequate and accomplishable orientations – considering the conditions of each outside market and the company resources representing the basis of the market activity on a long term.

It synthesizes the company's attitude to the outside market and its possibilities to adapt to the market requirements, to influence them by the developing line imposed to the outside commerce activity, in order to fulfil the established objectives. From the operational viewpoint, the market strategy is concretized in an ensemble plan in order to coordinate the capitals, to organize the actives in order to attract buyers, to outmatch the competitors and the integral use of the resources.

The companies owning dominant positions on certain markets adopt the following main strategic orientations:

- **Developing the international market** by identifying the consumers and the international market liable to a consumption based on the company's products and the product transmission by international channels to the final consumer having as a basic formula **the export, either indirect, or direct**;
- **The increase of the market rate**, by extending the sales in the identified markets, by using associations solutions in order to avoid risks and to increase the activity effectiveness. The associative solutions are presented in chapter 5 of part I;
- **Extending the total market** by the areal enlargement of the activity markets or by attracting new consumers on the same market, discovering and promoting new uses of the products, intensifying the use of the same products. The approaching formulas are from the set of the strategic alliances presented also in chapter 5, part I;
- **Marking and protecting the own international market** and the international market rate by passing from the global approach and the use of certain fortifying measures by acquisitions, fusions, groups and competitive confrontations in the main fields of the company.

**Choosing one of the four available strategies** is determined by the economical conjuncture of the moment and the predicted one, by the opportunities offered by different market segments, by the possibility to develop new products and the profitability of this development, by the stage of the life cycles where there are the current products, of the sizes of the current markets and by the future developing perspectives and also by the owned market rates or that are wanted to be owned.

In the special literature, there are four different structural categories corresponding to the four basic strategic approaches:

3. **Strictly the market specialists**, representing about 10% of the market total and operating on segments of the uninterested market for the big company s;
4. **The following ones** owning about 20% of the market total and follow the trends imposed by the leaders;
5. **Competitors** of the market representing less than 30% of the market total and fighting for the increase of the market rate;
6. **Leaders** of the market, usually owning 40% of the market total.
  - The most important competitors of the market leaders have two important strategic possibilities:
    - Attacking the leaders by adopting strategies in order to increase the market share by direct attack, by avoiding strategies of the leaders or by initiating an offensive on the competitors smaller than them, or by keeping their own position on the market.
    - Following the leaders, by adopting variants such as: better segmentation, focusing on a reduced number of segments, accomplishing a more efficient activity of research-development, providing a better management, generally orienting mainly towards the qualitative aspects of the strategies.

Small companies, having reduced possibilities, have as an alternative the pilot strategy, often unique, the very high specialization in order to be kept on the market.

They may focus on types of clients, in order to produce and commercialize a restrained number of products or sorts either of a very high quality, or of a very low quality, they are specialized on certain limited services or territories.

Often, these companies depend to a certain extent on bigger companies to which they contract different agreements in order to supply certain products, sorts or components or by banks that provide their financing.

### 3.2. Alternatives regarding the business portfolio

Depending on the company's objectives regarding its presence on the market, it may use several strategies influenced, on one hand, by the company's potential (competitive capacity) and, on the other side, by the market structure and evolution.

The main strategies of the company by means of which we follow the report between the company's activity structure and the structure of the markets and of the products required by these markets are the following ones:

3. **The developing strategy of the portfolio/Global integration strategy.** The company wants to expand on the market so that it could own bigger market share. In this purpose, it extends the product range, the distributing network and the promotional activity on as many markets by subsidiaries and branches subordinated to the "centre".

4. **The strategy of reinforcing the portfolio/The international niche strategy.** It is the step after the strategy of developing the portfolio. Such a strategy is followed when the company developed up to a point that is sufficient to its purposes. This is why, if there are no new developed markets, a company should reinforce its position on the existent markets by extending new consumption segments and it does this by using the entire arsenal of business activities and tools.

5. **The strategy of keeping the consumption segments/The local adaption strategy.** This strategy is used by the companies that, as a consequence of the market stagnation, are required to extend the market, seeking for the wanted consumption segment and keeping a solid position on the market. In this case, it becomes prior the adaption of the product portfolio at each activity market. This objective is obtained by creating own spin-off companies or by a strategic alliance that could offer possibilities of local adaption of the product and of defending the position.

6. **The strategy of restraining the portfolio/The global segment strategy.** This strategy is necessary when the company cannot face the market requirements anymore and it loses clients, and its market rate decreases. In such situations, the company restrains at a relatively reduced number of products that are produced only on a few markets and distributed worldwide. Also, in order to avoid the unfavourable competitive conditions it may decide to purchase brands in its activity fields.

### 3.3. Behaviour alternatives

In case of the behaviour alternatives, companies follow objectives, alternatives and ways of accomplishing their own offer that should allow to keep and improve their position and image on every outside market, the increase of competitiveness, the profitability and the presence as long as possible on the international market.

- **The strategy of the reduced cost** that wants to identify a product or a group of selected products, among the ones with big demand on the market, and that can be standardized until the level where we could obtain the lowest costs of production, promotion and distribution;

- **The differentiated strategy** that wants to accomplish a unique and different approach in the plan of the product and of the brand that it should offer for all the outside market without considering a certain specific of the national markets. This business behaviour represents an approach for one of the following situations: in the beginning phases of the activities on the international market; when they own a competitive monopolist advantage on the market; when there is no balance between the demand and the offer in the sense of outmatching the offer from the demand in a high proportion allowing the imposing of the seller's conditions in the international transaction;
- **The positioned strategy** establishing variables and marketing programmes specific to every product or group of products addressed to a segment of the company's international market (either a country, or a segment of buyers). It is the strategy corresponding very well to the vision of some companies and corporations that, by the organizational capacity, may administrate a big number of segments of international market. However, such a variant is useful when they act on relatively less segmented markets;
- **The focalized strategy**, when the efforts are oriented towards a better identification of the products on the market together with the total accessibility of them for groups of consumers on a group of similar markets.

### 3.4. Entering and operating alternatives

**The entering and evolution alternatives** consider the company's orientations regarding the product administration on different markets. The company has to choose between a moderated reasonable evolution (increasing the exports on conquered markets, substituting products on existent markets), or the quick development (horizontal diversification by new products added to the range existent in the same segment or in the market segments, vertical diversification, lateral diversification with new products, with no connection to the existent ones).

These financing alternatives of the evolution on the market feature the company's attitude to the often unexpected requirement evolution of the international market, fact that faces the decisional factors and the problems of dynamic adaption to the new conditions. The possibilities of every company in this respect are different, determining the adoption of certain different variants called **alternative of financial administration of the market**:

- **The aggressive strategy**, the extreme variant of financial administration of the market used by certain companies, having real market "wars" in order to be imposed;
- 1. **The active strategy** based on permanent knowledge and prevision and materialized in finding the favourable situations and influencing them in a process of permanent renewal;
- 2. **The adaptive/proactive strategy** when the company wants to be integrated in the changes of the outside markets, anticipating them, accomplishing in time technological changes in the products meant to the international market, in the types of accomplishing the commercial exchanges abroad, in its entire activity;
- 3. **The defensive strategy** that, unlike the previous one, has the feature of a late adaption, after producing changes in the international market.

**The operating alternatives** feature the company's attitude to the development of the operations at the level of each inside function participating to the general efficiency of the activity. The company should choose between: a high or dynamical technological strategy; a low or stable technological strategy; a strategy of the advanced managerial competences; or a reasoning strategy of production and marketing.

## 4. Conclusions

Following the facts presented in the paper content, we identify the fact that a strategic development of the company on the new international markets needs to cross some **phases** absolutely necessary for the success on medium term:

### 1. Establishing the internationalization premises

- a) Analysis of outside data;
- b) Analysis of the company's potential;

### 2. Formulating the international strategy

- Determining the international objectives of the company;
- Studying the alternatives on strategic levels;
- Elaborating and accomplishing the internationalization programme.

Framing the internationalization strategy in the company's ensemble strategy is accomplished both in the process of formulating the strategy and in the one of implementing the activity. As we cross different

phases of internationalization, we need to evaluate the conformity of the internationalization strategy to the company options on a long term. On the other hand, at every major decision regarding the internationalization, we analyse its compatibility with the company general strategy.

**Global strategic system** is formed of the ensemble of all these strategic levels that have previously presented. Practically, one has to use those combinations of strategic alternatives for each level where they are accorded to the company's interests and possibilities and to the conditions of every market. For this, we cross a process consisting of delimiting the objectives, specifying the options and constituting the implementation measures. For reaching the objectives followed on the outside markets, we adopt different decisions in the main activity sectors of the company. This should compose variants corresponding to every market and time period by judiciously combining and developing the elements specific to the four essential fields of its activity, respectively production, distribution, research-development and finances.

In order to cover all the requirements specific to a planned development, the company with internationalizing tendencies will have to accomplish an integrated system of options on a few **levels of the general strategic system** such as:

- ✓ International strategic approach;
- ✓ International strategy at the company's level;
- ✓ International strategy at business level;
- ✓ Functional strategy of internationalization;
- ✓ Operational strategies of internationalization.

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## FINANCING STRATEGIES IN SME'S

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**Abstract:** *The ability to raise capital is crucial for the survival and development of the SME's. First, the company must have liquidities to meet the debt that matures in near future, thus ensuring short-term financial balance. Second, the company should invest in its development (technological, social, expansion, e.g.), represented by medium and long term capital budgeting, which will ensure future growth and the optimum financial leverage. Therefore the financing strategies the company undertakes must be adapted to its specific needs. Factors such as ownership structure, entrepreneurs' adversity to risk, and the development stage of the company affect not only the availability of capital, but also the amounts of capital that can be raised. The paper's goal is to offer a decisional model to assist the SME's managers in determining the right financing mix, at the lowest cost, using a mathematical model of optimal capital allocation.*

**Key words:** financing strategy, optimal allocation, small and medium sized firms

**JEL classification:** M21

## 1. Introduction

Raising capital represents one of the most important and challenging issues facing SME's (Ang, 1992). Small firms generally do not have the same financing options that larger corporations have: bank financing and to issue stock. They usually depend heavily on family, friends, and suppliers for their start-up and working capital financing. Without sufficient capital SME's are more likely to experience difficulties financing growth, and/or avoiding bankruptcy.

Several studies show that poor capitalization of SME is one of the leading causes for the small firm's failure (see for example, Coleman, 2000 and Carter and Van Auken, 2006). Researchers have tried to determine the main reasons for under-capitalization for SME's. Haber and Reichel (2007) argue that managerial skills is one of the strongest contributor to SME performance, hence one of this skills is managerial finance, necessary to understand the capital raising and budgeting process. Therefore poor financial strategies could be a cause for the high failure rate among SME's (Gaskill, Manning, and Van Auken, 1993). In addition other studies have argued that lack of information about the alternative sources of funding available is another reason of small business failure (Gibson (1992), Gaskill, Van Auken, and Manning (1993); Coleman (2000) Berger and Udell, (1998); Gibson, (1992). In addition to that, Busenitz et al (2003) have determined that the availability of information often determines decisions. Holmes and Kent (1991) have defined this limited awareness of capital alternatives as "knowledge gap".

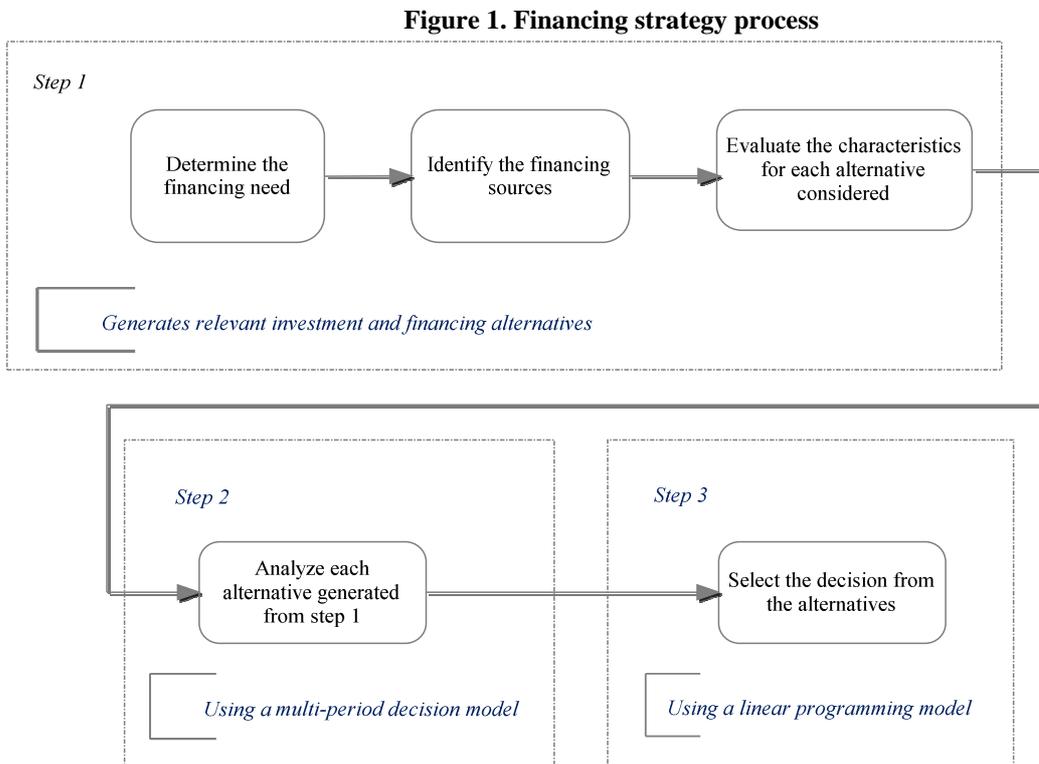
Hence financing issues present a major importance, because finding the right financing mix, at the lowest cost possible could make the difference between the survival or the failure of the company. Any financing strategy should answer the following issues: how much capital is needed, when should it be available, and for how long? SME's managers should be informed about the sources of financing available to them, depending on the growth stage of the company.

Previous literature focuses on selecting the best investment from an array of investments available to the company, under the capital constraint. In our paper, we assume that the company already knows what investment is targeted, and we develop a model to assist the manager's decision in selecting the right financing mix from all the financing sources that he has identified as being available at a certain point in time. By knowing the total financing need  $F$  (the value of the investment), the amount of financing offered by each provider of capital that has been contacted by the SME ( $F_i$ ), and the rates they require for the capital they are willing to grant, we have developed a mathematical model that generates the optimum amounts of capital to be raised from various lenders that will minimize the total cost of financing for the SME. The rest of the paper is organized as follows: section 2 outlines the financing strategy process in three steps that we developed, and the assumptions we have made. In section 3.1 is presented the mathematical model, and in section 3.2 we show how this model can be used to determine the optimal financing mix. Section 4 concludes the paper.

**2. The financing strategy process**

Financing strategies of SME’s depend mostly of the knowledge of the entrepreneur, but also on the financing options available to the firm. When making financial decisions, the manager must determine the right financing mix or capital structure for the company. In this sense, he should determine the capital structure (debt-to-equity ratio) desired, to determine the nature of covenants in the lending contract, the cost of each source of financing, but also the cost of alternative financing. All this should be performed following the company’s main objective (e.g. maximization of the company value)

For determining the right financing strategy we propose a three stage model as follows:



Step 1. We start the model by assuming that the SME’s manager has analyzed the existing investment opportunities and identified the investment it needs in response to a perceived problem or as part of a management process. In a screening process of the capital market the sources of financing were identified, and the cost associated with them was determined. We recognize that there are un-measurable and non-quantifiable aspects of the alternatives that should be considered in the analysis; however, we view the application of the multi-period decision models to financial characteristics as a different process. The outcome of Step 1 is a set of investment and financing alternatives and the relevant financial characteristics which can be summarized over the planning period of n years. For some year n (relative to the planning date) and investment option i, the discounted cash flow for the year n, and for the entire set of alternatives:

**Table 1: The investment and financing alternatives**

Alternative	Year1		Year2		Year n	
	Short term	Long term	Short term	Long term	Short term	Long term
A	DCF <sub>1As</sub>	DCF <sub>1Al</sub>	DCF <sub>2As</sub>	DCF <sub>2Al</sub>	DCF <sub>nAs</sub>	DCF <sub>nAl</sub>
B	DCF <sub>1Bs</sub>	DCF <sub>1Bl</sub>	DCF <sub>2Bs</sub>	DCF <sub>2Bl</sub>	DCF <sub>nBs</sub>	DCF <sub>nBl</sub>
C	DCF <sub>1Cs</sub>	DCF <sub>1Cl</sub>	DCF <sub>2Cs</sub>	DCF <sub>2Cl</sub>	DCF <sub>nCs</sub>	DCF <sub>nCl</sub>
...						
N	DCF <sub>1Ns</sub>	DCF <sub>1Nl</sub>	DCF <sub>2Ns</sub>	DCF <sub>2Nl</sub>	DCF <sub>nNs</sub>	DCF <sub>nNl</sub>

Step 2. The second step the investment and financing alternative from step 1 and analyzes each alternative option using a multi-period financial decision model (for example NPV and IRR). The analysis are performed separately for the short term period/long term period financing sources identified in step 1. The result of this step is a measure of financial performance for each alternative in which the measure simply

represents the quantitative solution of the multi-period decision model. This can be the net present value for each alternative,

Step.3 First: each multi-period decision model is associated with a general decision rule which is to minimize the cost of capital. The financial constraints associated with the decision characteristics of the alternatives being analyzed, the differences in time horizons, independent vs. mutually exclusive alternatives, set the complexity of the decision rules applied in this step. The decision rule we use is the application of linear programming model to account for the effects of capital rationing and the availability of investment options in future time periods.

**3. The mathematical model**

**3.1. Problem statement**

For the step 3of the financing strategy process we propose a mathematical model of optimal capital allocation with a default level of diversity developed from the model proposed by Purcaru (2007).

Let us take a random or probabilistic experiment X, which can be written as follows:

$$X = \begin{pmatrix} x_1 & x_2 \dots & x_i \dots x_n \\ p_1 & p_2 \dots & p_i \dots p_n \end{pmatrix} = \begin{pmatrix} (x_i) \\ (p_i) \end{pmatrix} = \begin{pmatrix} x_i \\ p_i \end{pmatrix} \quad (1)$$

Where  $x_i$  represents the outcome of the experiment, often named elementary elements, and  $p_i$  is the probability for the outcomes  $x_i$  to happen.

The following conditions need to be satisfied:

$$\sum_{i=1}^n p_i = p_1 + p_2 + \dots + p_n = 1 \quad (2)$$

and

$$0 \leq p_i \leq 1 ; i = 1, 2, \dots, n \quad (3)$$

If there is a  $x_i$  for which  $p_i=0$ , we will consider it impossible, and if there is an  $x_j$  for which  $p_j=1$ , we will consider it a certain result, and therefore all the other  $x_i$  for  $p_i \neq p_j$  are impossible.

Let us consider the utility factor ( $u_i$ ) for  $x_i$ , where  $u_i$  shows the importance of the  $x_i$  in some decisional context and can influence the decision.

*Definition:* Given the above, the following is defined as Guiasu weighted entropy:

$$G(p, u) = G(p_1, p_2, \dots, p_n; u_1, u_2, \dots, u_n) = - \sum_{i=1}^n u_i p_i (1 - p_i) \quad (4)$$

and

$$DG(p, u) = \sum_{i=1}^n p_i u_i - \sum_{i=1}^n p_i^2 u_i = \sum_{i=1}^n p_i u_i (1 - p_i) \quad (5)$$

where  $DG(p,u)$  is the Guiasu weighted diversity index.

*Note:* if  $u_i=1$ , for  $i=1,2,\dots,n$ , the equation (4) becomes Shannon entropy:

$$H(p) = H(p_1, p_2, \dots, p_n) = - \sum_{i=1}^n p_i \log p_i \quad (6)$$

And the equation (5) becomes Gini-Simpson-Onicescu weighted entropy:

$$D(p_1, p_2, \dots, p_n) = 1 - \sum_{i=1}^n p_i^2 \quad (7)$$

Through elementary mathematical calculation can be demonstrated that measures of entropy (4) and (6), and diversity measures (5) and (7) are closely related:

$$D(p) \leq H(p) \text{ and } DG(p, u) \leq G(p, u) \quad (8)$$

**3.2 Determining the optimal financing mix**

Consider a firm that approaches different lenders for the capital it needs (F), a transaction that we assimilate with a random experiment (due to allocation incertitude). For the debt issued, lenders (banks, non-financial institutions, e.g.) run a debtor's financial and economic analysis, and set certain financing limits. Considering these limitations the company establishes its priorities.

The following assumptions are made: (1) Borrowing costs are different for each lender. (2) The share of each financing in the total of capital raised is different due to the negotiations with each lender.

(3)The manager knows the total amount of financing that it needs to raise F. Therefore the following conditions hold:

$$F_i > 0 \text{ and } \sum_{i=1}^n F_i = F_1 + F_2 + \dots + F_n = F \quad (9)$$

If we divide equation (1) with S and note it with  $p_i$  we have:

$$p_i = \frac{F_i}{F}, \text{ ; } F_i = p_i S; \text{ ; } p_i > 0; \sum_{i=1}^n p_i = 1 \quad (10)$$

So, instead of formulating o problem to find  $F_i$ , we will formulate the problem to determine the capital allocation  $p_i$ , which is the percentage of each financing source, ignoring  $F$  – the needed amount of capital.

*Proposition:* the optimum capital allocation  $p_i$ , under the following constraints:

$$\sum_{i=1}^n p_i = 1 \text{ (complete distribution)} \quad (11)$$

and

$$\sum_{i=1}^n u_i p_i (1 - p_i) = D_0 \text{ (default diversity index)}$$

that gives the maximum for:

$$F = \sum_{i=1}^n p_i F_i \quad (12)$$

is

$$p_i = \frac{1}{2} + a v_i + b v_i F_i; \text{ ; } 1 \leq i \leq n; \text{ ; } a, b \neq 0 \quad (13)$$

Where a and b parameters are calculated as follows:

$$a = \frac{1}{V} \left( 1 - \frac{n}{2} - Ab \right) \text{ and } b = \sqrt{\frac{UV - 4VD_0 - (n-2)^2}{4(BV - A^2)}} \quad (14)$$

Notations:  $U = \sum_{i=1}^n u_i$ ;  $V = \sum_{i=1}^n v_i = \sum_{i=1}^n \frac{1}{u_i}$ ;  $A = \sum_{i=1}^n v_i F_i$ ; and  $B = \sum_{i=1}^n v_i F_i^2$ , for those numbers  $u_i$ ,  $F_i$  and  $D_0$  for which the solution is admissible, that is  $0 \leq p_i \leq 1$

*Proof:* Let  $\lambda$  and  $\mu$  be the Lagrange multipliers of the Lagrange function:

$$L(p, u, \lambda, \mu) = F + \lambda(\sum p_i - 1) + \mu(\sum u_i p_i - \sum u_i p_i^2 - D_0)$$

We determine  $p_i$  distribution as a conditional stationary point of the Lagrange function solving the (n+2) equations system:

$$\frac{\partial L}{\partial p_i} = F_i + \lambda + \mu(u_i - 2u_i p_i) = 0; \text{ ; } 0 \leq i \leq 1$$

$$\frac{\partial L}{\partial \lambda} = \sum p_i - 1 = 0$$

$$\frac{\partial L}{\partial \mu} = \sum u_i p_i - \sum u_i p_i^2 - D_0 = 0$$

From the first two equations we get

$$p_i = \frac{1}{2} + \frac{\lambda}{2\mu} v_i + \frac{1}{2\mu} v_i F_i, \text{ and if we set } a = \frac{\lambda}{2\mu} \text{ and } b = \frac{1}{2\mu} \text{ (} \mu \neq 0 \Rightarrow b \neq 0 \text{)}, \text{ we get } p_i \text{ from equation (13).}$$

From the last two equations, that are in effect the conditions from (11), we infer the relations:

$$\sum_{i=1}^n p_i = 1 \Leftrightarrow \frac{n}{2} + a \sum v_i + b \sum v_i F_i = 1$$

$$\sum u_i p_i (1 - p_i) = D_0 \Leftrightarrow \frac{1}{4} \sum u_i - a^2 \sum v_i - 2ab \sum v_i F_i - b^2 \sum v_i F_i^2 = D_0$$

Using the notations:  $U = \sum_{i=1}^n u_i$ ;  $V = \sum_{i=1}^n v_i = \sum_{i=1}^n \frac{1}{u_i}$ ;  $A = \sum_{i=1}^n v_i F_i$ ; and  $B = \sum_{i=1}^n v_i F_i^2$ , we get the following equation system with a and b unknown:

$$\begin{cases} aV + bA = 1 - \frac{n}{2} \\ a^2V + 2abA + b^2B = \frac{1}{4}U - D_0 \end{cases}$$

From the first equation we get:

$$a = \frac{1}{V} \left( 1 - \frac{n}{2} - bA \right), \text{ and by replacing it we have:}$$

$$Ab^2(BV - A^2) = UV - 4VD_0 - (n-2)^2$$

Since  $D_0$  is lower than the maximum of the DG(p,n) index, according with (5) we can deduce that:

$$0 \leq D_0 \leq \frac{1}{4} \left[ U - \frac{(n-2)^2}{V} \right] = DG^{\max}(p, u) \quad (15),$$

maximum value being reached only if we have the distribution

$$p_i = \frac{1}{2} \left( 1 + \frac{2}{n-v} v_i \right); \text{ ; } 1 \leq i \leq n; \text{ ; } V \geq (n-2) \max\{v_i\} \quad (16)$$

This implies  $UV - 4VD_0 - (n-2)^2 \geq 0$

On the other hand we can prove by induction that:

$$(\sum v_i)(\sum v_i F_i^2) \geq (\sum v_i F_i)^2, \text{ with equality if and only if } F_1=F_2=\dots=F_n=F \text{ (unimportant particular outcome).}$$

Therefore results that:  $BV - A^2 \geq 0$ , excepting the particular case ( $F_1=F_2=\dots=F_n=F$ ).

Hence the solution to the equation exists and we have

$$b = \pm \sqrt{\frac{UV-4VD_0-(n-2)^2}{4(BV-A^2)}}$$

To determine the optimal distribution we compute the second partial derivatives for L function in relation to  $p_i$

$$\frac{\partial^2 L}{\partial p_i^2} = -2\mu u_i = -\frac{a}{b} u_i, b \neq 0$$

$$\frac{\partial^2 L}{\partial p_i \partial p_j} = 0$$

Following the 2<sup>nd</sup> order differential of L in the stationary point ( $p_i^0$ ) where  $p_i$ , a and b are known is:

$$d^2L(p) = \sum_{i=1}^n \left(-\frac{a}{b}\right) dp_i^2 = -\sum_{i=1}^n u_i dp_i^2, \text{ where the differential variables } dp_i = p_i - p_i^0, \text{ meet the conditions}$$

from (11), that is:

$$\sum dp_i = 0, \text{ and } \sum u_i dp_i - 2 \sum u_i p_i dp_i = 0$$

Hence, according to our demonstration, if  $b > 0$  then  $d^2L(p) < 0$  ( the function admits a maximum) and the solution  $p_i$  with

$$a = \frac{1}{V} \left(1 - \frac{n}{2} - Ab\right) \text{ and } b = \sqrt{\frac{UV-4VD_0-(n-2)^2}{4(BV-A^2)}}, \text{ maximizes F.}$$

### 3.2. Numerical application

Consider a firm that approaches different lenders for the capital it needs ( $F=100.000$ ). For the debt issued, lenders (banks, non-financial institutions, e.g.) run a debtor's financial and economic analysis, and set certain financing limits. We assume that the SME's manager has identified 5 possible sources of financing, each with a different cost, as shown below:

**Table 2 Borrowing rates**

	Financing source 1	Financing source 2	Financing source 3	Financing source 4	Financing source 5
Borrowing rate $p_i$	4,5	5	4,8	5,2	4,7

By applying the model we get the maximum amounts of capital that the firm can obtain from each lender in order to minimize its cost and to maximize F is:

**Table 3 The maximum amounts that can be obtained from each source**

	Financing source 1	Financing source 2	Financing source 3	Financing source 4	Financing source 5
Maximum amount	27259,48	22458,27	20030,35	29254,93	27465,86

### 4. Conclusions

We have attempted to offer a decisional model that can be used by SME's managers in deciding their financing strategy. The application of the decision model described above has a few limitations: it fails to incorporate feedback loops to the problem and solution identification processes (Step 1) which can occur during the decision making process. For the purposes of this paper, the explicit recognition of such iterative opportunities is not important. Second, the model incorporates only the measurable consequences of investment and financing. This second limitation can be avoided if we assume that all relevant consequences have measurable financial implications and/or that the financial analysis can be conducted separately from the analysis of nonfinancial information.

We have argued that the information represented by each step in determining the financial strategy and the solution set may offer a wider perspective about the financing alternatives that managers have; and that failure to analyze each financing options may lead to decisions based on incomplete information regarding important economic trade-offs.

Constant pressures to contain SME's costs have led to a growing need for managers to recognize the consequences of their decisions. This requires identifying the alternative, or the right mix of alternatives that

generates the lowest cost to the SME. At the same time, the cash-flow implications of the reimbursement of the capital should not be ignored. Applying the model we presented will not necessarily make decision making easier; nor will it necessarily help managers choose the proper financing decision. Rather, the model that we presented should help managers make decisions that are more consistent with the SME's set of values, by providing them the tools needed to measure, assess, and make choices based on a better understanding of the economic trade-offs implicit in any set of alternatives.

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## NON-FINANCIAL REASONS ANALYSIS OF MULTINATIONAL COMPANIES IN ROMANIA IN 2010

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**Abstract:** *Non-financial means to stimulate employee motivation to work better, more efficiently, with love, with reluctance, without financial incentive comes in the middle!*

*Countless studies show the ineffectiveness of long-term financial motivation systems.*

*The first bonus acts like a "drug." It works instantly, but a longer period of time makes employees work no longer than if they receive financial bonuses.*

*Also, long-term financial bonuses to employees or make them dissatisfied and come in a variety of competing with their peers. Teamwork becomes the field of fairy tales. The solution is a system of non-financial reasons. Non-financial reasons mean implementing a system of Reward and Recognition.*

*The purpose of non-financial motivation is to increase productivity in the company, enhancing efficiency of quality, to have satisfied employees, which leads directly to increased employee performance.*

**Key words:** non-financial motivation, performance, employees of multinational companies

**JEL classification:** H0, H3, M12, M13

### 1. Introduction

Implement a system of non-financial reasons for success (R & R program) requires adherence to rules. The reward must be something desired by employees. It's a good thing if the employees involved in setting up scales / criteria that will help managers to know who and which criteria should be rewarded. Since employees are those who will receive the reward all of them are welcome to choose the reward they would like more (of course, within the limits of common sense).

Also, managers should encourage recognition not only vertically but also horizontally (not just manager-employees but also employees between them, for example, tickets peer recognition and gratitude). This fact creates a sense of importance to the employee (which makes it is important for the team and company). A result of the company's awareness of the responsibility which he will show ("What I am doing here is important and can not be wrong", "What I am doing in this company is very important for me, team and company and must have the best possible results")

Encouraging employees to motivate them to recognize the results between them, to thank each other for support and to congratulate, you can get an idea about who comply with the company, what the relations are between colleagues.

A successful R & R system depends on the frequency. You should not skip a reward for another reward that was offered recently, but have not abuse them. If rewards are given too often, employees may be involuntarily print that's not such a big deal.

R & R systems have proven to be beneficial for companies in financial terms, not only because they increase business productivity, but also because there is no need spend money for financial bonuses.

Experiences have shown that recognition of the great managers have more success than individual recognition or reward for the team. However, neither the latter should not be left aside. An example to motivate the whole team, not forgetting the individual performances (and to thus create frustration among employees) that I remember was a manager at the end of a successful project, and to reward the team with various small gifts, depending on performance, as I wrote above, but yet the same value. Personally, I find it a very good example of trying to please everyone and to avoid frustration of the employees.

The first step in implementing a program to motivate them non financially is the employer awareness of its necessity! If you, as an employer, want a responsible and effective employee, you must begin with you!

The relationship between employee and employer is a maximum factor for employee motivation. We refer here not necessarily to friendship but primarily to merit recognition when appropriate. The employee wants to be appreciated, want to see that someone noticed his progress, so recognition, preferably public, for his merits, counts a lot. Thus, the employee will be more motivated, more efficient, and more powerful! And frankly it does not cost anything; it's just a minute in the life of the employer once a week.

In addition the employer can show that he cares about an employee asking for opinions on issues. This is beneficial not only for employees but also employees who have the opportunity to look at the problem from several points of view. Asking the opinion of the employee or employees will feel that they are part of a community in which they have a word to say in contributing to company growth!

## **2. Theoretical concepts that revolve around motivation**

When it comes to financial and nonfinancial reasons we are speaking about performance automatically! It is the purpose of motivation, namely to achieve the performance! Non-financial motivation can optimize your business! Increased attention on these factors lead to performance motivators, leading to bigger profits! Performance means both good quality and high workload, means keeping old customers and winning new ones, or it may simply mean customer satisfaction. A strong indicator of performance is given by the cost benefits. A better report we have, much performance we deal.

In addition, any employee's intellectual capacity develops when he is non-financial motivated. The financial motivation and the non-financial one, is contributing to the employee development because it puts him in position to deliver performance. An indicator of its development is given by the volume and quality of an employee work in the same unit of time.

Intellectual development comes from multi-task that has to be solved at the same time, efficiency and speed with which he solves the tasks. We will also know if an employee has developed intellectual abilities if he identifies more efficient and innovative solutions also come with proposals that improve efficiency and performance in the company!

Before discussing the key methods of reasoning must be correctly identified if we are dealing with a lack of motivation or a lack of professional competence.

We will determine exactly how we can properly diagnose the problem: lack of competence or lack of motivation. However, I will present solutions in terms of which are methods by which we can solve each of the two problems. The subject is very important whereas lack of motivation or competence deficit are underperforming generators immediately, something that perhaps we want the least!

It's good when you want to motivate employees, but before that we need to know whether they really lack motivation!

Analyzing where employees receive lower performance we must consider whether poor performance is the result of low skills or due to lack of motivation. Thus in both cases the attitude of manager must be totally different.

Professional competence is observed mainly in the low case who are faced with difficult tasks, the employee can prove a "failure" of professional competence, whose causes may be:

- specialized knowledge low
- lack of experience,
- improper employee attitude (towards work, towards the team, from senior)
- reduced ability in the field where performance has not reached the expected level.

## **3. Lack of motivation and management methods of motivation**

### *Strongest indicators of a lack of motivation*

Once we established that we are not dealing with the shortage of professional competence we proceed to analyze his motivations. Lack of employee motivation can be recognized in that: he does not cooperate when it takes extra effort, late, leaving early, they take days off without satisfactory explanation, lengthens as long as he can the breaks to spend less time working, not ever to be offered overtime, does not comply with deadlines, does not assume responsibility for things that go wrong, do not follow instructions is given.

### *Management methods to boost motivation*

Below we present four methods to stimulate the motivation of HR managers particularly valuable,

but helpful to those employees who want to improve their internal motivation.

A. *Communication in the process of motivation.* Communication in the process of employee motivation will be based on his needs, factors that stimulate it to better work and what causes him to want to get better results.

Moments are chosen to perform communication: before to overcome the lack of performance, every time, so permanent to pursue performance and after, to discuss with employees what has been achieved compared to what was proposed to bring aware of the rewards and penalties established.

The discussion of individual sheets setting standards for employee performance information is made on performance standards set and they decide together with the awards and penalties will be imposed for failure of performance, staff having the opportunity to understand the consequences of their actions.

Periodically, the performance monitoring system will be explained to employees exactly where they are wrong and how to rectify, offering solutions and highlight the impact of failure on the work team performance. Above all it is very important not to overlook the effect of a job well done and will encourage employees to assess their own performance and then together to find the key ways to improve it.

Analyzing with employees what has been achieved compared to what was proposed so that the employee will lead to discussion and be clear about what was right and wrong, appropriate rewards and sanctions are communicated in a timely and applied exactly as originally agreed.

B. *Management by objectives.* Management by objectives is one of the most modern methods used to stimulate the motivation for the application of which will take into consideration the following measures: employment department objectives within the general objectives of the organization, setting goals for each employee, aligning employee objectives to the objectives of the organization, consulting employees in setting goals, the ways in which they will be achieved, and work on setting limits, setting together with the employees freedom of action that they will have and supervision required, the decision on how to measure performance and the type of rewards and sanctions applied.

Management by objectives lead to good results in the stimulation of motivation if they meet several conditions: employees know the goals, objectives are realistic, attainable and accurately described, it is possible to achieve deadlines and interrelated; employees are trained with regard to this management system, the system will be constantly monitored and corrected where necessary, corrections employees to be known soon.

The advantages of this method in terms of employee motivation and performance are the following: the performance required is narrowly defined, each person knows precisely what is expected of him in carrying out a task, each employee knows what to do to achieve the required performance, each person knows how to act, when to act and what the available resources are, rewards and sanctions are awarded in accordance with set objectives, measure performance and grant awards are made depending on the degree of achievement of individual objectives.

C. *Delegation.* Another way to boost motivation, effective and easy to apply, is delegation. In applying these measures are to be taken: establish clear tasks that can be delegated to persons; establish clear the persons that can be delegated and what tasks can be delegated to such persons, establishing, in consultation with the employee, the performance standards, expected results and the period of delegation, granting of full freedom of action to the employee who is delegated a task, assignment, with the task of the authority necessary for the proper performance of its employee.

As a method of stimulating the motivation, the delegation will be successful when they will meet the following conditions: the task is assigned a limited period of time, it is of a formal award (to be formalized) employee who has been delegated the task enjoys the confidence of his superiors, the task delegated to match the profile of the person to whom it is assigned.

As advantages of the delegation in employee motivation and performance can be noted that the employee receives proof of confidence in its capabilities and expected performance is accurately described.

D. *Participatory management.* Establish incentives for mobilization, for participation, specific to business performance is directly related to the implementation of a participatory management.

The first areas in which employees have participated in the organization and management of the companies were improving working conditions, extending the duties of departments, management by

objectives, etc., which are currently applied in developed countries a number of participatory methods that lead to improving the use of human resources and increasing employee motivation.

**4. Study**

Hypothesis that we went in this study is that in addition to salary are a number of factors that determine an employee to be more efficient! I think we need to have a more accurate report on the factors motivating the labor market in Romania.

As I said above is very important that a company's employees are motivated both financially and non-financial performance to be reached. The questionnaire was conducted on a sample of 1112 employees of which 70% occupy an executive position, and 30% a managerial post. The study included 39 counties, 20% of respondents working in trade, manufacturing 24% and 56% in services.

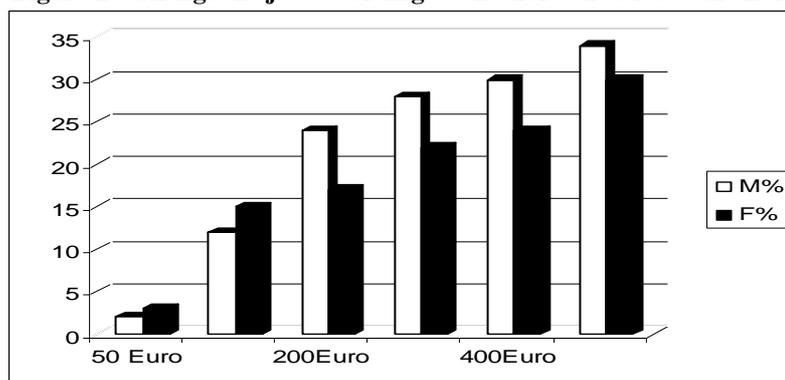
The margin of error of the survey is  $\pm 2\%$  applied to a sample which is quoted at a confidence level of 95%. Data presented in graphs are expressed in percentages and, where appropriate, results were presented separately for men and women!

**Table 1 - Change the job according to another attractive cash offer**

	50€	100€	200€	300€	400€	500€
M%	2	12	24	15	13	34
F%	3	15	30	17	13	22

Source: data obtained from questionnaires

**Figure 1 - Change the job according to another attractive cash offer**



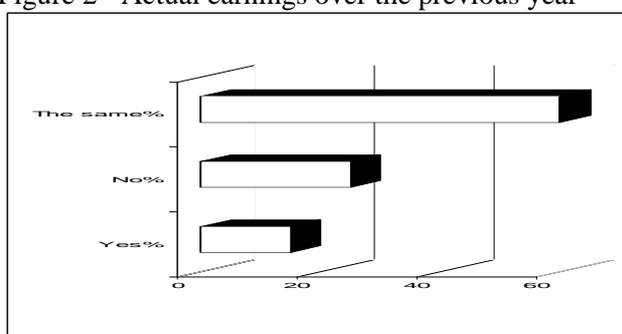
Source: data obtained from questionnaires

**Table 2 - Actual earnings over the previous year**

Yes%	15
No%	25
The same%	60

Source: data obtained from questionnaires

**Figure 2 - Actual earnings over the previous year**



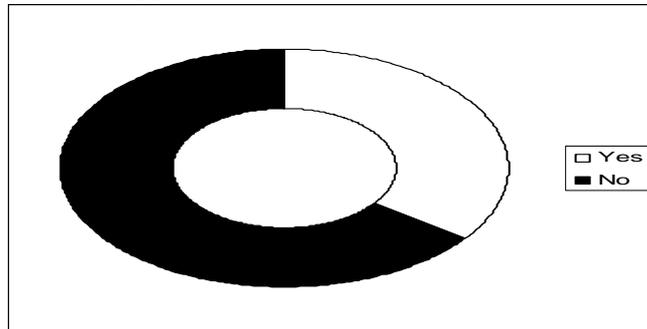
Source: data obtained from questionnaires

**Table 3 - Opportunities for promotion at your current job**

Yes	35%
No	65%

Source: data obtained from questionnaires

**Figure 3 - Opportunities for promotion at your current job**



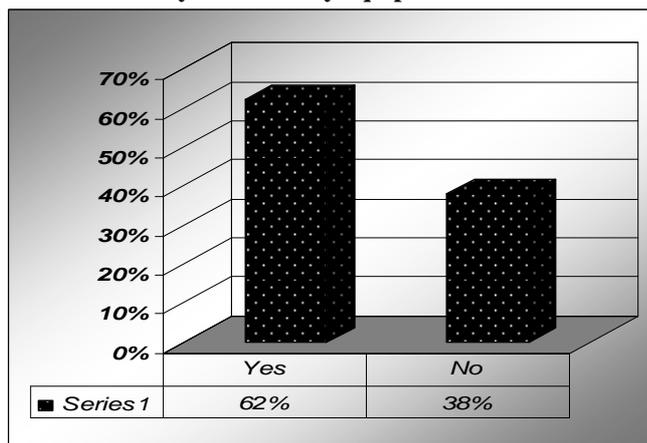
Source: data obtained from questionnaires

**Table 4 - Availability of necessary equipment to meet the work done**

Yes	62%
No	38%

Source: data obtained from questionnaires

**Figure 4 - Availability of necessary equipment to meet the work done**



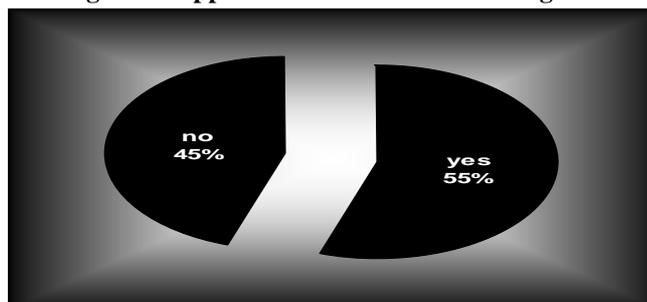
Source: data obtained from questionnaires

**Table 5 - opportunities to learn something new**

Yes	55%
No	45%

Source: data obtained from questionnaires

**Figure 5 - opportunities to learn something new**



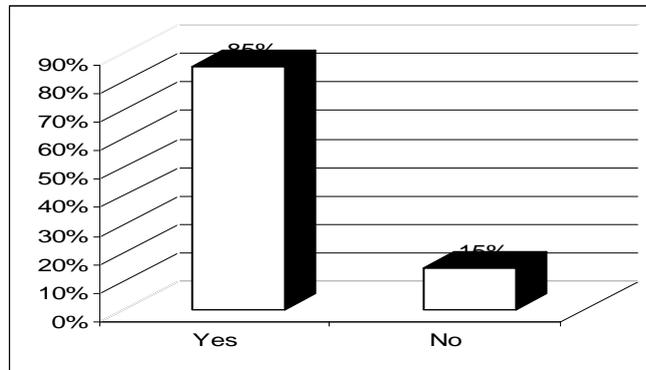
Source: data obtained from questionnaire

**Table 6 - Knowledge of job duties**

Yes	85%
No	15%

Source: data obtained from questionnaires

**Figure 6 - Knowledge of job duties**



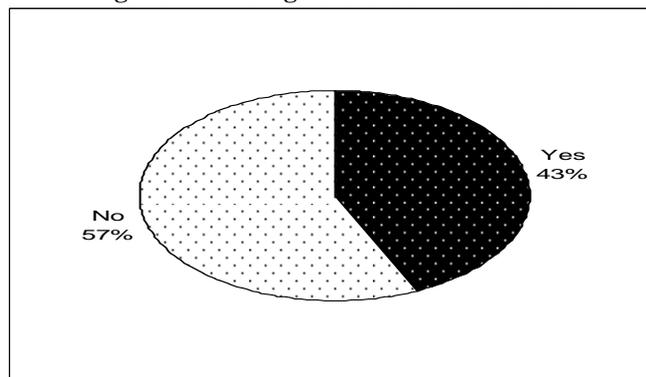
Source: data obtained from questionnaires

**Table 7 - Findings of the work carried out**

Yes	43%
No	57%

Source: data obtained from questionnaires

**Figure 7 - Findings of the work carried out**



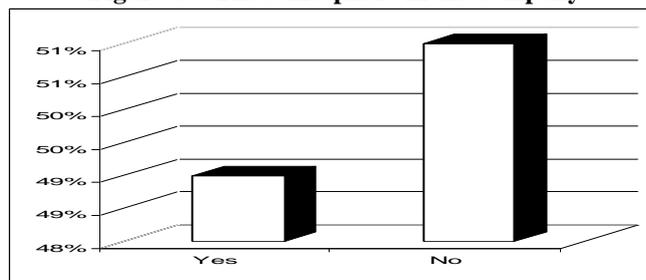
Source: data obtained from questionnaires

**Table 8 - The atmosphere in the company**

Yes	49%
No	51%

Source: data obtained from questionnaires

**Figura 8 - The atmosphere in the company**



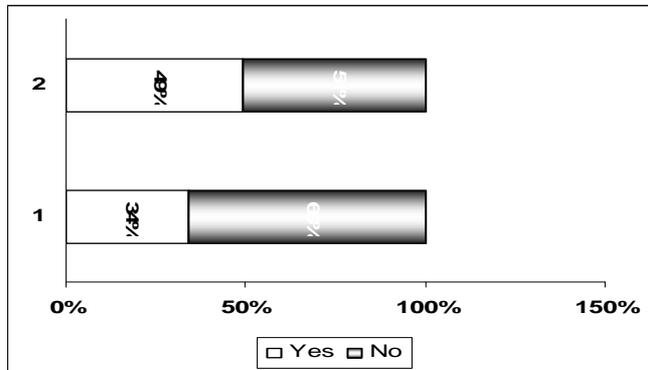
Source: data obtained from questionnaires

**Table 9 - The Authority is satisfactory**

	M	F
Yes	34%	49%
No	66%	51%

Source: data obtained from questionnaires

**Figure 9 - The Authority is satisfactory**



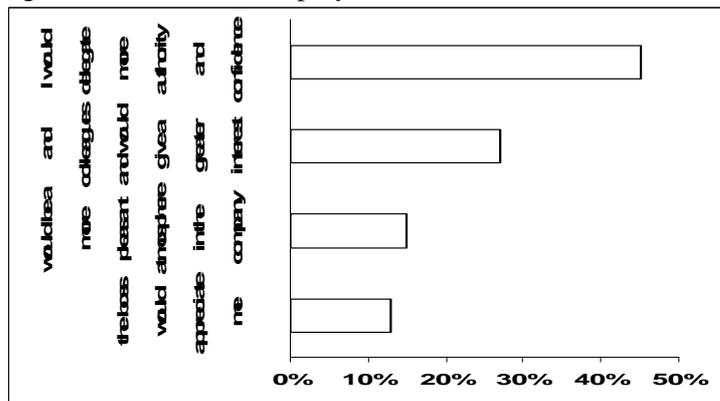
Source: data obtained from questionnaires

**Table 10 - Increased employment**

the boss would appreciate me	13%
would be a more pleasant atmosphere in the company	15%
colleagues would give a greater interest	27%
I would delegate more authority and confidence	45%

Source: data obtained from questionnaires

**Figure 10 – Increased employment**



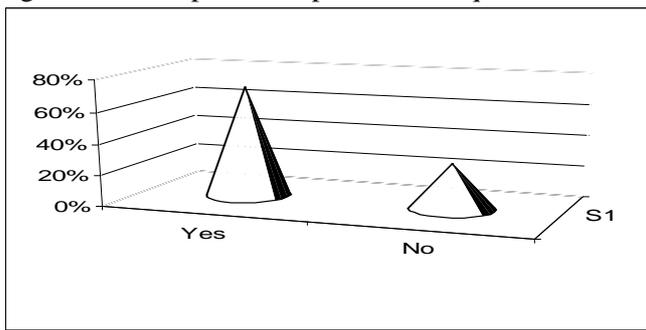
Source: data obtained from questionnaires

**Table 11 - Compensation provided adequate labor**

Yes	71%
No	29%

Source: data obtained from questionnaires

Figure 11 - Compensation provided adequate labor



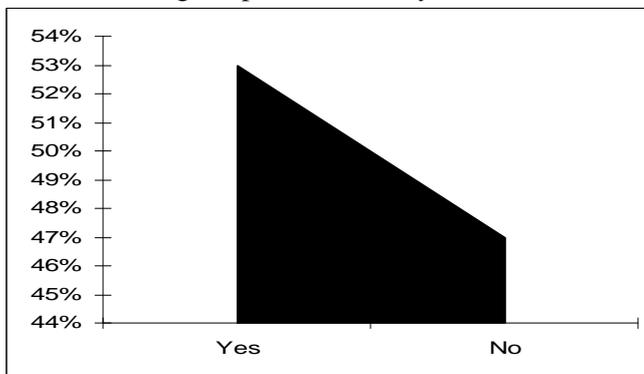
Source: data obtained from questionnaires

Table 12 - Making the position held by talent

Yes	53%
No	47%

Source: data obtained from questionnaires

Figure 12 - Making the position held by talent



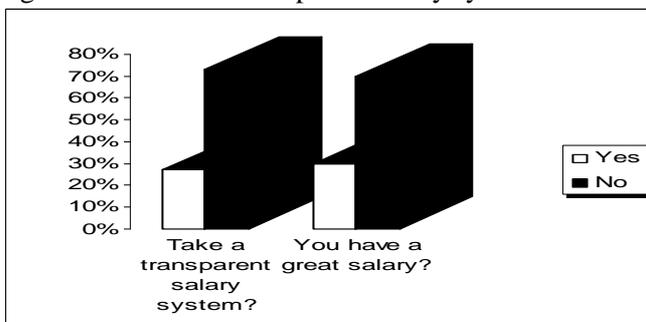
Source: data obtained from questionnaires

Table 13 - rates vs. transparent salary system

	Take a transparent salary system?	You have a great salary?
Yes	27%	30%
No	73%	70%

Source: data obtained from questionnaires

Figure 13 - rates vs. transparent salary system



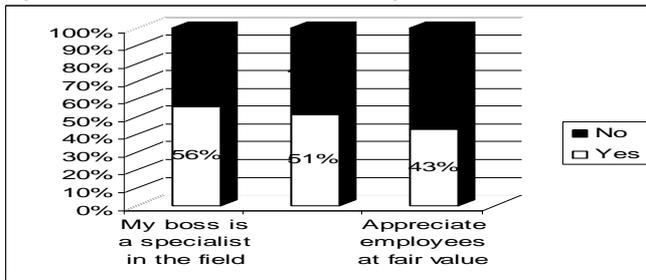
Source: data obtained from questionnaires

Table 14 - Remarks to the manager

	My boss is a specialist in the field	Treat employees fairly	Appreciate employees at fair value
Yes	56%	51%	43%
No	44%	49%	57%

Source: data obtained from questionnaires

Figure 14 – Remarks to the manager



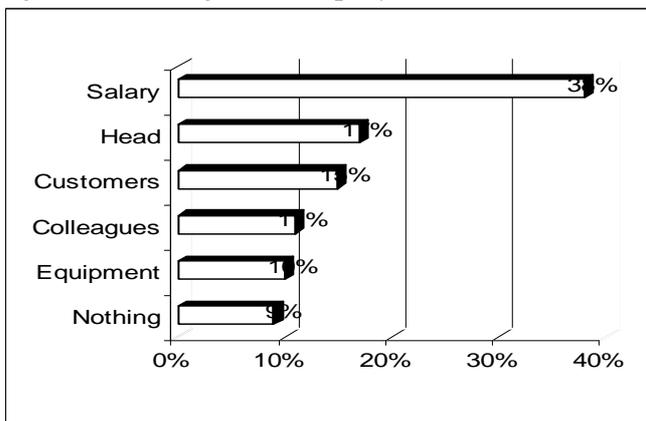
Source: data obtained from questionnaires

Table 15 - Changes in Company

Nothing	9%
Equipment	10%
Colleagues	11%
Customers	15%
Head	17%
Salary	38%

Source: data obtained from questionnaires

Figura 15 – Changes in Company



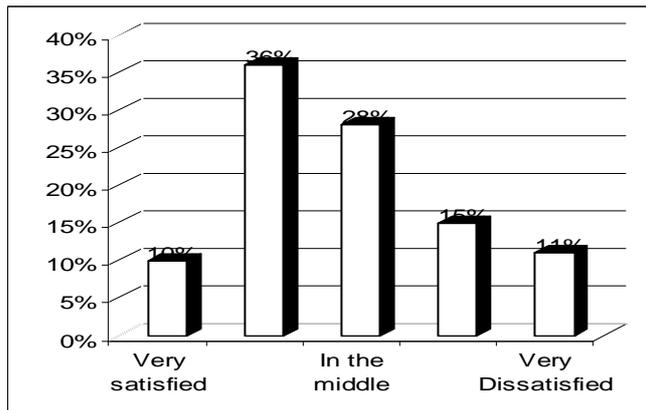
Source: data obtained from questionnaires

Table 16 - Degree of satisfaction with current job

Very satisfied	10%
Somewhat satisfied	36%
In the middle	28%
Somewhat dissatisfied	15%
Very Dissatisfied	11%

Source: data obtained from questionnaires

Figura 16 – Degree of satisfaction with current job



Source: data obtained from questionnaires

## 5. Conclusions

From this study it is clear that the Romanian employees non-financial needs unmet! That is a big demotivator factor for them!

Going through the questionnaire results we find that:

- approximately 15% of the employees earn more than last year;
- 30% of women would change their current job if they were offered a higher salary to € 200 at present;
- 38% of employees feel that they have opportunities for promotion;
- 30% of employees do not learn anything new from the current job;
- 57% of employees do not receive credit for work they make;
- 43% of employees feel that they have a pleasant atmosphere in the company;
- 49% of women feel that they don't have a satisfactory level of authority, unlike 34% men;
- 73% believe that there is not a transparent salary system;
- 30% of those surveyed considered that the companies have great salary system;
- 38% of employees consider that the salary is to be changed and no equipment, customers, managers, etc.;
- 36% of employees are somewhat satisfied with the current job, the opposite is being very satisfied with the job they had (10%).

These are just a few episodes that confirm that the work is NOT all about the money! The real concern for companies turnover of staff, but I noticed that they are unwilling to act firmly to fix this. Possibly they are willing to increase salaries, but many people are simply giving up the job because "they have had enough of that company!"

Employee portrait mirror is actually Romanian employer, when an employee complains of staff, he complains that the benefit of itself without even realizing it! Portrait of a Romanian worker would have two words: leaved and demotivated!

The role of non-financial reasons not yet fully understood by the Romanian employers, predicting a period of five years, during which non-financial reasons will become a common practice in every company in Romania.

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## THE ANALYSIS OF LABOR MIGRATION AND NON-FINANCIAL MOTIVATION IN REAL COMPANY

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**Abstract:** *Labor turnover is a normal phenomenon that we encounter in any organization. A certain rate of fluctuation exists, it is normal, especially today, when labor migration has increased significantly due to increased job offers. When, however, it exceeds certain limits, it means that things are not too good in the organization and management needs to ask some questions regarding the causes of turnover. Fluctuation is caused by a poor wage policy, not anchored in the realities of the labor market, unfavorable labor environment, deficient personnel management, human relations damaged, etc. Salaries are a sensitive issue in negotiations between employer and employee. Horia Pitariu (2003), said: "Most labor conflicts are generated by complex issues of wages, "and that "most union claims, implicitly working staff are focused on the thorny issue of wages.*

**Key words:** non-financial motivation, migration, wages, labor force, a multinational company

**JEL classification:** H0, H3, M12, M13

### 1. Introduction:

Real is a hypermarket chain, part of Metro.

In 2006, the Metro Company, bought the 85 Wal-Mart stores in Germany and renamed it Real, adding them to the 550 Real hypermarkets and supermarkets which already owned. Also in 2006, Metro has purchased chain *Geant* stores in Poland, owned by French retailer Group Casino for \$ 225 million.

The retail chain is also present in Romania since 2006, when it opened its first store in Timisoara. Currently the company owns 25 stores.

#### *HR Policies*

Company policy requires staff to encourage professional development, active communication, and corporate compliance and performance values in relationship with the client.

#### *Recruitment real,- and promote*

The entire recruitment activity to Real stores is done through coordinated campaigns in-house, and vacancies must be published concurrently in the press, the Real company's website and the already established jobs sites, recruitment brochures, fairs Career local employment agencies and labor

#### *Real Training*

Real Romania has the advantage of a specialized "in house" training department, Success School, as we say "only real can teach real". At the shop, all employees benefit from special training programs, depending on the position it will occupy, given the uniqueness of our IT system, and by default, the procedures, the trainer.

Success School, with specialists in each field (IT, accounting, quality assurance, procurement) have built and delivered these sessions before of each opening with clients, which is required in retail.

Of course, as a division of Metro Group, it benefits of a portfolio of international training and development programs, developed by the company - his mother for all divisions. They added a series of training sessions with local market partners.

Success School is in-house training department of the Real,- Romania, which offers specialized training programs to company employees. Training courses aim is to approach the expectations of the offered services and successfully cope with all challenges for the store.

#### *Real,- in numbers:*

- over 330 stores in Germany and 107 abroad in Romania, Poland, Russia, Turkey and Ukraine;
- 25 stores and over 8,000 employees in Romania

## 2. Real Employee motivation

Motivation is influencing the behavior of individuals through communication, group dynamics, leadership skills and discipline. The purpose of directing is to channel the behavior of all personnel to accomplish mission and objectives of the organization, helping them at the same time, realize their own personal career goals.

Each district manager is a detector of talent in his team. For this he will follow the progress of each employee and depending of the detected potential in each case, he will set realistic goal and he will enhance the professional development of employees through the allocation of new tasks and responsibilities.

Because stress and misinformation lead to absenteeism, staff turnover and demotivation, is the district manager task to maintain a pleasant working environment within the team, to resolve conflicts within the district (between different team members or between employees and customers) to manage crisis situations and make correct assessments of employee activity in order to improve results.

Aims to stimulate employee motivation in order to obtain better. Managers need to observe employee behavior (punctuality, orientation to work assignments, the effort to improve themselves, etc.) and to step in when the quality of their work falls.

A motivated employee as required by Real:

- has a regular presence at the job;
- make special efforts to fulfill the tasks;
- continuous improvement is concerned with its performance;
- direct their efforts toward achieving meaningful goals.

If the employee's behavior differs significantly from that described above is that they are demotivated.

Personal example is very important, so the district manager must be an example of conduct and professionalism for his team. He will send to new employees the information he hold, facilitating their integration into the team and helping them to accomplish their tasks properly. Real is a company that is based on the principle of internal promotion, so by personal example, by delegation and verification the practical training is done, that means that after a certain period of time, any employee to learn from the boss duties, but rather to assume further professional responsibilities.

Within the company there are several motivating factors that influence employee behavior. They are: professional achievement (how employees perceive their professional accomplishments), recognition for achievement (as recognized workloads), the work itself, labor associated responsibility, advancement within the company hierarchy.

*Means of reasons:*

Assuming that the state of demotivation and its causes have been properly detected and diagnosed by the manager, he has two sets of means available to increase the motivation of its employees:

### 1. Financial resources (raw)

Motivating role of such resources is very small (in the perception of the employee, the amounts due to him "by default");

Effect of reward money is very short (75% of employees forget the bonus amount received after only 30 days);

It is the most expensive form of reasoning (EUR 100 net salary cost the company 150 EUR);

Continuously increasing costs (employees will expect amount of premiums each year bigger than in previous years).

Salary is not a form of reasoning, is a sum of money relative to the skills and experience.

2. *Public non-financial* (all those forms of rewards and incentives that do not involve direct grant of money to the employee).

- Cost much less;
- It has more powerful effects because it appeals to emotional factors;
- It works for a much longer period of time;
- It is remembered by the employee much longer;
- Create loyalty to the company;
- Do not create resentment when the company is forced to suspend them;
- Have positive effects on team cohesion.

Moreover, leverage can not be used by the district manager / department as needed; their use is restricted according to the company's wage policy. Therefore, managers need to use mainly the second category of instruments.

In accordance with company policy, Real uses non-financial ways such as:

- Real birthday parties, internal events where all employees are invited;
  - Symbolic gifts at special events (Christmas, Easter, etc.).
  - Organize actions / activities with motivation, energizing and relaxing role (surprise visits made by various personalities / characters designed to thrill / to entertain employees, etc.);
- In parallel, the district manager can motivate his team by:
- Celebrating success and rewarding (mini-holiday for the celebration of professional success, handing out diplomas, trophies or other personal items of employees with good results etc.)
  - Organizing internal competition on professional issues (most friendly employees, the fastest commercial worker, best friend etc.).
  - Inform employees about the continuous results, with the changes in the company, the problems facing the department, etc. and consultation / application of ideas from them about certain issues (a sign of transparency and appreciation of employees by company)
  - Organizing trips with the team (possibly competitions)
  - Training Courses.

### 3. Wage and promotion policy

Regarding the question of remuneration, Real has a pay scale that takes into account such issues as: the region where shops operates, wage studies conducted by large companies annually on retail market, analysis and investigation of the group to which part.

Given the above considerations there is a well structured salary scale for each of the positions in the company, from entry-level and going up to a maximum of 3 years experience in the company, within this grid also, it can be very easily determined the immediately following level the employee may advance along with the seniority gaining and experience in company.

Moving from one level to another of the salary scale is following a systematic evaluation that takes place every year in March, at which according to the results obtained and the achievement of quality indicators, superior head determines the percentage level growth in the gross.

Also, two employees are offered annual bonuses, a holiday and an assessment, the first of them representing a percentage set by law, and the second can add up to 50% of last net salary, depending on employee's achievements in the last 6-8 months of activity.

It is important to note that the occupation of the head-office positions, middle management and top management are almost always through internal promotions. This criteria gives the aspiring employees involved in the organization the possibility to develop along with it, and more, to be aware of the fact that such positions are rarely filled by people from outside the company.

In terms of labor legislation and rights granting by law, employees in the departments of wage are very well trained and always ensure payment of the employees during work provided by the individual and collective unit level, there is no people to develop their undeclared work or to be hired without meeting the conditions imposed by Romanian legislation on work performed by employees.

### 4. Work Objectives

This paper aims to develop an analysis of the phenomenon of fluctuation within a multinational organization that sums up a fairly large number of employees.

This analysis is mainly aimed at highlighting the improvements made to staff turnover rate along with implementing a new program for non-financial reasons, proposed, developed and now implemented in the Real store by human resources departments.

### 5. Assumptions:

1. Employee satisfaction influences the rate of fluctuation of employees.
2. A program of non-financial motivation positively influence staff turnover rate.

### 6. Variables:

1. Satisfaction questionnaire applied to current employees is an independent variable for the rate fluctuation.
2. Programs for non-financial reasons are independent variables for the rate fluctuations.

### 7. Methodology:

A. Database:

In support of a fluctuation analysis of this scale have been made available data recorded since the opening of company. These were embodied in a comprehensive and consistent database that can be consulted electronically.

*B. Presentation of assessment tools:*

In order to obtain a global picture of the satisfaction level felt by Real employees, specialised literature and market has been consulted in order to select a reliable and valid instrument that can measure organization employee satisfaction.

*C. Description of the instrument:*

Questionnaire is assessing organizational climate, using the 117 items, as follows:

1. 13 dimensions assessed
2. 9 questions for each dimension evaluated
3. Four possible answers
  - The dimensions assessed are:
    1. Tasks (9 items) - how to define tasks and objectives, for the entire organization and for each employee (clear goals). Ex: My duties are clear, well defined
    2. Relationship (9) - the quality of relationships between employees with respect to communication and collaboration in training and maintaining a nonconflictual climate (positive relationship) Ex: In the work team are tensions or conflicts
    3. Motivation (9) - motivational system existing in the company, secured by retribution, appreciation, promotion opportunities, skills training, development activities. (stimulating motivation)
    4. Support (9) - resources, working conditions and incentives that ensure the organization in order to achieve a performance activity. Ex: Who has the initiative receives valuable training resources to underpin his ideas
    5. Management (9) - leadership style, effectively supports individual and collective performance, providing conditions for efficiency (management efficiency). Ex- My boss is fair in my assessment and objective in my work.
    6. Evaluation (9) - objective assessment of employee activity, according to clear criteria and objectives, providing feedback and solutions to improve the work (assessment stimulating). Ex: My job, how I do my work is regularly assessed
    7. Justice (9) - correct decisions in the organization with reference both to the distribution of tasks and resources to employees and how they are treated or rewarded for their work (organizational justice) - to reward and treat employees in an equitable manner
    8. Ex: The salary you receive is correct in relation to work performed
    9. Attachment (9)- identification with the company, as the employees share goals and values of company / institution, are loyal and interested in its good (organizational attachment).
    10. Ex: I would feel guilty if I leave this business permanently
    11. Decisions (9) - employee autonomy in deciding how to complete the work or the extent to which they are consulted when important decisions are made (decision making).
    12. Ex: In this company employees are encouraged to take initiative
    13. Learning (9) – The conditions and the climate that allow the acquisition of new information, their experimentation and implementation of valuable ideas (organizational learning). Ex: Employees have chances to attend professional development courses.
    14. Satisfaction (9) - degree of satisfaction with the nature and importance of work, freedom of action, received recognition or support (stimulating activity). Ex: My duties are varied and stimulating professional
    15. Security (9) - the feeling of security or certainty about pay, work organization, relations with others, trust in professional future (security training).
    16. Ex: The company where I work is not stable and can go bankrupt
    17. Overloading (9) - work performed in excess or feeling that the nature, volume and diversity of tasks beyond their ability to cope (work overload). Ex: I'm often long hours to complete assignments

For each question there are four types of response;

- agree in a very small
- agree to a small extent
- largely agree
- agree to a great extent

People chose an answer based on what they believe or not that happens in the organization, and responses were anonymous to encourage participants to give answers as close to reality and in accordance with their own values and beliefs.

*D. Participants:*

For the questionnaire was chosen a representative sample of 200 people, who are engaged in all company stores, considering that an average of 10% from the organization is able to predict and estimate the overall level of perception of employee satisfaction. The sample included employees from all Real departments; such results can cover the entire range of marketing functions and directions of Real Hypermarket. It also specified that participants must meet the following conditions to be part of the test group:

1. to have a length greater than three months within the organization
2. be employed on indefinite contracts
3. to work full time

Results are the average scores for each dimension obtained from the 200 participants, even if some items had a negative connotation the results were recorders, so that all items with great results (4) to reflect satisfaction based on targeted results for each size ranges from 9 (minimum possible) and 36 (maximum possible)

We chose to synthesize our results with reference to the issues to be taken into account for further analysis, respectively:

- Level of satisfaction in terms of seniority in the organization
- Level of satisfaction according to the department as part
- Level of satisfaction reported for the position occupied

Depending on the results the organization can fit in 4 areas:

1. Performance (3-4) - the ideal situation with extreme positive results. These results guarantee the existence of a climate conducive to performance. We do not have scale scores that fall in this area. Organizations listed in this area are, however, exceptions.
2. Functional (2.5 to 3) - the area where most organizations fall. The dimensions measured are predominantly positive, but employees are not fully satisfied. The climate is good, acceptable, conducive to normal activities. Functional performance is not necessarily. Most sizes are situated in the area evaluated.
3. Poor (2 to 2.5) - is the size to which the organization has not given much importance, seen in a negative manner by employees. This is an alarm. Dimensions to fit this area are: motivation, justice and attachment. Intervention is required to bring these issues in functional area.
4. Disfunctional (1-2) - We don't have evaluated dimensions to fit in this area and to represent a serious situation.

**8. The results of the questionnaire applied:**

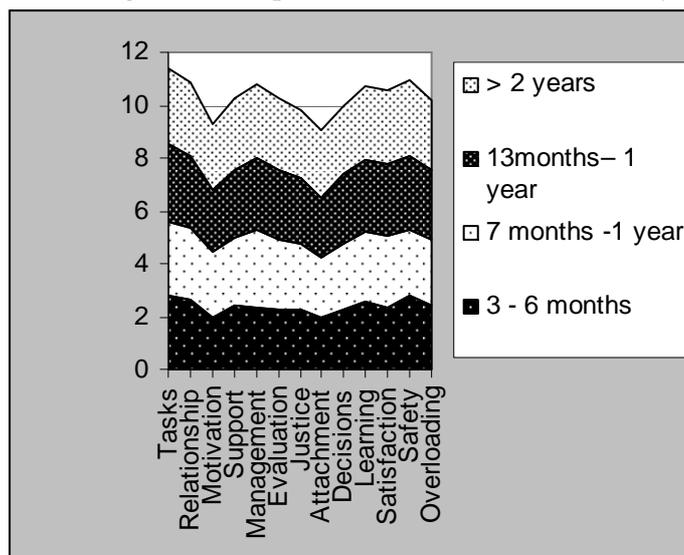
Employees are satisfied with how the tasks are outlined and explained, with the established relationships within the company, how hierarchical superiors manifests. Learning and safety are other dimensions that have received higher scores.

**Table 1 - Comparison of size in terms of seniority**

Size	3 - 6 months	7 months -1 year	13 months - 1 year	> 2 years
Tasks	2,78	2,82	2,94	2,88
Relationships	2,65	2,73	2,68	2,81
Motivation	2	2,42	2,36	2,48
Support	2,39	2,61	2,56	2,68
Management	2,36	2,91	2,72	2,77
Evaluation	2,29	2,61	2,66	2,74
Justice	2,29	2,5	2,48	2,54
Attachment	2	2,26	2,26	2,57
Decisions	2,27	2,5	2,59	2,62
Learning	2,53	2,71	2,68	2,81
Satisfaction	2,35	2,71	2,7	2,81
Safety	2,76	2,53	2,75	2,89
Overloading	2,42	2,51	2,6	2,66

Source: Processing data from the application questionnair

Figure 1 - Comparison of size in terms of seniority



Source: Processing data from the application questionnaire

As it can be seen in Table 1, individuals who are older than two years are really happy and adapted to the work system in our organization. Employees who have less than 6 months old in reality are the least motivated, they have problems in terms of evaluation (which is normal, considering that have not yet participated in an assessment), they believe the company are the most disadvantaged, they are not very happy with the decisions made (not very suitable system of work). They also are the least attached to the enterprise, of course.

The best rated dimension is safety (feeling of security or certainty about pay, work organization, relations with others, trust in professional future (security training), both by the new and the older Real employees, something that denote confidence on their part, the responsibility that a company takes toward them.

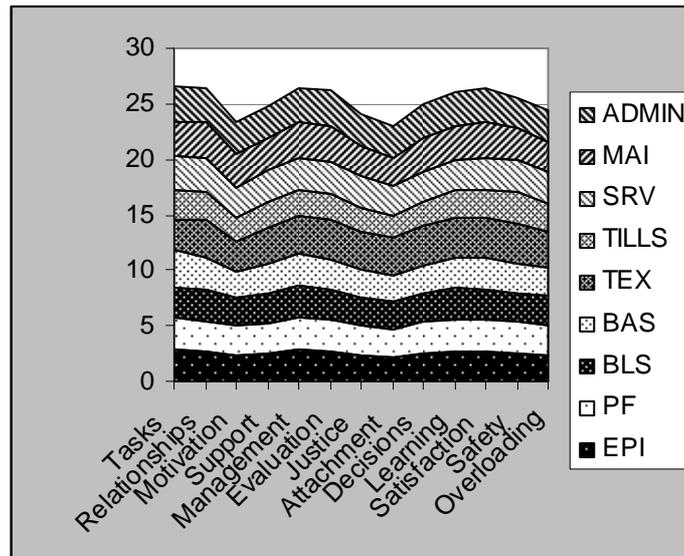
In contrast, although confident that they will receive wages and they are offered security in the workplace is the most negatively rated scale motivation (motivational system existing in the company, secured by retribution, appreciation, promotion opportunities, skills training, development activities, stimulating motivation), which does not exceed 2.5, even the employees with seniority in the company. This is a notable aspect, which will be given great importance in terms of staff motivation strategy for 2010, it was also the first alarm signal that has confirmed to us that people need more motivation and that in this chapter, must step in as soon as possible.

Table 2 - Comparison of sizes depending on department / service

Size	EPI	PF	BLS	BAS	TEX	TILLS	SRV	MAI	ADMIN
Tasks	2,79	2,92	2,81	3,28	2,67	2,76	3,05	3,13	3,22
Relationships	2,66	2,69	2,97	2,87	3,38	2,55	3,08	3,2	3
Motivation	2,42	2,54	2,55	2,33	2,79	2,1	2,65	3,04	3,02
Support	2,43	2,78	2,69	2,63	3,35	2,33	2,85	2,84	2,96
Management	2,86	2,87	2,88	2,83	3,42	2,37	2,96	3,2	3,09
Evaluation	2,72	2,78	2,78	2,66	3,68	2,24	2,91	3,27	3,18
Justice	2,37	2,63	2,55	2,44	3,43	2,18	2,89	2,67	2,98
Attachment	2,14	2,59	2,47	2,37	3,31	2,11	2,64	2,56	2,82
Decisions	2,57	2,75	2,63	2,46	3,56	2,19	2,74	2,93	3,07
Learning	2,7	2,85	2,88	2,67	3,61	2,48	2,79	3,07	3,07
Satisfaction	2,65	2,88	2,76	2,83	3,68	2,39	2,95	3,22	3
Safety	2,45	2,86	2,67	2,61	3,67	2,77	2,99	2,73	2,8
Overloading	2,41	2,61	2,71	2,49	3,32	2,45	2,96	2,58	2,87

Source: Processing data from the application questionnaire

Figure 2 - Comparison of sizes depending on department /service



Source: Processing data from the application questionnaire

As you can see, the most satisfied employees are in the department of textiles, which have achieved very good scores in most dimensions. Good scores were recorded by the Guard Service, Maintenance and Administration. On the opposite side there are the employees of tills, who obtained low scores on most dimensions (motivation support, assessment, justice, attachment, decisions).

As for listing the least satisfactory aspect of the department average, are highlighted Attachment (M = 2.56), again in terms of poor motivation - Satisfaction (m = 2.60), followed by Justice (m = 2.56), even the average exceed alarm size, yet retain this motivation scales among the least satisfactory.

We conclude on this analysis in terms of scores obtained per department, that those from tills are the most exposed to daily work with clients and they feel the most dissatisfaction. From here we deduce that our employee satisfaction is strongly influenced by the position they hold, which we analyze below.

Table 3 - Comparison of sizes depending on the position held

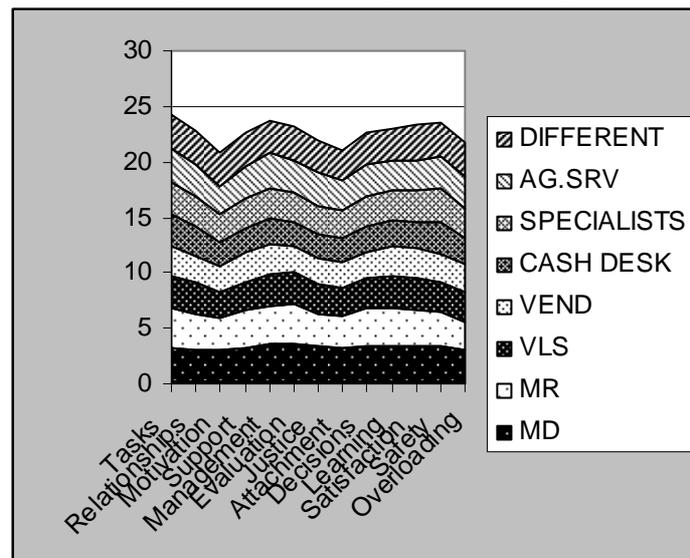
Size	MD	MR	VLS	VEND	CASH DESK	SPECIALISTS	AG.SRV	DIFFERENT
Tasks	3,31	3,52	2,8	2,82	2,76	2,9	3	3,15
Relationships	3,11	3,17	2,84	2,46	2,55	2,69	3	3,07
Motivation	3,08	2,78	2,48	2,28	2,09	2,53	2,63	2,93
Support	3,22	3,35	2,63	2,58	2,31	2,69	2,89	2,96
Management	3,58	3,43	2,89	2,68	2,34	2,77	3,08	3,01
Evaluation	3,58	3,59	2,83	2,42	2,22	2,62	2,84	3,15
Justice	3,33	3,02	2,55	2,38	2,16	2,63	2,95	2,84
Attachment	3,31	2,85	2,44	2,39	2,1	2,5	2,79	2,58
Decisions	3,39	3,41	2,65	2,48	2,18	2,76	2,86	2,85
Learning	3,5	3,35	2,88	2,62	2,47	2,61	2,68	2,96
Satisfaction	3,42	3,31	2,83	2,66	2,36	2,81	2,78	3,12
Safety	3,33	3,17	2,65	2,57	2,75	3,11	2,9	3,05
Overloading	3,03	2,61	2,58	2,48	2,44	2,7	2,83	3,03

Source: Processing data from the application questionnaire

Most employees are satisfied with department managers and district managers with high scores on almost all dimensions. Category "Others" are functions with a low participation rate (ie, a receptionist, a nurse, etc.) that were sorted to ensure confidentiality. The cashiers are unhappy, who obtained low scores in over half of the dimensions, as predicted and department level analysis. Unlike the results of service tills here it has been taken into account only the answers given by the cashiers of the line tills.

Again, in terms of motivation we find two values alarming (vend - 2.28 and cashiers - 2.09), which strengthens the belief that we need a more complex analysis and the results can be translated into implementation of motivational programs.

Figure 3 - Comparison of sizes depending on the position held



Source: Processing data from the application questionnaire

**9. Conclusions:**

Assumptions from which we started were that with a fairly high turnover rate, there is an acute need to improve the motivational systems leading to an increased stability in the jobs.

Satisfaction study concluded that the feeling of security or certainty about pay, work organization, relations with others, trust in professional future (security training), is the highest rated of all employees both new and old ones and the most negative rated was the motivational system existing in the firm, obtained by retribution, appreciation, promotion opportunities, skills training, development activities. Stimulating motivation, which does not exceed 2.5, even the employees with seniority in the company. This has led to the formulation of the need to implement new motivational programs in 2011.

On the other hand, this study reveals the need for a review of salary levels, bonuses and awards of scales and not least the need felt by people to be stimulated by non-financial motivation.

We believe that the implemented programs were very well chosen, as they managed to raise self-esteem of employees and make them feel important to the organization regardless of job position and its degree of importance to the figure achieved results indicate the need for any rise to a multinational study of diagnosis and staff turnover, which in our opinion, there should be a constant, designed to identify early signs that may be valuable in assessing the problems of staff dissatisfaction.

Also in this context deems it necessary for greater investment of time for the development, implementation and research tools results to measure employee satisfaction, objectivity and ability to predict the fluctuation, as the scale of which should attract our attention and especially more involvement of all of us that we are practicing our profession in this occupational area.

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## EDUCATING THE HUMAN CAPITAL - THE MORE YOU LEARN, THE MORE YOU EARN

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**Abstract:** *The beliefs that education follows a specific path and appears in a specific way are still deeply rooted in our traditional way of thinking. But, the 21st century education is more and more indifferent to tradition and that's the reason why a change in our mentality has to be done.*

*21st century generation of students pays a lot for education – time and money, but is it about quality, quantity or just a reflex called „education”? For education to become the engine that can move a country's economy it must be of high quality. The quantity must be measured in years of learning and experience and original research products.*

**Keywords:** *education, human capital, endowment, quality, funding, productivity*

**JEL classification:** M 12

### 1. Why educating the human capital?

Generally speaking, the human capital represents the investment a person makes in her/him for developing or improving economic productivity. After Sakamota & Powers “formal education is highly instrumental and even necessary to improve the production capacity of a population.” (**Sakamota, A., Powers, P.A., 1995**)

Human capital theory explains how education plays an important role in productivity and efficiency of the labor force by raising the level of cognitive stock of economically productive human capability as the product of investing in humans.

According to Robert Barro's study there is a human capital model which shows that education and creation of human capital are responsible for both the differences in labor productivity and the differences in overall levels of technology that we observe in the world. (**Robert, B., 1991**)

In order for a country to develop successfully it has to realize that the principal mechanism for improving human knowledge is the educational system. Focusing on education as a capital good relates to the concept of human capital, emphasizing the fact that the development of skills is an important factor in production activities. Education creates developed persons and helps society upgrade the general standard of living.

Psacharopoulos and Woodhall stated that “Human resources constitute the ultimate basis of wealth of nations. Capital and natural resources are passive factors of production, human beings are the active agencies who accumulate capital, exploit natural resources, build social, economic and political organization, and carry forward national development.” (**Psacharopoulos, G., Woodhall, M., 1997**)

The economic growth and social development of a country are determined by the quality of its human resources. The accumulation of educated human capital is the key factor for the entire engine of a country to work for profit.

Peer Ederer, Philipp Schuler and Stephan Wilms, four directors in Lisbon Council, defined and analyzed in a study **four types of human capital that contribute to the wealth of European citizens:**

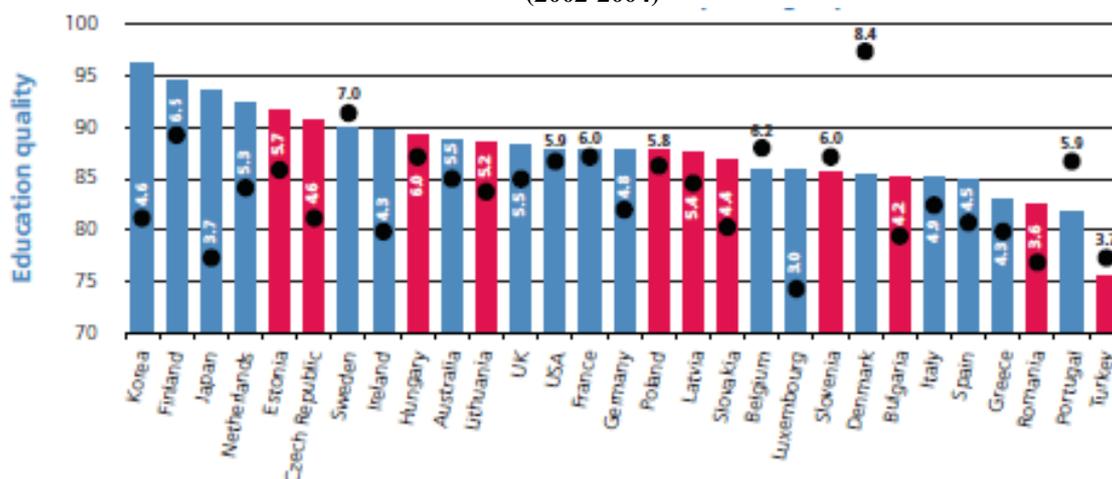
- **Human capital endowment:** costs of all types of education and training per person active in labor force;
- **Human capital utilization:** how much of a country's human capital stock is actually deployed;
- **Human capital productivity:** the productivity of human capital by dividing a country's overall consumption by all of the human capital employed in that country;
- **Human capital demography and employment:** existing economic, demographic and migratory trends and estimating the number of people who will be employed in 2035.

The authors also mention the fact that the decisive economic resources of the future will be **knowledge and education**.

In terms of human capital endowment, the 12 countries surveyed were grouped into four categories of performers:

- Slovenia towers above the others and, in terms of human capital accumulation, is approaching the levels of Greece, Italy and Portugal in both the quantity and structure of its human capital;
- The Czech Republic, Estonia, Hungary and Lithuania are runners-up in the amounts of human capital they have been able to accumulate among their employed work force; they still lag Western European levels, but together with Slovenia lead the pack;
- Croatia, Poland and Latvia occupy the middle ground;
- Bulgaria, **Romania**, Slovakia and Turkey trail behind, and that means low public investments in education and consistently poor showing on international educational achievement. (Ederer, P., Schuler, P., Wilms, S., 2007)

**Figure 1. Performance in education**  
Quality of secondary schooling education as derived from international comparison tests (Pisa, Timms)  
Composite indexed for most recent year; education spending in percent of GDP (2002-2004)



Source: Lisbon Council Policy Brief, 2007

The authors have taken into account the human capital endowment per capita that is measured by calculating the level of investment in five different kinds of investment in skills used in economy:

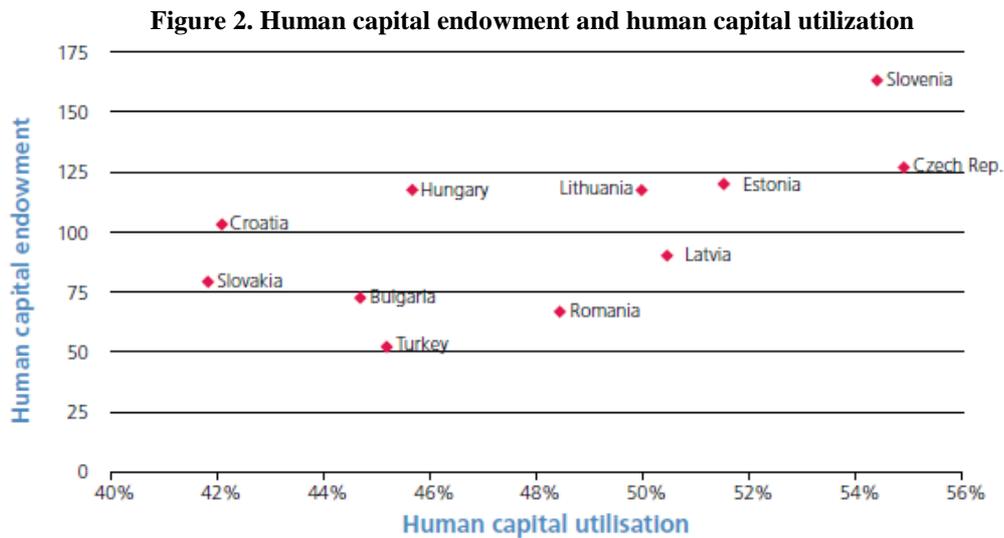
- Informal parental education: general skills and cultural adaptation taught by parents;
- Formal school education: general skills which children learn mostly up to secondary school;
- Formal university and higher education: specific skills that students learn in university and upper vocational training institutions;
- Formal and informal adult education: skills which adults acquire outside of their daily work environment, which are directly or indirectly job related such as management training;
- Informal learning on the job: skills acquired incidentally as part of the daily job activity and continuous adaptation to new requirements.

**The countries with high levels of human capital endowment often use it to its best as it shown in the following figure.**

As it can be seen in the results of the survey **Romania** has a low position that indicates the fact that investing in education and in human capital still needs improvement.

But, as far as the **human capital productivity** is concerned **Romania** is among the countries with the highest level together with Bulgaria and Slovakia. That means that these countries are utilizing as much human capital as possible and derive high productivity returns from it.

A possible conclusion of this survey might be that of investing in education in order to have high class human capital, by linking the economy with knowledge networks, especially with universities as tertiary education providers.



Source: Lisbon Council Policy Brief, 2007

### How much education?

Education nowadays is about challenge, innovation, creativity, originality, research and not about producing the same old knowledge.

**Andreas Schleicher from the OECD Education Directorate** mentioned in his article “The case for the 21st century learning” that “Success will go to those individuals and countries that are swift to adapt slow to resist and open to change. The task for educators and policy makers is to help countries rise to this challenge.” (Schleicher, A., 2011)

It is a proven fact that the more educated your are the more likely your are to have a job and earn more money. Jerome Cukier in his work “Want to work stay in college” stated that “without a single exception, a higher proportion of 25 to 64 years olds with a tertiary level of education are employed that those with only an upper secondary degree. And likewise, those with an upper secondary qualification are generally far more likely to have a job than those with a level of education below that.” (Cukier, J., 2010)

Education is mainly the tool used for expanding scientific and cultural knowledge. The human capital of the future is represented by the educated youth of today. So, why not spent time and money on education?

**The International Standard Classification of Education – ISCED** created the United Nations provides a system of classification that starts from a low level – the pre primary education and ends on top with advanced research programs or second stage of tertiary education meaning advanced study and original research.

### Taken into account this classification, a survey taken by the OECD in 2008 shows that:

- In terms of time spent for education, for most countries formal education means at least 14 years;
- Girls are more likely than boys to complete upper secondary education – a reversal of historical trends;
- Graduation rates for young women are notably higher than those for young men – 46% versus 30%;
- Earnings tend to rise in line with people’s level of education;
- The earnings premium for tertiary education is substantial and exceeds 50% in more than half of the countries studied;
- Across all countries and all levels of education, women earn less than men, and that gap is not reduced with more education;
- People with higher level of education have better job prospects; the difference is particularly marked between those who have attained upper secondary education and those who have not;
- Rewards are typically higher for individuals attaining tertiary education than upper secondary education or post secondary non-tertiary education;

Most European countries are driven in their way to success by the fact that a well-educated population is the basis of the economic and social development. The interest in ensuring education for both children and adults is essential.

During economic downturns and crisis, the demand for higher educations goes up, due to the market's necessity for a more educated and more prepared human capital. "Hunting for brains" and intelligent solutions is some sort of a marketing tool for each country, society or company and that means first of all **education**.

Companies are more and more involved in the life of institutions that provide quality in their education, and what matters now is not how much in terms of years and degrees but how much in knowledge, talent, skills these years and degrees have provided.

## 2. How much for education?

This question must be answered from three different points of view:

- The institution that provides education;
- The student who is educated;
- The final beneficiary of the education – the state, companies, society, etc.

Allocating resources for education represents the basic implication of a country or government or institution to the development of its human capital. Investing money on education has two major impacts: first impact is on knowledge and skills of the individuals and second impact on values, ideas, attitudes and aspirations that finally represent the path of a society's development.

At a global level, the fees and tuitions in education are growing as an important source of income for most universities, not taking into account the other sources of income of a university. But pricing sometimes is not equal to prestige and that must be changed, especially in Romanian universities.

The demand for learning and high quality education means spending more per student. It is a **great challenge to calculate the real level of costs required to educate a student for work**, because a lots of factors must be taken into account some of the most important being:

- **The human factor:** professors, researchers, administrative staff;
- **The material factor:** buildings, laboratories, classes, tools, new technologies, libraries, student's room and eating places or cafeterias;
- **The time factor:** for what period of time is the student involved in the learning process;
- **The funding:** government funding, private funding, tertiary funding, etc.

The paradox consists in the fact that, even though the government and the state is in search of good, real, applicable solutions that often come from educated and experienced human capital, its practical implications are lowering. Spending on education from the states part does not tend to rise so the solution must come from another part: the private sector meaning implication from companies, firms and associations.

Seeking a diversity of funding sources rather than relying on the state is the new trend in universities.

A survey taken by OECD regarding **the role of private spending on education in OECD countries** states that: „Public funding provides a very large part of investment in education, but the role of private sources has become more important. Some stakeholders are concerned that this balance should not become so titled that is discourages some potential students from attending tertiary education. Thus it is important to look at changes in public/private funding shares to determine if they are influencing patterns and levels of student participation.” (OECD, 2010)

For a state and for a company is not so hard to take part in the educational process, but from a student's point of view the situation changes. The student has to face the problem of good education at a low cost. This task has to be shared with both the state and the university by providing a financial aid scheme for the entire period of study. A strong relation of between the tuitions and fees the student is paying and the financial resources of the universities is thus generated.

There is a saying according to which “The smart ones are going to rule the world”. At it is 100% true and verified. The reward for intelligence is in a rapid growth. Technology is advancing and so is the request for people who know how to use it: the educated ones.

Parents that are educated tend to send their children to schools or universities; sometimes it's a family tradition to follow the same university as your parents did. Parents that are educated earn more money and have the financial possibility to buy houses near schools that are more expensive. So that the child gets the best education money can buy. One of the most common schemes of financial aid for a student is exactly what his parents can provide. But, how can a modest family send his child to the best schools knowing he is smart, intelligent and hardworking, hoping all the best for the child? This is the point where a financial model must be offered by the university in a strong connection with the society/companies, banks, etc.

According to OECD it is more likely for a child to study at a university if his parents have earned a university diploma and this is a fact in countries like United States of America or in France, so why not follow the example and do that in Romania, by using a "tracking" system and creating an **official Alumni Data Base** for each university.

This might give the possibility of better using the human capital a university has already educated and for the future a possible source of new brains and why not – a new source of funding for the universities.

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## MULTINATIONALS AND ECONOMIC DEVELOPMENT – GLOBAL SHIFTS AND TRENDS (A PRELIMINARY COMMISSIONING IN THEME)

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**Abstract:** *The paper describes the vision, the mission and the objectives of the systematic research in the field of "Multinationals and economic development: historical analysis and theoretical attempts". It emphasizes the general approaching framework for the discussion subject in terms of: problematization --- hypothesis --- current state of research --- objectives --- results. The paper aims to serve as starting point for a an integrative and interdisciplinary approach of the global shifts and trends regarding multinationals and economic development.*

**Key words:** multinational corporations, economic development, global shifts and trends

**JEL Classification:** F23, L16, O10

### 1. Introduction

The referential and evolutionary frames – of the economic processes and phenomena on one hand, and of the theories that occur as a consequence of them, explaining them and predicting new trajectories, on the other hand – are exponentially multiplying and continuously refining nowadays. More than that, the speed and the diffusion rate of the changes that characterize the real systems (firms / corporations), as well as the theoretical and methodological models that integrate them, all these urge for a paradigmatic change.

*The bottom line* is: what could be done (developed) in order to overcome the simplistic matrix (simplistic in terms and by reasons of comprehensibility, not exhaustively) resulting from the combining of *multinational corporations* and *economic development* dimensions, under the circumstances of some radical and discontinuous signs and determinants of change:

- ✓ The centers (and determinants) of power are moving:
  - diachronically – from countries (public politics and administrative decisions) to firms / corporations – when we try to analyze and explain the *waves* of the economic development, globalization and competition;
  - synchronically – from *center(s)* to *peripheries* – as the growing importance of the networks and their nodes and the transition to the *classical triad* to the *new BRIC countries*,
    - having as *effect* the *emergence and development of the regional clusters* – within an economy and between countries – as consequence of the interdependencies between economic development and the multinationals.
- ✓ The growing economic dynamism allows and favors the mixture between theories and/or practices that were incompatible years ago, contributing in the same time to the emergence and development of some new theoretical concepts and models of evolution at micro and macro economic level, within the field of theoretical and practical economy:
  - globalization – regionalization – localization – globo-calization;
  - competition – cooperation – co-opetition,
    - (cap)able to make the *shift* from the *catching-up policies* to the status of *global economic threat* (the case of BRICs, for instance).

*Our hypothesis* is that the interdependencies and the interconnections between multinationals on one hand, and the economic development on the other hand, are dynamic, multiple and complex, and that makes any attempt to catch them into a unique and immutable referential framework very difficult. That is the reason why the need for *contextually defined (in terms of time and space, equally) models, which are multifactor and integrated*, seems to be more stringent that ever. This kind of approach and the resulted models will allow us to extract the specific features (differences) able to reconfigure the proximate genus.

## 2. Development: multinationals and economic development between current state of research in the field and the realities it reflects

We think that the *current state of research* in the field of *multinationals and economic development* is mostly characterized by fragmentation --- focalization --- unilateral approach ---- exclusion. We argue this statement by at least two explanations – having dichotomous treatment of the issues as their first weakness: on one hand, most of the analyses and studies which were made until now refer to just one side of the binomial *multinationals and economic development*, and, on the other hand, most of the approaches come distinctively from just one of the specific scientific fields of research (economic theory, international business, international management), not trying to integrate them. So, there is a little literature on the complex construct and dynamic relationships between multinationals and economic development. Some of the coordinates of the literature are as follows:

- ✓ *Economic development – theories, models, politics and strategies*
  - Classical theories of economic growth and development
  - Contemporary models of development and the problems of underdevelopment
  - National and regional policies and strategies for economic development
- ✓ *Multinational corporations – theories, structures, strategies and models*
  - Theories: international commerce and foreign direct investment, industrial organization, internationalization (transactional costs economy)
  - Systems and strategies in multinationals development
  - Competitive structures, strategic alliances and networks for multinationals
  - Development models for triad based multinationals and for emergent countries based multinationals
- ✓ *Multinationals and economic development*
  - Interrelations between foreign direct investment and economic development; the role of the international institutions
  - The matrix model versus the stakeholders model of the relationships between multinationals and economic development
  - Bottom-up models versus top-down models
  - Classical (USA originated) models versus emergent (BRICs originated) models for multinationals and economic development.

One of the most relevant works on the field of *multinationals and economic development* (and which we take as a referral into our demarche) belongs to Rugman and Doh. Into their book *Multinationals and Development* (Rugman and Doh, 2008), they have developed a “*simple framework (in order to) bring together two basic sets of factors governing the relationship between the governments of host economies and MNEs: country factors and firm factors*”. Their findings – based on the facts that: (1). “*country factors alone are not sufficient to sustain economic development*” and (2). “*without stable supporting institutions to protect and encourage investment, firms are unlikely to be drawn to a given country*” – and main contributions (as themselves appreciated) to the current literature were:

- ✓ “*MNEs contribute positively to the economic development of poorer and emerging economies – both directly and indirectly.*”
  - *Direct contributions emanate from the role of the MNE in bringing new knowledge assets to developing countries in the form of technology and managerial skills (...): “firm-specific advantages” (FSAs). The FSAs are internalized by MNEs and represent the core competences and capabilities of MNEs used in both home and foreign markets.*
  - (... ) *indirectly (MNEs) provide technology spillovers and linkages, and contribute to improvements in the business infrastructure in developing economies. These contributions, however, are not automatic; host-country institutional conditions, as well as policies of the MNEs themselves, determine the degree to which these benefits are fully realized.*
- ✓ *FSAs of MNEs can help generate new capabilities and business competences in developing economies. In fact, a novel finding of this book is that developing economies are now generating their own MNEs. Initially, the MNEs from emerging economies build on their country-specific advantages (CSAs), including relatively cheap labor and the potential to achieve economies of scale in the harvesting and marketing of natural-resource products. Later, the indigenous MNEs develop knowledge-based assets of their own, which become FSAs. (...)*

- ✓ (findings of) *strong regional linkages between and among developed and developing economies. (...) As in the case of trade and investment more broadly, because the world is not fully integrated, economic development cannot be understood by a simplistic model of globalization. Economic development is a more complex process than simply developing international institutions to promote trade, investment, and development.*"

Some of other relevant *papers and their* most significant – sometimes conflicting, because of the different spatial and temporal context of the specific approach on one hand, and because the author's affiliation to a particularly field of scientific study – *starting points, conclusions and findings on the subject of multinationals and development* are:

- ✓ Paul, K., Barbatto, R. (1985) *The Multinational Corporation in the Less Developed Country: The Economic Development Model versus the North-South Model*, *The Academy of Management Review*, Vol. 10, No. 1. Jan., pp. 8-14:
  - *"Researchers, policymakers, and managers interested in multinational corporations should understand two models that guide thought and policy determination in less developed countries. The economic development model emphasizes positive impacts of multinational investment on economies of less developed countries. The North-South model emphasizes negative effects of such investment. The ideological and empirical basis for each model should be understood, as well as the implications for policy decisions."*
- ✓ Rodríguez-Clare, A. (1996) *Multinationals, Linkages, and Economic Development*, *The American Economic Review*, Vol. 86, No. 4, pp. 852-873:
  - *The "paper explores how multinationals affect underdeveloped regions through the generation of linkages. It is shown that the linkage effect of multinationals on the host country is more likely to be favorable when the good that multinationals produce uses intermediate goods intensively, when there are large costs of communication between the headquarters and the production plant, and when the home and host countries are not too different in terms of the variety of inter-mediate goods produced. If these conditions are reversed, then multinationals could even hurt the developing economy, formalizing the idea that multinationals may create enclave economies within developing countries."*
- ✓ Nunnenkamp, P., Spatz, J. (2004) *FDI and economic growth in developing economies: how relevant are host-economy and industry characteristics?*, *Transnational Corporations*, Vo. 13, No. 3, December, UNCTAD/ITE/IIT/2004/9:
  - *"It is surprisingly hard to come by conclusive evidence supporting the widely held view that developing countries should draw on foreign direct investment to spur economic development. Virtually all empirical studies on the subject have found the impact of foreign direct investment on growth to be ambiguous because of the highly aggregated data they have used. These aggregations have blurred the differences between resource-seeking, market-seeking and efficiency-seeking foreign direct investment, and have ignored the compatibility of the different types of foreign direct investment with economic conditions prevailing in individual host economies. Analyzing foreign-direct-investment stocks in major sectors and specific manufacturing industries in a large number of developing economies originating from the United States, this article concludes that the positive growth effects of foreign direct investment are not guaranteed automatically. Host-economy and industry characteristics, as well as the interaction between such characteristics affect largely the growth impact of foreign direct investment in developing economies"*.
- ✓ PriceWaterHouseCoopers (2010), *Emerging Multinationals. The rise of new multinational companies from emerging economies*, April:
  - *"Companies from emerging nations are facing increasing competition in their home marketplaces and are venturing abroad in a bid both to secure resources and to better service foreign demand. These new multinationals are expected to become more prominent in the future, providing a host of opportunities for infrastructure and business service firms in developed economies. Some will become international powerhouses of the future requiring high levels of support services around the world – IT and telecoms services, for example."*

- ✓ Rugman, A.M. (2010) Globalization, regional multinationals and Asian economic development, *Asian Business & Management* 9, 299–317:
  - “Today there are two competing models used in analysis of multinationals and development. The traditional Model A is a matrix with the multinational enterprise and its firm-specific advantages (FSAs) on one axis; on the other axis are country factors, called country-specific advantages (CSAs). (...) Model B, on the other hand, emphasizes stakeholders. It can best be represented by a triangle comprising markets-states-society. (...The first represents economics and business-driven concepts of markets and/or the multinational firm. The second refers to government policy, mostly at country level, but also including the role of international institutions. The third axis refers to the role of civil society and non-governmental organizations (NGOs). The significance of Model B is that social actors are given equal status to those of markets and states...) We show (...) that Model A can be reworked to include the three cases of Model B”.

But what realities do these studies reflect?

The generally admitted “unit of analysis” for research in international business is (Rugman, 2005) the *Fortune Global 500*: “firms that dominate international business. They account for over 90% of the world’s stock of FDI and nearly 50% of the world trade. (...) They are the key vehicles for both FDI and trade.” The most recent Fortune Global 500 ranking was released in July 26, 2010 and reunites the world’s largest corporations as measured by revenue – from 35 countries. Top 10 multinationals in Fortune Global 500 – 2010 are (Table 1):

**Table 1: Top Ten in Fortune Global 500 - 2010**

Rank	Company	Country
1.	Wal Mart Stores	US
2.	Royal Dutch Shell	Netherlands
3.	Exxon Mobil	US
4.	BP	UK
5.	Toyota Motor	Japan
6.	Japan Post Holdings	Japan
7.	Sinopec	China
8.	State Grid	China
9.	AXA	France
10.	China National Petroleum	China

(Source: <http://money.cnn.com/magazines/fortune/global500/2010/index.html>)

The distribution of multinationals by country is as follows (Table 2):

**Table 2: Number of MNEs per country in Fortune Global 500 - 2010**

Number of MNEs	Rank	Countries
1	XVII	Belgium / Netherlands, Britain / Netherlands, Finland, Luxemburg, Malaysia, Norway, Poland, Saudi Arabia, Thailand, Turkey, Venezuela
2	XVI	Denmark, Ireland, Mexico, Singapore,
3	XV	Austria
5	XIV	Belgium, Sweden,
6	XIII	Russia
7	XII	Brazil
8	XI	Australia, India, Taiwan
10	X	South Korea, Spain
11	IX	Canada, Italy
13	VIII	Netherlands
15	VII	Switzerland
29	VI	Britain
37	V	Germany
39	IV	France
46	III	China
71	II	Japan
139	I	US

(Source: <http://money.cnn.com/magazines/fortune/global500/2010/index.html>)

If we talk about economic development on the other hand, the things are not simple at all: China was recently declared by IMF the world’s second large economy in the world, and all the media took this news and emphasized it: “China overtakes Japan as world’s second-biggest economy” – was exclaiming, for instance, BBC News Business on February the 14th 2011; more than that, it continued, “at its current rate of growth, analysts see China replacing the US as the world’s top economy in about a decade” (Flanders, 2011). This is true, if we talk about the GDP only as a reflection of the economic development, but it surely is not enough – and we can see big differences if at least taking into consideration GDP per head of population, for instance, in order to correct the first indicator (Table 3).

**Table 3: World’s biggest economies versus Countries with highest GDP per head of population**

World's 10 biggest economies	Countries with highest GDP per head of population
1. US 2. China 3. Japan 4. Germany 5. France 6. UK 7. Italy 8. Brazil 9. Canada 10. Russia Source: IMF 2010	<ul style="list-style-type: none"> <li>• 1. Qatar: \$88,232</li> <li>• 2. Luxembourg: \$80,304</li> <li>• 3. Singapore: \$57,238</li> <li>• 4. Norway: \$52,238</li> <li>• 5. Brunei: \$47,200</li> <li>• 6. US: \$47,123</li> <li>• ...</li> <li>• 20. UK: \$35,053</li> <li>• 24. Japan: \$33,828</li> <li>• 93. China \$7,518</li> </ul> Source: IMF estimates 2010, done on a purchasing power parity basis, which tries to reflect the cost of living

(Source: <http://www.bbc.co.uk/news/business-12427321>)

And the “case” of China is not a unique one – *rapidly developing economies* or *BRIC countries* are eloquent examples of the recent fast global movers. But, as the Fortune Global 500 *world’s largest corporations* are measured by revenue – and not by an aggregate indicator (such as the transnationality index of, for instance), the *world’s biggest economies* are measured by GDP only and not by an aggregate indicator (such as human development index, for instance). So, one think is for sure: the architecture of the global economy is changing, asking for new approaching models in order to explain and to predict new realities and new dynamics. And this is mandatory in order to correctly evaluate and manage the future economic challenges – in theory and in practice, at micro-mezo-macro-global level.

**3. Conclusions**

Under these circumstances, we propose to develop a research which is trying to generalize and particularize theories, hypothesis and models related to multinationals and economic development. In order to do this, we have the following *objectives*:

- ✓ to extend the traditional approaching frameworks and to integrate them within a unique, synthetic vision able to bring together approaches from the field of international economics, international business and international (strategic) management (e.g. to exceed the dichotomy between multinationals as engine / promoter of the global development *versus* multinationals as exploiting / domination mechanism);
- ✓ to overcome the controversies and contradictions (originated from the host country, as well as from the origin countries, and coming equally from politicians and economists) regarding the consequences that the behavior of the multinationals have on the social and economic development: e.g. to particularize some generally accepted economic theories / concepts (such as the institutionalism, externalities, representation, the paradigm of the *flying geese*), to assume and promote some relatively new theories of the firm (e.g. participative, stakeholders, values, political actor, agent);
- ✓ to develop some new explaining paradigms for the interdependencies between multinationals and economic development: to emphasize the role and the importance of participating to the production networks and global alliances within and between multinationals in order to promote economic development (as this kind of relationships are considered to be vital for the developing country in order to effectively and efficiently participate to the global economy);

- ✓ to integrate: different levels of theoretical and applied economic approaches: micro --- mezzo --- macro --- global, and different types of data sources – the most actual scientific books and articles related to the subject, reports and statistics from global organizations (such as UNCTAD, World Bank, Eurostat, UN Global Compact, Global Development Network), annual reports released by multinationals themselves, analyzes and reports made by consultancy firms (such as Ernst & Young, PriceWaterHouseCoopers, etc.).

We expect the *result* to reflect an integrative and interdisciplinary approach of the *global shifts and trends* regarding *multinationals and economic development*, able to explain within a unique key the past evolutions and to anticipate and predict the future in form of a multifaceted and dynamic kaleidoscope.

#### 4. Acknowledgement

This work was supported by the project "Post-Doctoral Studies in Economics: training program for elite researchers - SPODE" co-funded from the European Social Fund through the Development of Human Resources Operational Programme 2007-2013, contract no. POSDRU/89/1.5/S/61755.

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## STUDY ON CUSTOMERS RELATIONSHIP IN A ROMANIAN ELECTRICITY DISTRIBUTION COMPANY

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**Abstract:** Using the observation method, the author aims to identify the companies customers, to provide strategy and its implications for the relationship between the customers and a Romanian EDC. The benefits of this paper consist in a package of proposals to improve the relationship with customers. Some of these have been implemented and it is the author intention to further study the implementation of these proposals in this EDC in order to get a complete picture of the improvement process. This paper is based on a study case developed in a Romanian EDC and highlights the connection between the company strategy and its customer relationship. Based on this study, a package of proposals is presented in order to improve the distribution company customer relationship. The paper is useful to the electricity distribution companies' top management, the quality assurance specialists and the specialist preoccupied by analyzing the bad customer relationship causes.

**Key Words:** *customer relationship, strategy, improvement, electricity, distribution company.*

**JEL classification:** M19

### 1. Strategic directions and strategies developed in a Romanian Electricity Distribution Company

Considering the main strategic directions (human resource, proceduring, orientation, development studies, power measurement, ITC, Integrated Management Information System - MIS, Computer Process, Modernization, network repair), the top management of a Romanian Electricity Distribution Company (EDC) developed the following strategies:

- S1: Strategy for electrical distribution networks (EDNs) maintenance;
- S2: Development strategy (priority directions, funding sources, the program, the anticipated economic efficiency, investment strategy - network access);
- S3: MIS strategy;
- S4: Integrated management strategy (quality management, environmental protection, health and operational security);
- S5: Financial strategy;
- S6: Electricity management strategy;
- S7: Public relationship development strategy.

These strategies can affect, in one way or another, the relationship between EDC and customers. By using the observation method, the author carried out a study that highlights their linear relationship.

**S1- Strategy for electrical distribution networks maintenance (Electricity Distribution Networks - EDNs)**

Strategic Directions in EDNs maintenance are based on the principles defined in the Maintenance Assurance Program (MAP) of the EDC, compliant with the Rules of Leadership and Organization Maintenance Activity, prepared by the National Authority for Energy Regulation - NAER). MAP sets the objectives, responsibilities and requirements to carry out EDC maintenance.

**S2 – Development strategy**

Tele indication for large and small consumers - work consists in replacing conventional meters with electronic meters for stations and consumers, and integrating them into reliable and profitable communication systems.

**S3 – MIS Strategy** - based on the National Integrated Information System.

**S4 – Integrated management strategy**

- Identifying customer requirements meeting these requirements;

- Continuous improvement of performance processes and efficiency increase;
- Increase customer satisfaction and confidence through quality services and the products provided;
- Providing a safe and healthy working environment for the organization's human resources, the most precious resource, increasing motivation, satisfaction and staff performance.

#### ***S5 – Economic and financial strategy***

Reduce contractual risk – by means of customers and suppliers selection process and by applying certain regulations. One solution would be that of imposing harsh penalty clauses.

Permanent actions meant to increase service quality provided by third parties (rental property, land, premises, etc.). Constantly identifying customers` needs and taking actions in order to meet their needs. Existing operational procedures for rental of goods will be observed, in order to ensure a consistent problems approach.

#### ***S6 – Electricity management strategy***

##### **Main Directions of action:**

- Work improvement;
- Promoting partnerships with electricity market participants
- Increase customer satisfaction by:
  - fitting indicators within the values set out in the Performance Standards;
  - perfecting the quality – environment integrated system.
- Improving the system used to communicate with suppliers and customers by updating the already existing call-center modernization;
- Modernization of the integrated information systems;
- Reducing technological cost.

##### **Electricity management strategy sets the following main objectives:**

- Customer information automation through Call Center systems, which triggers higher degree of customer satisfaction;
- Operating and implementing commercial cycle of the contracting, measuring, reading, billing and collection service distribution by fitting the already existing systems into these activities;
- Software extension implementing
- Ensuring economic efficiency in the contracting activity and billing service;
- Streamlining the electricity distribution process;
- Implementing integrated environmental quality in order to meet customer requirements at a higher level;
- Expansion of the remote counters to streamline this activity;
- Establish specific performance indicators for management in electricity and their classification performance levels required in the Standard (2007) for electricity distribution service:
  - a specific procedure for achieving widespread application, tracking and reporting of performance indicators provided in the standard for electricity,
  - a quarterly analysis of the indicators and corrective actions.

#### ***S7 - Public relationship development strategy***

Taking into account the current economic situation, and the structural changes taking place in the Romanian energy sector, the role of public relations has become even more important. The strategy regarding public relations is one of the milestones in the PR sector. A well-adjusted strategy with clear objectives, detailed activities aimed at achieving its goal by using assessment methods, will lead to obtaining long term benefits. For EDCs, the socio-economic and political context represent a very important aspect.

Other companies activities, legal regulations, and other events may have impact on a certain activity, event, company or a person. A detailed knowledge of all these aspects lead to better decision making, setting strategic directions and specific benefits for the company.

Investment activities, access to credit, and performing various actions depend on internal political and socio-economic factors but also on international regulations.

Therefore, we should also consider the international context.

The events that may influence the activity of a company, the general directions in the field, are questions that must be carefully considered and the answers may arise issues that can significantly influence the strategy.

Therefore, EDCs should take into account these factors and harmonize their activities with respect to these aspects.

In this respect, the following factors must be defined:

- Purpose and objectives for the public relations strategy;
- Target audience (internal and external);
- PR strategy messages;
- Selection of communication channels;
- Identify public relations activities:
  - internal communication;
  - external communication

## 2. The clients of the Romanian Electricity Distribution

### 2.1 Description

Electricity distribution network (EDN) end users, mostly consumers, are connected directly to the public electricity networks of the eight distribution operators (DO), out of which three state-owned companies (Electrica Distribution Northern Muntenia, Electrica Northern Transylvania and Southern Electrica Transylvania SA) and five private companies (CEZ Oltenia, Moldavia E.ON, Enel Banat Enel, Enel Dobruja and Muntenia) (Persideanu, 2010).

In 2009, there was a total number of **8,769,602** users, similar to 2008 (8,701,905 users). The number of users in the six categories (urban HV, urban MV, Urban LV, rural HV, rural MV, rural LV) at a DO level and total per country are presented in table 1 (www.anre.ro).

According to the report published by NAER on performance indicators achievement for the energy distribution service in 2009, shows that the number of high voltage users (HV) and medium voltage (MV) is insignificant compared to the number of low voltage users (LV).

CEZ Oltenia has the largest number of users, that is **1.385.967**, followed by E.ON Moldova, with **1.374.301** users, Dobruja and Enel has the lowest total number of users, **608.094**.

**Table 1: Number of users at the DO level and per country \* - in 2009**

Mediul	Urban	Urban	Urban	Rural	Rural	Rural	TOTAL
	HV	LV	MV	HV	LV	MV	
<b>CEZ Oltenia</b>	45	1097	593259	38	1887	789641	<b>1385967</b>
<b>E.ON Moldova</b>	36	860	617170	12	1620	754603	<b>1374301</b>
<b>Electrica Northern Muntenia</b>	13	1656	597021	4	775	638785	<b>1238254</b>
<b>Electrica Northern Transylvania</b>	8	2117	598545	14	942	544462	<b>1146088</b>
<b>Electrica Southern Transylvania</b>	16	1138	629297	10	655	415541	<b>1046657</b>

Mediul	Urban	Urban	Urban	Rural	Rural	Rural	TOTAL
	HV	LV	MV	HV	LV	MV	
<b>Enel Banat</b>	39	1114	541882	8	506	299809	<b>843358</b>
<b>Enel Dobruja</b>	16	1161	351306	2	484	255125	<b>608094</b>
<b>Enel Muntenia</b>	18	1750	910000	8	424	214683	<b>1126883</b>
<b>TOTAL</b>	191	<b>10893</b>	<b>4838480</b>	96	<b>7293</b>	<b>3912649</b>	<b>8769602</b>

Source: www.anre.ro

\* The number of users connected to the network (HV, MV, LV) results from contracts. This should be updated, however - even during the year, as it new customers get connected and others disappear from the system (industrial and commercial users)

- \* HV – High Voltage
- MV – Medium Voltage
- LV – Low Voltage

## 2.2 The EDC – customers relationship

In an EDC in Romania, the relationship with customers is a process that consists of conclusion and performance of service contracts for electricity distribution in the EDC the respective license.

This processes are identified, documented, monitored and continuously improved in accordance with the EDC Quality Management System.

The process:

- Documenting and establishing responsibilities, powers and relationships between the branches (branches) EDC for: prosecution and conclusion of the contracts for electricity distribution;
- Customer satisfaction to a qualitatively higher level in accordance with Performance Standard (2007) and corporate image;
- Maintain control as required to documents and records.

## 2.3 Handling the clients complaints

Customer complaints are considered a high level indicator on the market. Data should be collected on a regular basis on two levels: national and European. The European Commission is working on a classification system that applies to complaints across the EU.

Based on this classification, ERGEG (The European Regulators' Group for Electricity and Gas) has proposed a preliminary version of a best practices guide for interpretations customer complaints (ERGEG, 2010/1 and 2010/2).

The recommendations are intended to guide providers (including electricity distribution system operators) and third parties (dispute settlement bodies, ombudsmen, consumer groups, etc.), in the translated stipulations of the third legislative package (adopted in 2009) regarding customer complaints and transposing them into operational instructions.

The regulatory authorities have stressed the importance of the following recommendations:

- establish a single point of contact for collection of information and advice to customers;
- provide relevant information on complaints about billing;
- availability of several dispute resolution bodies for all households;
- knowledge and correct application of standards in the energy sector.

Complaints, in addition to customer satisfaction / price / safety, is a good indicator for assessing the market and the degree of customer participation. Monitoring is important in view of building customer confidence on the market and protecting them from the dominant companies` abusive behavior.

Given the fact that that non-compliances do occur during service distribution, or customers are dissatisfied with the services, the latter may complain or make a complaint.

How EDC administers these claims is described by specific documentation of Quality Management System implemented and / or certified by that company.

## 3. Conclusions

Based on observation and detailed documentation and taking into account:

- the strategy outlined in this paper,
- the close link between the EDC and its customers,
- complaints made by customers,
- how to handle and resolve complaints.

The author has identified potential ways to improve this relationship:

- the use of modern working techniques (maintenance, repair and network operation and meters management activities:
  - Mobile teams for SCADA stations (Supervisory Control and Data Acquisition) - Stations with a small number of fully automated handling, requiring non permanent staff and operated by mobile teams;
  - A single shift system, starting from home, in order to save resources;
  - The use of multiple shifts only where necessary, e.g.: big cities;
  - To set up a training system to address priority emergencies;

- Data transmission via mobile phone (reports on work progress, relocations, etc.). in order to increase efficiency;
  - A periodic review of team work, communicating results, etc.;
  - Corrective Maintenance replaced by preventive maintenance;
  - A reduction in the number of operational centers;
  - Transportation route optimization using mixed teams (e.g., maintenance personnel + meters replacement staff);
- unique performance indicators - in order to standardize reporting required in the existing legislation

*The benefits of this paper consist in this package of proposals to improve the customers – EDC relationship. Some of these have been implemented and it is the author intention to further study the implementation of these proposals in this EDC in order to get a complete picture of the improvement process.*

*The paper is useful to the electricity distribution companies' top management, the quality assurance specialists and the specialist preoccupied by analyzing the bad customer relationship causes.*

*This paper is based on a study case developed in a Romanian EDC and highlights the connection between the company strategy and its customer relationship. Based on this study, a package of proposals was presented in order to improve the electricity distribution company customer relationship.*

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## THE ROLE OF TRANSFORMATIONAL LEADERSHIP IN CASE OF A COMPANY TAKEOVER

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**Abstract:** *This paper approaches the issue of organizational behaviour of the employees involved in a major integration as a result of a takeover by another company. It approaches the relationships that the leadership and environment had with the subordinates' acceptance of the takeover, with the performance and the job satisfaction in an insecure environment. It has been noticed that transformational leadership has been positively related to the acceptance of the takeover, the performance noticed by the superiors and job satisfaction. Transformational leaders registered an impact also on subordinates' results through the climate perceived that they created by clarity of goals and by supporting creative thinking.*

**Key words:** leadership, transformational leadership, organizational change

**JEL classification:** M21

### 1. Introduction

We can talk about a transactional leaderships and a transformational leadership. Transactional leadership is the leadership based on a quite direct exchange between leader and followers – subordinates behave well and the leader rewards them; the leader uses a participative style and the subordinates come up with good ideas. Although it may seem difficult to interpret the role well, such a leadership is a routine, meaning that it is specially oriented towards aligning the subordinate's behaviour with the organizational objectives. However we can think of more dramatic examples of leadership, in which leaders had a more profound effect on followers, giving them a new vision that inspired them to a profound commitment for a project, a department or an organization. Such a leadership is called transformational leadership, because the leader changes decisively the beliefs and attitudes of his followers so as to correspond to the new vision.

They are generally good at transactional aspects such as clarifying the way to the objective and rewarding performance, but they also have three features that separate transformational leaders from their transactional colleagues: intellectual stimulation, individual consideration and charisma.

The successful management of employees' attitudes and performance during integration after taking over a company is vital, because employees can choose to leave or to stay in the company, to keep vital operational knowledge secret, to raise their productivity level or to be distracted by the interruption. The integrations through takeover ask employees to accelerate their productivity in order to manage routine responsibilities at the workplace, and moreover to take supplementary tasks necessary in order to make the transition from two organizations to only one. However, resistance to routine changes and the insecurity concerning responsibilities can reduce work performance in a critical moment. Cultural changes and status degradation may cause social identity problems that lead to frustration and anger as far as the takeover and the low job satisfaction are concerned. If not managed successfully, these results of the takeover, produced at the level of the employees, may appear at the level of the entire company as an exodus of talents and an abundance of delays, absenteeism, low productivity, low satisfaction of customers, less innovation and finally low economic benefits after the takeover.

Previous research proved that transformational leadership is extremely efficient in environments characterised by change, insecurity and displeasures, such as integrations after a takeover. Transformational leaders are essentially change agents: they visualize the future difference as compared to the current status quo and inspire their subordinates to work with them in order to achieve that new future. In an integration following a takeover, the transformational leadership behaviours play a vital role in helping subordinates to accept the fact that a bright future hides in the integration of the two organizations. By inspiring employees to work for that future, they motivate employees to keep their job satisfaction and performance despite the insecurity and anxiety created by the integration process. The paper makes an important contribution to the

literature on transformational leadership. It approaches the issue trying to answer the question: in the integration after a takeover, does the transformational leadership have a beneficial relationship with the takeover acceptance, performance and job satisfaction of the employees?

We have tried to focus on climate as a mediation mechanism between transformational leadership and the results obtained by employees by analysing the indirect use of transformational leadership behaviours during rapid change periods for the creation of climates that highlight the clarity of goals and supporting creative thinking. These climates have the potential of moderating more the effects of insecurity and changes that take place during the integrations following takeovers. By creating a climate that highlights clarity of goals, transformational leaders can reduce ambiguity and thus they help their employees to reach their goals. Transformational leaders can also promote a creativity climate, thus opening their employees' minds to new ways of thinking and allowing them to better understand the need for change. Therefore, the second research question that we ask is: does transformational leadership have an indirect relationship with the employees' acceptance of takeover, the performance and job satisfaction, by the mediation mechanism of creating a climate that individuals perceive as offering clarity to goals and supporting creative thinking?

## **2. Transformational leadership in the context of organizational changes**

Transformational leadership is one of the theories in the category of neo-charismatic leadership theories. Transformational leadership is defined as a relationship between the leader and followers, based on a set of behaviours of the leader that are perceived by subordinates as showing idealised influence, motivational inspiration, intellectual stimulation and respect for individual. Substantial proofs obtained through research show that transformational leadership improves subordinates' satisfaction as far as the leader is concerned and their perceptions regarding the leader's efficiency. A smaller part of the researchers has studied transformational leadership and its relationships with variables such as the subordinates' job satisfaction, often with mixed results and with smaller dimensions of the effect.

The transformational leadership theory postulates a contextual dependence with the emergence and efficiency of transformational leadership, this being stronger in crisis or insecurity situations, such as the integration after a takeover. Transformational leaders help their subordinates to unlearn the old routines, to develop creative solutions to ambiguous problems and to answer properly to new environments. In the field of transformational leadership, in the integration after a takeover or in similar contexts characterized by a lot of insecurity, there has been limited research: it has been discovered that the charismatic leadership of the executive manager was positively related to certain performance in an uncertain environment, but not in more stable situations; that transformational leadership does not have the tendency to appear in situations of behaviour crisis; in a study on the employees' attitudes regarding a merger that took place a few years after an integration process, the charismatic leadership behaviours were positively related to the employees' satisfaction caused by the merger.

The first part of the paper focuses on the direct relationships between the transformational leadership behaviours and the subordinate's results. Individuals after a takeover enter integration with their own cognitive framework, based on previous experience, framework that organizes significance, motivation and cause-effect relationships. They share the common parts of this framework with co-workers from the same previous employer, but not with co-workers from the other partner company. It is also possible that pre-existing cognitive framework of the employees to slightly overlap or even to come in conflict with their leaders' framework regarding the new reality of the merged company. This cognitive dissonance, amplified by uncertainty and the destructive changes of the integration process, increases the influence and importance of the leader's behaviour.

Transformational leaders use idealized influence in order to empower their followers, thus increasing their tolerance to uncertainty and their ability to adapt to new conditions, in change. Strong communication skills, associated with idealized influence, can be used in public or private meetings with the subordinates in order to increase leaders' ability to help their employees to understand the benefits of the takeover. By intellectual stimulation, leaders encourage their subordinated to question the universality of previous cognitive framework, thus opening the way to developing a new framework. By considering each employee an independent individual, transformational leaders can offer support during the change process by facilitating social reconstruction, so as to offer more uniform interpretations to people with distinct experience.

Accepting the takeover is the extent to which an employee has a positive attitude regarding the takeover and considers it beneficial. The takeover acceptance is an important organizational result because

employees that are satisfied with the change strategy of the organization, such as a takeover, will adapt faster to a new culture and the new strategies that the company is trying to implement. The resistance to takeover is a fundamental cause of unproductive behaviours, which go from low productivity to sabotage of decisions.

In order for the employees to be satisfied by the takeover, they have to be able to understand the purpose of the takeover and to believe that this goal is worth the displeasures that are caused by the takeover. They have to be able to establish a relationship with the company's new vision for the future after the takeover and to consider it a desirable objective. The skills of a transformational leader facilitate this process by elucidating the vision and social construction of common frameworks that the basis of consensus development based on a sense of common goal. Leaders' skills of communicating the vision to the employees and of inspiring support for this vision offer the basis for developing employees' understanding of the change. It has been discovered that charismatic leadership is positively related to takeover acceptance for two sub-categories of their respondents – management employees and the employees of the target company. **Therefore, a first hypothesis is that, in a takeover context, transformational leadership will be positively related to the takeover acceptance.**

Work performance, broadly speaking, includes what employees do as well as the way they do it. There is an evaluation of employees' level of achievement of the goals set by the organization and acceptability of employees' interpersonal behaviours regarding the organization's rules. Transformational leaders inspire their followers to have achievements beyond normal expectations. For example, transformational leadership has positively affected the teams' performance in a longitudinal study and subordinates' performance in a cross-sectional study. Other studies have discovered that transformational leadership had an indirect impact at a hierarchical level above the followers' performance.

We state that transformational leadership will have positive effects on individual performances during the integration after a takeover. By offering a lively and comprehensible vision of the united company's future, transformational leaders can motivate their subordinates to reach that certain vision through their own achievements. By developing employees' identification with the new organization, transformational leaders motivate their employees to make supplementary efforts for the well being of the organization. By offering an example of individualized appreciation, transformational leaders shape positive interpersonal behaviours that reduce conflicts, and thus, increase productivity at the work place. **Therefore, the second hypothesis is that, in a takeover context, transformational leadership will be positively related to the subordinates' performance.**

It is considered that transformational leaders increase subordinates' job satisfaction by making their employees feel special (by individualized appreciation) and by making them feel that they serve a higher goal (by idealized influence and inspirational motivation). However, previous research on the relationships between transformational leadership and job satisfaction, reached discordant results. If some studies proved a significant positive relationship between transformational leadership and job satisfaction, other studies did not reach the conclusion of the existence of a significant relationship.

In a takeover situation, we believe that transformational leadership will have a positive effect on job satisfaction. By idealized influence, followers are motivated to adopt the leaders' enthusiasm for conformity to the changes in the new merged company. Individualized appreciation makes employees feel appreciated and that their need for understanding and solving personal insecurities related to integration is respected. Transformational leaders make their subordinates feel that they work for a precious goal, such as the development of a new, bigger company. The effect of these transformational behaviours is that employees will be more satisfied at work, because they believe they perform an important job for their leaders, who appreciate their contributions. **Therefore, the third hypothesis is that: in a takeover context, transformational leadership will be positively related to job satisfaction.**

An organic organizational climate is a situational antecedent of transformational leadership that we have formulated as variable that intervenes or mediates the takeover context. Therefore, the second part of our study starts from the hypothesis that, in addition to the direct effect that transformational leadership behaviours have on employees, transformational leaders indirectly influence the subordinates' results through the perceived climate that they create. This is a part of the mediation model in which transformational leadership directly affects the subordinates' results and also behave as a climate variable that intervenes. We have adopted the cognitive scheme approach that considers climate as a micro-level feature of the individual and that defines it as a cognitive representation of the environment for individuals. Leaders can influence climate creation, first of all through a series of own assumptions, and then by communicating these, by commitment in symbolism and by inspiring concordant behaviours among their followers. In this paper, we focus on two characteristics of climate that facilitate solving uncertainties and

adapting to change during integration after takeover: a climate of goal clarity and a climate that supports adopting new ideas and new ways of performing work.

The instable processes, instable organizational structures and instable individual roles that characterize integration after a takeover lead to lack of goal clarity. By communicating their own motivation and their enthusiasm for the new vision, leaders manage to imprint in the minds of their followers the motivation of changing for that vision and the enthusiasm to reach it. Subordinates' motivation of reaching leaders' vision offers the incentive for raising a social construction of the goals that are essential for reaching the vision. These behaviours lead to a climate that highlights the team's efforts of developing clear and easy to understand goals.

The vision of a transformational leader is an image of a future, idealized state for the organization, which is substantially different from the current status quo. Although a positive vision of future opportunities and development is important in developing a convincing argument for change that justifies a takeover, employees' individual acceptance of the integration's benefits after a takeover is coloured by the central issue of their insecurity; i.e. "what does this integration mean for me?". Therefore, employees in a high context of insecurity, such as a takeover, benefit from their ability of connecting to the distant organizational vision of the organizational leader of dedicating individual roles and goals. By creating a climate of goal clarity, transformational leaders help their subordinates visualize the way in which the new world of the integrated organization will help them reach their personal goals. Through this mechanism of connecting the organizational vision to clear goals, transformational leaders are able to create a clearer, more positive perspective for employees on the takeover's benefits, thus increasing acceptance. **Therefore, the fourth hypothesis that we suggest is that, in a takeover context, a climate of goal clarity will mediate the relationship between transformational leadership and subordinates' acceptance of a takeover.**

Employees' performance is evaluated by comparing their achievement and behaviours to the standards set by the leader or organization. Therefore, performance should be increased in contexts where mutual understanding leads to a higher level of clarity and agreement between the leader's perceptions and the ones of the subordinates on the standards that have to be achieved. If there is an understanding of goals without ambiguity, the evaluations carried out by leaders on performance will be more accurate. If subordinates clearly understand their individual objectives, they have better chances of reaching them. A recent study offers a certain support for these arguments, discovering a negative relationship between ambiguity of roles, which includes an element of goals' ambiguity, and employees' performances. **The fifth hypothesis is that, in a takeover context, a climate of goal clarity will mediate the relationship between the behaviours of the transformational leaders and the performances of the subordinates.**

Transformational leaders can influence positively subordinates' job satisfaction by creating a vision for the new company, which can make employees feel that they serve a noble cause. They still can increase employees' job satisfaction by creating a climate that highlights goals clarity. Goal clarity leads to a higher job satisfaction, as employees have a more intense feeling of self-efficiency when they have clear personal goals, rather than when their goals are ambiguous. A climate of goal clarity plays a mediating role between transformational leaders and job satisfaction, by turning the leader's idealized vision in individual work objectives, offering in this way a supplementary source of job satisfaction. **The sixth hypothesis is that, in a takeover context, a climate of goal clarity will mediate the relationship between the transformational leaders' behaviours and the job satisfaction of subordinates.**

A creative climate is a psychological perception that the work environment includes support from the organization and its leaders for the new ideas and the new methods of approaching work. A creative climate has an influence beyond supporting the ideas of new products in the research & development department; it facilitates the renewal of processes, as it happens when the accounting department revolutionizes its operations by converting the systems in software at the level of the entire company. Leaders can develop such a climate in their work group by setting some work processes that encourage employees to be open to new ideas and by involving them in the decision making processes. Transformational leaders form a creative climate through processes such as questioning the status quo, stimulating followers to check their fundamental assumptions that they had in the previous cognitive framework and by suggesting new ways of considering work processes. By supporting this way of thinking, it has been discovered that transformational leadership is positively related to a creative culture and to the followers' creativity; these were even more creative when the projects needed more creative thinking.

Creative thinking is extremely important in integrations after a takeover because the primordial challenge is the need to abandon or "to unlearn" the competences, routines, and behavioural norms of the previous organization and to adopt new practices of the united company. This need to accept changes and

new methods of doing things that characterize integration is important for the employees involved in all types of work. A creative climate will facilitate the change processes during integration after a takeover by encouraging employees to be flexible in abandoning the old mental models and by supporting experiencing, which is crucial for the development of new and reviewed cognitive frameworks.

A primary cause of the employees' resistance to takeover is their restraint of separating from the past and abandoning previous rules in favour of the new ones. Creative climates incorporate work processes that allow employees to frame discussions from more different points of view in order to incorporate both the old and the new. These learning processes at a high level prepare employees for the changes in assumptions, rules and reference frameworks, which intervene during the processes of strategic renewal, such as an integration after a takeover. In a takeover, the processes of discussion that link the old and the new can help people to develop cognitive frameworks for the new organization, which respect the past and accept the changes for the future. These reviewed cognitive frameworks help employees to understand the need for change, to adapt to the new circumstances and to exploit the takeover's benefits. The employees that work in such a climate can have a more positive approach, a more open one of the changes that a takeover needs and can thus develop a more receptive attitude towards the takeover. **Therefore, the seventh hypothesis is that, in a takeover context, a climate that supports creative thinking will mediate the relationship between transformational leadership and the employees' acceptance of a takeover.**

Moreover, compared to the direct influence on job satisfaction, transformational leaders also influence indirectly job satisfaction by creating a climate that encourages new ideas and new work methods. During the integration process, a creative context will include work processes that encourage employees to suggest new ideas for the improvement of the integration process and new methods of task performance, due to the numerous resources of the extended company. It was discovered that, work contexts that offer the chance of being more creative by developing new ideas are positively related to job satisfaction in a variety of jobs. When employees discover that their own ideas are represented in the products or procedures of the new organization, they will identify themselves more strongly with the new organization. Stronger identification with the organization promotes job satisfaction. The opportunity of testing new work methods induces variety in work. People who have worked in the same position for a longer period may consider changes brought by the takeover as being invigorating. Variety brings significance to work, increasing in this way job satisfaction. **Therefore, we can issue the eighth statement that, in a takeover context, a climate that supports creative thinking will mediate the relationship between the transformational leadership behaviours and subordinates' job satisfaction.**

### 3. The work method

The respondents were employees of a large multinational company which took over a competitive company and integrated it completely in one of its divisions, which performed the takeover. The division that took over as well as the target-company had an entire history and they were completely integrated businesses in production and marketing for industrial customers, traders and end-users. Although the companies had many similar strategies, the target-company focused more on the products' brand, while the company which took over focused more on the products' technology. The objective of this quiet takeover was getting control over a part of the market.

Our sample included the sales, research & development, the public relations and financial departments. This sample offered an attractive opportunity for testing our model, due to the fact that the variety of the locations and the characteristics of the positions offered a considerable variety of the leadership style and climate. Integration has as result substantial changes for the roles and the content of the positions of all employees included in the sample.

Two instruments were used in this study: a questionnaire for the employees and a performance evaluation form for the superiors. The information in the questionnaire was collected from the employees five months after the takeover happened. The investigation instruments collected information about the perceptions on: the transformational leadership behaviours of the direct superior, the focus on goal clarity and on supporting creative thinking in the work context, personal feelings related to the takeover acceptance and job satisfaction. Superiors were asked to evaluate the performances of all their employees using a separate instrument, a month after the information in the employees' questionnaire was collected. We asked this information several months after superiors had had to prepare the same performance evaluations on a formal basis, in order to offer rewards. The large size of the sample reduced to the minimum the threat of statistical validity.

During some visits in the company, before and while collecting the data, the author encouraged the employees at the management level to have unstructured discussions on the integration after the takeover with the new employees of the company. The research instruments of the employees allowed us to collect some written qualitative information by an open invitation of offering comments. Many comments of the employees related to integration in general suggested that the process had been managed quite well: “(the company that took over) made everything possible in order to ease the takeover of the employees (of the company that was taken over)”, “clients...were not affected by the products’ insufficiency or delays” and “the two companies merged fairly well”. However, other employees were less positive: “we could not do our job as well as before the takeover” and “the takeover was the worst experience”. However, the strongest ideas met were that the integration brought profound changes, at a large scale, and that this change created a climate causing uncertainty.

The level of integration involved massive changes in all organization’s departments. Based on the discussion with the managers, the initial staff reduction had been estimated at 20-30%. The employees who remained experienced a different set of tasks, saying that “the current level of tasks is too high” and that “our employees feel the pressure now”. Integrating the production lines and the essential customers needed all employees to learn about new customers and products. The work practices in both companies depended to a large extent on computer programs for the public relations, sales, and accounting departments.

At the moment of our survey, the majority of the employees who remained had been offered a continuation of their work contracts. However, there was still some uncertainty felt regarding issues such as what work practices to be used, what quality should relationships with new colleagues have, what future strategies should be applied. Employees went on about the uncertainty feeling writing the following: “whole months went by not knowing what to do in certain situations”. Analysing the specific sources of uncertainty and the way these have an impact on the employees’ perceptions, we discovered that the ambiguity concerning the future strategies of the company left employees a lack of clarity related to the priorities in the decision making process. An employee indicated such a challenge saying that “there are two types of mentality; the one taking over focuses on volume, not profit, and the one taken over wants profit, more than volume”. Moreover, with so many created positions and so many tasks to be redistributed, individuals feel uncertainty regarding what they should do. For example, employees wrote “my position is new, so its functions and goals have not been clearly stated yet” and “there are too many absolute priorities”.

Transformational leadership was measured using all 20 items (including the dimensions of the idealized influence, inspirational motivation, intellectual stimulation and individualized consideration) of the Multifactor Leadership Questionnaire, which is the most used measurement of transformational leadership.

People were also asked about the extent to which they perceived the support for creative thinking in their work environment, using a four item scale for this study (see Table 1).

**Table 1: The items in the scale and the analysis of the main components and the items’ loading for new measurements**

<b>Takeover acceptance</b>	
The majority of the employees managed to accept this takeover as being necessary and useful.	
My department was strengthened by this takeover.	
The new policies and procedures of the united company are better than the ones of my previous company.	
The united company offers more to customers than my previous company.	
<b>Supporting creative thinking</b>	
This organization rewards creative thinking.	
I am encouraged to experiment new ways of performing my tasks.	
I am encouraged to make incremental adjustments in order to improve the way we work here.	
New ideas are frequently transposed in new products, services or processes in this organization.	

Overall job satisfaction was measured using a three-item scale designed to correspond with the scale for overall job satisfaction. An example of an item is: “generally speaking, I am very pleased with my position”.

*The takeover acceptance* evaluated the employees’ perceptions that the takeover was a positive strategic move for the company.

*Subordinates’ performance* was rated by direct superiors and was measured with two items which evaluated the objectives’ achievement and the acceptability of interpersonal behaviours. These measurements correspond in detail with the criteria that the host company used for the official evaluation of

the employees' performance. Hierarchical superiors were asked to "rate the general performance of each employee as compared to his colleagues as far as interpersonal behaviours are concerned": superiors were instructed that the ratings should be "similar to those they had to hand in for the annual programme of salary administration", that they had just handed in. We intended this instruction to reduce the prejudice of tolerance, as the organization has limits in the programme of salary administration that prevent the possibility of employees being evaluated as having excellent performances.

#### 4. Conclusions

This study brings three important contributions to the specialist literature on transformational leadership, concerning context, the result variables and understanding the process. First of all, this is extremely necessary information about the relationships between transformational leadership behaviours and employees' attitudes and performances, in the demanding context of an integration after a takeover as well as quality proofs in supporting the overwhelming perceptions of the employees that the context of integration after a takeover is a destructive change mixed with uncertainty. Numerous case studies have documented challenges associated with the human element of integrating two organizations after a takeover, but still the applicability of the transformational leadership theory has not been thoroughly tested in this environment. The paper offers a theoretical model empirically supported for the relationships between transformational leadership, climate, employees' attitudes and performance during integration after a takeover, a representative context for organizational change and uncertainty.

The majority of studies on transformational leadership focused on the results related to the leader. However, in a takeover, uncertainty and change put pressure from top to bottom on subordinates' attitudes and performances, leading in the end to negative results at the level of the company, such as losing key talents and low productivity. A second contribution of this study is its focus on the relationship between transformational leadership and the subordinates' results. The results prove the existence of positive relationships between transformational leadership and the takeover acceptance, job satisfaction and performance. Even after controlling according to the attitude of the subordinates, the transformational leadership behaviours explained 1% of the acceptance variation, 6% of the performance variation and 10% of the variation in job satisfaction.

Thirdly, we provide information about the specific processes through which transformational leadership affects individual employees by demonstrating the fact that transformational leaders can influence the subordinates' results directly and indirectly, through the mediating effects of the internal climate that it creates. It is believed that transformational leadership behaviours affect employees by motivating them. We have introduced two new mediating variables related to transformational leadership, a climate that highlights goal clarity and a creative climate that support new models of achieving tasks. Setting goals was recognized as a strong motivator for performance, and the creative climate provides encouragements for change and renewal. We have discovered that transformational leadership behaviours are positively related to the climate of setting goals and supporting creative thinking.

Transformational leadership had a positive relationship with the takeover acceptance that was completely mediated by a climate of supporting new ways of thinking. The climate has also offered supplementary explanatory features. The mediating role of the climate may help explain the reason for which transformational leadership was positively related to the takeover acceptance only for certain sub-groups from a previous study. The results support previous expectations that transformational leaders would allow subordinates to understand the benefits of changing business by creating a climate that encourages new ideas and new methods of performing tasks.

Transformational leadership as well as the climate of goal clarity were positively related to subordinates' performance. A climate of goal clarity added explanatory features, but still, did not mediate the relationship between transformational leadership and this result, suggesting that transformational leaders influence directly the subordinates' performances. These results suggest that the distant vision of the future created by transformational leaders motivates subordinates to work better in a changing environment, even if they lack some clear, defined goals.

The partial mediation results of job satisfaction suggest that transformational leadership has direct as well as indirect relationships (by means of climate) with job satisfaction. This result offers support for our reasoning that transformational leaders influence job satisfaction indirectly by creating a climate of goal clarity and by creating a climate receptive to new ideas. These results suggest that in an unsecure, changing context of an integration after a takeover, subordinates' job satisfaction answers the transformational leaders'

skills of inspiring and motivating their employees. However, part of the effect is produced by the leader's vision on clear goals for the team and encouraging new ways of thinking.

Takeovers are essential components of strategic renewals, but they bring significant challenges for the leader's efficiency. This study suggests that engaging in transformational leadership behaviours is an efficient strategy of helping managers to meet such challenges. Transformational leadership behaviours, such as idealized influence, inspirational motivation, individual consideration and intellectual stimulation were positively related to an increased job satisfaction. This analysis on the mediating role of the climate offers essential information for managers on the climate they can create in order to argue the highest priority, i.e. subordinates' results. For example, the leaders of a united company with a cash situation that needs minimum productive losses during integration and fast obtaining of the synergy should concentrate on reducing insecurity by focusing on goal clarification. Furthermore, leaders should take into consideration using transformational leadership behaviours in order to motivate employees to make the supplementary effort needed for maintaining productivity at the same time with performing integration tasks. Leaders involved in taking over some companies that imply much specialist knowledge, such as highly technological firms or consultancy firms, should initially focus on keeping job satisfaction and takeover acceptance in order to reduce the losses of key staff. In this situation, leaders should get involved in transformational behaviours, such as giving individual attention to essential employees during the change and using their intellectual stimulation skills in order to help the employees understand the reason of their takeover. At the same time, leaders should develop a climate that encourages new ways of thinking, in order to help employees accept the change.

The paper focused on the way in which leaders can diminish the negative effects for employees, which the implications of an integration after a takeover have: uncertainty and change. Takeovers' researchers identified distrust of management as a supplementary condition that reduces organizational efficiency in takeovers. The researchers of leadership have recently started to consider trust as being a mediating variable. In a stable environment, trust mediates the relationship between transformational leadership and the quality of performances; it mediates the relationship between transformational leadership and organizational affiliation, but not the one with performance. Together, these results suggest that our way of taking over can get explanatory features by including trust in management as a supplementary mediator.

This study satisfies an important need in the specialist literature on leadership, discovering that transformational leadership is related to the subordinates' better performances, job satisfaction and takeover acceptance in the context of huge organizational changes of integration after a takeover. Additionally, the study spreads some light on the dual role of transformational leaders in influencing directly and indirectly subordinates by a type of climate that leaders can create. As the mediator role of the climate varies in the subordinates' results that we studied, we were able to offer practical information for managers on how they could better reach priority results that they expected from their subordinates. The two mediating variables that we introduce in the specialist literature on transformational leadership, climates of goal clarity and support of creative thinking, suggest new potentially valuable directions for research regarding the ways of helping employees in order to adapt to change and diminish their insecurity during organizational changes.

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## THE PROCESSES THAT SHAPE THE ROMANIAN ELECTRICITY DISTRIBUTION COMPANIES

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**Abstract:** The Romanian energy sector restructuring is an on-going, large-scale and important process. Therefore the current organizational structure of the National Energetic System (NES) and the companies' competences will change, but the restructuring fund consists in a common legislation for all the Romanian electricity distribution companies (EDC). This leads to a common processes list that, in one form or another, are present in any Romanian EDC. Using the observation method, the author aims to present the Romanian EDCs, the distribution system operators functions (default the electricity distribution companies), current trends, both internal and external environment, and finally to identify the processes that underlie all the Romanian EDCs. Tacking into account the methodological approach and background, this paper has the purpose to identify the processes that underlie all the EDCs in order to have a common overview on the electricity distribution service. It is the author's intention to study and document how these processes are identified, documented and monitored in the companies in question. The paper is useful to the electricity distribution companies' top management, the quality assurance specialists and the specialist preoccupied by the comparative analyzes of the Romanian EDCs.

**Key words:** *process, environment, electricity, distribution company.*

**JEL classification:** M19

### 1. The Electricity Distribution Operators

#### 1.1 The Distribution Operator's Main Activities (infrastructure)

1.1.1 According to the Electricity and Distribution License Regulation, the Distribution Operators` (DO) main activities are:

- managing, operating, updating and developing electricity distribution networks (EDNs);
- providing energy supply services via EDNs for all EDN end consumers;
- providing electricity dispatch through its networks;
- planning and achieving EDN development;
- building up, operating, updating and developing EDN automation and protection systems;
- the securing, maintaining, updating and developing of a centralized SCADA system (Supervisory Control and Data Acquisition) and also that of informatics systems that should work as an interface for local systems thus allowing monitoring and END operations;
- securing, maintaining, updating and developing its own ITC infrastructure;
- monitoring and assessing EDN operational safety and distribution service performance indicators according to the distribution service performance standard (Performance standard, 2007);
- suggesting tariffs for the Distribution Service, according to the methodology approved by National Authority for Energy Regulation (NAER);
- providing non-discriminatory access to EDN by establishing the technical requirements for connection EDN end consumers, along with designing and performing EDN connection works when the end user demands it and based on specific contracts;
- delivering electricity measurement services for EDN end consumers, directly or by means of an independent measurement operator appointed by the end consumers, provided that it falls into NAER tariffs;
  - finding electricity automatic indication solutions;
  - implementing remote tele-indication;

- building up, operating, updating, developing, controlling and periodical maintaining of measurement systems – electricity metering, according to effective regulations;
- delivering non-discriminatory information regarding its own activities;
- ensuring appropriate staff development and training courses;
- achieving and maintaining the fundamental requirements derived from legislation regarding quality in constructions for all heritage buildings, including specific energy system constructions.

1.1.2. DO are in charge with technical documentation and the regulations that standardize EDN equipment design, functioning, maintenance and development.

1.1.3. DO draw out annual programs regarding equipment withdrawal.

1.1.4. DO are in charge with the management of information regarding EDN development and efficiency. By means of specialized services, DO provide consultancy and information regarding any issue or incidents that might affect energy supply and/or other indicators included in the distribution service performance standard (Performance standard, 2007).

1.1.5. DO provide NAER with all necessary data and information according to the Electricity and Distribution License and all regulations in force.

1.1.6. DO play an important part in the management of critical infrastructure – electric distribution network with its components - in view of guaranteeing energy security.

## 1.2 Current trends in DO`s activities

### 1.2.1. DO`s responsibilities in gaining the European retail market that will allow end consumers to switch from one provider to another without suffering from service interruptions.

Introducing *smart meters* in EDNs (required by the EU Directive 72) will require that DO manage large amounts of information.

Due to the growth of European liberalized electricity markets, emphasis will lay on representing the DO`s points of view in the EU, and their responsibilities in achieving an European retail market will allow consumers to switch from one provider to another without interruption.

In the next phase, a much greater attention will be given to new technological and regulatory aspects of the distribution sector (e.g. provide the technical requirements for the promotion of intelligent electrical networks or "Smart Grids").

EDNs are in charge with energy supply, which places DOs in the position of facilitating factor able of ensuring impartial non-discriminatory access to relevant information grid and the collection and exchange of information. It is therefore required to:

- fix the metering issue,
- make information available to market participants and
- simplify the process of switching from one provider to another.

Future development of smart metering will require huge quantities of information handling and will also be a challenge for the ODs ability to manage data. Thus, special emphasis will be placed on "smart counters" (EEGI, 2010).

### 1.2.2. DOs responsibilities in monitoring and reducing energy loss (EDN energy efficiency improvement).

The evaluation made in the European Union countries by the European Regulators' Group for Electricity and Gas aims at promoting the implementation of appropriate incentives in the energy sector, with a view to ensure proper motivation for electricity operators. This can lead to a more appropriate handling of network losses.

Network operators are responsible for the level of losses that can be influenced to some extent, on a medium and long term.

Accountability for losses does not necessarily guarantee a reasonable and acceptable level, if targets or standards are not set by regulatory authorities.

What is more relevant is the loss level acknowledged by the regulatory authorities (9.5% in Romania) and the regulatory mechanism they use in order to provide the framework to motivate Dos to reduce losses. Losses may be caused either by DOs transmission operators / distribution operators or suppliers, and any efficiency boosting solution is welcome (Persideanu, 2010/1).

That is why the support provided in view of a common, straightforward and objective specification of losses within the EU Member States, would provide the comparison criteria meant to positively motivate

Dos in their actions. Harmonisation should not be an end in itself, and some harmonization rules for loss management- especially in the DO - must be put to vote with the purpose of seeing whether different rules imposed by national regulatory factors actually cause problems.

Extra requirements for a separate measurement of non-technical losses would cost billions of Euros per year, as they would mean additional investments in EU networks.

## 2. The environment of the Romanian electricity distribution companies

### 2.1 The external environment of the Romanian electricity distribution companies (EDCs)

European Union policy is to liberalize the energy market, allowing Europeans to choose the most suitable prices for electricity and gas. It was established at an European level that international partnerships are essential to ensure efficiency in the electricity sector.

The new EU energy strategy considers the following two aspects: more security and less pollution.

The European Commission wants to improve Europe's energy security while fighting climate change and increasing competitiveness of the industry.

The legislation governing the electricity distribution in Romania comprises:

- Basic legal documents on the organization and functioning of the single market for energy products in Europe.
- The primary legislation in Romania for electricity which includes the Constitution of Romania, laws, ordinances, Government Decrees, etc.
- Secondary legislation consists of regulations issued by NAER.

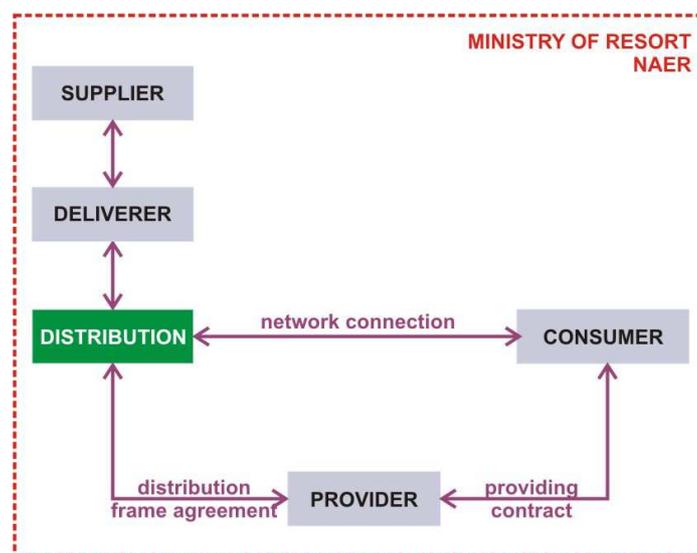
### 2.2. The internal environment of the Romanian electricity distribution companies (EDCs)

Electricity Distribution Subsidiaries in Romania (8 in number) are Romanian legal entities, having the legal form of companies that operate in compliance with Romanian laws and the status of each company separately.

These EDCs are operating in 8 geographical areas (Northern / Southern Walachia, Northern/Southern Transylvania, the Dobruja, the Banat, Oltenia, Moldavia) based on the distribution license granted by NAER. Each of these companies have electric energy distribution branches are composed, with no juridical personality (Persideanu, 2010/2).

In each of the above mentioned geographic areas, the beneficiaries of the electricity distribution service are the electricity supplier companies. The consumer is the EDC user from a point of view of his connection to the electricity grid (Figure 1).

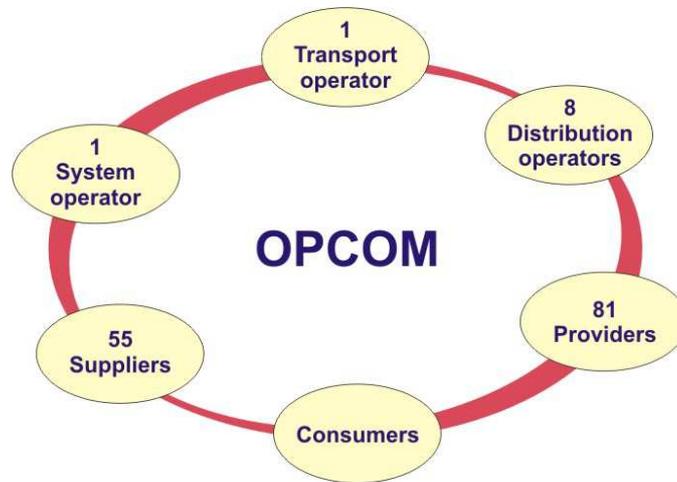
**Figure 1: The beneficiary of the electricity distribution service**



The part played by electricity distribution is crucial, as it acts as an interface between the supplier and consumer (macro level) and between the deliverer and the provider (micro level).

Currently, the electricity market in Romania is made out of consumers, 55 electricity suppliers, a transport operator, a system operator, 8 distribution operators, 81 providers of electricity for eligible consumers, and is monitored by the OPCOM market operator (Figure 2).

**Figure 2: Romanian energy market structure**



Source: www.opcom.ro

**2.3 Electricity distribution network users**

Distribution network users, mostly consumers are connected directly to the public electricity networks out of the 8 DOs patrimony (Persideanu, 2010 / 3). In 2009, there was a total number of 8.77 million EDN users, similar to what was noticed in 2008 (8.70 million) (www.anre.ro).

**3. Identifying the processes that lie at the bedrock of electricity distribution companies in Romania**

Using the observation method and taking into account the functions of the electricity distribution system operators (most of the electricity distribution companies implicitly) and the environment in which these EDCs function, the processes that underlie all EDC Romanian were identified for a better view of electricity distribution (table 1).

**Table 1: The detection of the processes found in the structure of any EDC in Romania**

Nr. crt.	Process	Departments	Description
1	Assets Management	Projects and constructions Management (investments)	Tracking work output and investment, issuing permits, issuing solution studies, connection to the electricity distribution network
		Strategy and Development	State network analysis, development strategy and investment and maintenance budget, achieving technical policies, inventory of energy assets, development studies, etc
		Distribution Contracts	Distribution contracts completion / modification
		Relationship with NAER	Relationship with the National Regulatory Energy (NAER)

Nr. crt.	Process	Departments	Description
2	Maintenance and repair of medium network	Network operating medium and low voltage	Maintenance of overhead lines and underground low voltage, medium voltage / low voltage transformer maintenance points, etc.
		Operating medium and low voltage	Manoeuvres, interventions planned facilities
		Maintenance high voltage network	Maintenance of overhead lines and underground 110 kV station maintenance
		Operating high voltage network	Operating high voltage network Supervisory Control and Data Acquisition
		Prevention activities, termovision, etc.	Prevention activities, termovision, etc
3	Network management	Support and Assessment	Studies and analysis network -performance indicators for the electricity distribution network (performance standard, 2007)
		Network Operational Management	Dispatcher
		Network planning	Approval withdrawn from service for the execution, carrying out normal operating schemes, etc.
		Network Management Systems	System operation and operating systems
4	The administration counters	Technical services counters	Installation meters for new customers
			Reconnecting and disconnecting customers for unpaid builds
			Replacement meters
		Managing and measuring data	Analysis of measurement data
		Remote reading	Remote reading of the meters
		Non technique losses	Theft management
Metrological validation laboratory	If case		
5	Support services	Financial, Accounting and Controlling	Financial, Accounting and Controlling specific operations
		Human resources	Human resources specific operations
		Transportation	Transport fleet management
		Building management	Building maintenance operations
		Information technology	Information technology department support
		Telecommunication	Telecommunications
		Protection and occupational health	Specific activities related to occupational health
		Public relation	Relation with the stakeholders
Marketing	Specific marketing activities		
6	Customer relationship	Front-office	Submitting documentation required for the network connection
		Back office	Processing documentation required for the network connection
		Call centre	Answering to clients problems / requests related to meters or network connection status etc.
		Meters	Meters reading

Source: companies

#### 4. Conclusions

This work highlights the following aspects:

- The main activities of the electricity distribution system operators (electricity distribution companies implicitly) - thus providing an overview of the electricity distribution operators;
- Current trends - reflecting new trends at an European level;
- Internal and external environment in which evolving electricity distribution companies in Romania are functioning- hence the proceeding laws governing electricity distribution in Romania (normative documents, primary legislation and secondary legislation) and the positioning of electric energy distribution on the energy market;
- Electricity distribution network users;
- The identification of the processes underlying the Electricity distribution companies in Romania, using the observation method and taking into account the functions of the electricity distribution system operators and EDC work environment in which they operate.

In conclusion, all Romanian EDCs consist of asset management processes, maintenance, repair network operations and network management, meter management, support services and customer relationship process.

The author's intention is to study the identification, documentation, monitoring, measurement and improvement processes, thus helping the distribution companies' top management, the quality assurance specialists and the specialist preoccupied by analyzing the management of an electricity distribution company.

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## HISTORICAL, SOCIAL AND ECONOMICAL LESSONS FROM PREVIOUS CRISES FOR SME'S

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**Abstract:** *The existence of an enterprise is decisively determined by the social-economic context in which it operates. Much attention has been paid to the negative effect of crises on the creation, survival and growth of SME's. In this article we examine from a historical, social and economic point of view, how actually the impact of the crises on SME's provided an opportunity for their development based on a review of theoretical studies.*

**Key words:** crisis, SME's, industrial Revolution, New Age

**JEL classification:** M13

### Introduction

The recent past has raised concerns about the issue of crisis. Although it is very difficult to find a way to look for positive points for a topic like this, facing the pessimistic atmosphere of the today's global economy, a very detailed literature review has showed not only that the importance of SME's was always a global phenomenon, but that crisis have not at all times ushered drastic drops in demand for goods and services affecting SME's cash flows (OECD 2009).

While it is extremely difficult, if not impossible, to give a precise and general adopted definition of a crisis, we could say that a crisis may mean a loss, a threat but also a challenge. Specialist academics from various disciplines like economy, management, disaster sociology, public administration, political science and international relations, political and organizational psychology, as well as technical specialties such as epidemiology and information technology have studied the influence of crisis. A more comprehensive definition is that of Rosenthal, Charles, and 't Hart (1989 p.10). They saw in crisis a "a serious threat to the basic structures or the fundamental values and norms of a social system..."

### Crisis and their "blessing on disguise" on SME's

The literature mentions the emergence of small enterprises at the same time with the development of cities in the middle Ages, which has stimulated trade and industry-development. The form of SME became dominant in the 16th and 17th centuries, and the invention of press work has opened their way for industrialization Krämer, (2003 p. 7). In 1849, small businesses were those who supported American colonial business system, in which many Americans were guided by the slogan: "I am determined to become a businessman, a millionaire and nothing more." The emergence of the telegraph and the improvement of the railway infrastructure reduced the existing financial and geographical limitations for the entrepreneurs. Therefore small enterprises were able to benefit from expansive trade with the colonies (Blackford, 2003). What is easily overlooked is the fact that it was actually the „**crisis of growth**” in cities in the 16th and 17th centuries and in the colonial economies which lead to the motivation to compete and adapt of the small enterprises and allowed them to expand from the narrowness of the home market.

Because of the profound changes caused by industrialization, small enterprises could barely deal with large enterprises and manufactures. Those that were part of some industries, like textile, footwear or leather industry, were eliminated by mass production, while other small enterprises have been relocated into niche markets, for example shoes repairing. Therefore it was due to these shifting that SME's were forced not only to focus on a niche markets, not accessible to large enterprises Ergenziger & Krulis-Randa, (2009), but also to help them through production of various parts (Smallbone & Welter, 2008, p. 28)

The spectacular thing was that, since the industrial revolution, the role for SME's in society began to decline in importance. A particular attention was given to large enterprises, which were able to use mass production techniques Stokes and Wilson, (2006), considered at that time a decisive factor of efficiency. Like Aston explained in his Book "Crisis in Europe, 1560-1660: essays from Past and Present" 1956 p. 28-

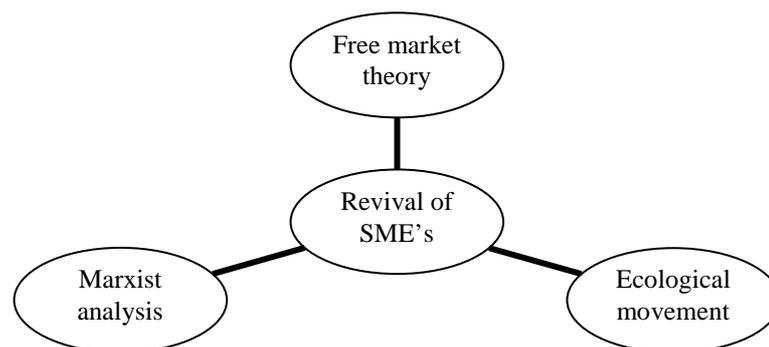
29 the evidence of deflation in the 1660s also suggests that the “crisis” created the conditions which were to make industrial revolution reality, shaping the general transition from feudal to a capitalist economy.

It seems that each era has its crisis, so after the World War II, a stagnation in the area of economy took place. The investigation on specialized literature indicates the existence of more than one conception concerning the SME’s. More precisely, until the 70’s, there was the idea that an economical recharge could occur by means of high leveled enterprises, idea sustained by Schumpeter (1942), Galbraith (1956), Bell (1960) and Chandler, the role of the small enterprises being either a political or a social one. This mentality has inevitably led to a decrease in the number of small enterprises.

The conceptions about the SME’s have been followed by a new stage, which began during the **energetic crisis** in the 70’s, when the high level of the petroleum price produced important changes within society. As a result of this **crisis** not only the economic medium but also the scientific one realized the important role played by the SME’s in reviving the economy, owed to their capacity of absorbing the high number of dismissed people of larger enterprises. According to Storey SME’s are able to generate jobs faster compared to large enterprises (Storey, 1994, p. 168) because theyre activity is mostly labor intensive (Liargovas, 1998 p. 202).

Goss D., had in mind, in the work ‘Small Business and Society’, from 1991, to do something more than just providing a social-economic clarification of the reasons why the revival of the SME’s took place, at theoretical level as well as at practical one, willing to bring arguments in the favor of their legitimacy, integrated within 3 theories, (Stokes & Wilson, 2006:14- 19):

**Figure 1: Three theories to explain the revival of the SME’s**



Source: (Stokes & Wilson, 2006:14- 19)

The free market theory refers to a policy adopted at high level, by countries like Great Britain or USA, countries that have supported through their outstanding leaders like Ronald Reagan or Margaret Thatcher, the small enterprises. The first one regarded these as the only possibility of ‘redemption’ for the American economy, and Margaret Thatcher was affirming: ‘The more the society gets to be free, the more small enterprises continue existing’. The right-wing, that was supporting an economy based on the free market, was staking on these small enterprises, hoping they would diminish the monopoly of the large enterprises. Currently, there are important political leaders like Angela Merkel or Nicolas Sarkozy, who have in mind to give special attention to the SME’s, after the international **financial crisis**. Germany’s chancellor stated on a meeting with a German SME, ‘Silbitz Guss’, in which people with disabilities work, that the SME’s were those that helped Germany to be strong and helped to recover faster from the impact of the global economic recession.

In accordance with the Marxist analysis, the capitalistic society is shared between those who own large production units and those who work inside of them. In this way, a monopoly of the large, dominant enterprises is taking shape, in reality being actually instruments of exploitation. In the 80’s, these were forced to practice subcontracting. The existence of the small enterprises being determined precisely by this necessity derived from large enterprises. We can affirm that they do not represent anything else but a subtle economic domination form belonging to large enterprises. It is important to mention that Marxists have predicted five out of the last three recessions, because they recognized that governments are most likely to

intervene on behalf of their system and not to protect capitalism or the private property. So the development of SMEs was a way of creating a new higher order.

Therefore, during **recession periods**, crises, activities less profitable for the large enterprises have been taken over, by small enterprises. Their success consisted of the absence of syndicates and the granting of smaller salaries to their own employees.

The small enterprises are still perceived as being closer to the client, to the society, becoming capable of protecting the environment exemplarily, intensifying the ecological movement. The SME's low-scaled activity, corroborated with the benefic effects shown above, contrasts radically with the effects of excessive industrialization, with overproduction, centralization, bureaucracy and an immediate need for profit, which have led to a deep crisis within society. The **created crisis** demanded imperatively the return of a more 'natural' order. For example, the ecologic products, obtained in these SME's, have and will reduce considerably, the soil's and the drinkable water's chemical contamination that has reached nowadays alarming dimensions, a universal balance being created, to the benefit of the next generations.

Other reasons that led to the prompt development of the SME's, (Stokes & Wilson, 2006 p. 14- 19) were, first of all, the development of the services field, preferred by the small enterprises for being one of the most dynamic fields of the economy. In general, within the economical development after Acs, Audretsch and Evans, more stages can be distinguished, characterized by the preponderance of different economic branches and by distinct levels of workforce occupation. In the first stage, the economy is specialized in agricultural products yield and in processing industry. In the second stage, major changes that determine the transition from an agricultural economy to an economy based on production, take place, as well as a rise in the enterprises' dimension. In the third stage of the economy's development, we are to witness the transition from production to services, new opportunities occurring for the small enterprises. In this third stage of development, they are favored for being the only ones possessing the required flexibility for a persistent fitting with the client's needs, obtaining a competitive advantage towards the large enterprises. The fact that most of the European Union member states are situated in the third stage of economical development, is reflected by the share of SME's within the services sector, in countries like Great Britain 15,02% and France 10,25%, in 2002 (Marin, 2002).

The history proved with abundance, that the small enterprises are those that consolidate the basis of the new technologies. Keller, W. W. & Samuels R. J. (2003 p.57) showed how the economic crises in Asia changed their production systems.

The more their market develops, becoming more mature, the bigger tendency of growing, the enterprises have. The cyclical industrial development has led to the continuous advent of new informational technologies fostering the growth and development of SME's in large enterprises, offering free space to the setting up of new SME's in the future. The global direction that the small enterprises had to adapt with, has led not only to sales and service units having to be geographically spread, but also to a division and an extension of research, development and production units. Adding the integration of the contractors within the development process to all these, there is required an intense teamwork. Precisely the geographically divided teams, more and more interested in developing the new products, are based on rapid and easy instruments of communication and partnership. Having the required technology and also an infrastructure allowing an easy procession and sending of the information, many entrepreneurs have succeeded to lead their own SME's, even by staying at home, being capable of planning and utilizing in a flexible way, their job. In this way, a lot of mothers were able to take care of the business and the children as well, simultaneously. At the same time, the introduction and utilization of design or production software systems or systems for clients relationship suited for the SME's specific needs, has optimized their activity even more.

Thanks to competition, a specialization belonging more and more to the small enterprises, concentrated on the accomplishment in the smallest detail of the clients' needs, has become a necessity. The specialization can concentrate either on a certain client, geographical region, product, product line or a distribution channel. The technological evolution as we just saw, has led to absence of necessity for the expensive equipments use, which has simplified a lot their existence, the investment necessary for the specialization becoming smaller. A specialization involves also a high risk, because any change on market can lead to bankruptcy. In order to overcome the given situation, a development of skills and a better adaptation capacity for human resources are needed, by continuous education and rotation at the workplace.

Many of the future entrepreneurs have confronted with unemployment and were practically determined by this new situation they got into, to set up a business. In the context of major **economic implications**, the important wave of dismissals that took place in the late 70's until the beginning of the 80's in Great Britain, has influenced positively the apparition of the SME's. We are talking in this case about involuntary SME's

start-ups, with limited chances of success as a result of being based exclusively on the identification of a business opportunity, already limited by the potential clients' purchasing capacity that is diminishing due to unemployment (Storey, 1994). Therefore, our opinion is that, the decision of establishing an enterprise on a certain moment can be the result of interaction between many triggers, in our case the unemployment, but the entrepreneur's will for independence and assertion, remains a *sine qua non* condition.

The reorganization of large enterprises due to recession, at the beginning of the 1980's, has led to the emergence of the subcontracting process. This one implies the fragmentation of output and services, including an execution based on a reference of some finite products or subsets, components and pieces. Although the economic control was still in the hands of the large enterprise, the small enterprises, as subcontractors, were capable of increasing their production and the number of employees. As Storey attracts our attention, the reappearance of the SME's is due not only to the fragmentation of production but also to the cost advantages created (Storey 1994). The theoretical model taken under the analysis of cost advantages was offered by Coase in 1937 and lately by Williamson in 1985, who highlights the existence of activities that the enterprises will perform internal, if the implied costs are lower than they would be if they were outsourced. However, Lyons identifies correctly the fact that within this model there has to be dignified the technology required for the output of any product. If this matter implicates a specific technology, the products will be made especially internal.

The SME's have taken advantage of the public sector reorganization. With the help of it, the SME's had the free access to auctions made by the public sector and the efficiency has risen due to the partnership between the public and the private sector. A good example based also on this partnership is the business incubator, its aim being the development of entrepreneurs' initiative, offering the most advantageous conditions for the new small and medium enterprises or those willing to develop.

The Government is the one that has to create and implement an investments stimulation politics by facilitating the free access to information or free consultancy in different areas, stimulating thus, by using an entrepreneurial culture, the establishment of new SME's. The Government's main role within a market system is to create an environment favorable for the flourish of the private sector, accomplishing therefore a significant contribution to the economic development and employment. An also important role could be revealed by creating a Legislative Framework for the enterprise to conduct business inside of it. But the State has to find at the same time a way of creating a balance between encouraging the enterprises and defending the social interests and the public welfare. Within a transition period, creating this balance is twice harder because of the country's lack of tradition as an entrepreneurial activities regulator. (Smallbone & Welter, 2008:35). The entrepreneurial culture is not being promoted only at the state level but also at the European Union level through the possibility of accessing the European structural funds addressed to the SME's. According to the official data, the structural funds' level of input, in relation with the allocation, within the period 2007-2009, is about 8% at almost 3 years after Romania's accession to EU. Despite significant efforts, the number of graduates putting the basis of a new enterprise is still much reduced.

The emergence of the 'New Age' current that highlights the necessity of approaching the human nature with the spirit, without which mankind will not be capable to enter a 'new era', has led to an extreme form of worry about creating a new lifestyle, many domains having developed, like: alternative medicine; natural products sellers, alternative cosmetics producers and salesman; trainers, writers, counselors. The alternative medicine has had probably the most resonant hit, being often used in the conventional medicine. This success is easy to explain: if a patient is offered an alternative to surgeries, radiations, chemotherapy, by following a simple diet, he would certainly opt for the second variant. The entrepreneurs have identified correctly these domains, as being profitable, choosing them for running their activity.

Very simple and cheap solutions, appropriate for the SME's special needs, were possible with the advent of on-line trading by facilitating their access to the internet. Regarding the importance of the on-line trading, recent studies have shown that more and more SME's open virtual shops through which they obtain 25% of the turnover. The Australian and the American SME's have tried, by adopting the on-line trading, to improve their internal transactions, while the Swedish SME's use it for marketing and for finding proper business partners. For all SME's the aim for adopting the on-line trading remains the increase of competitiveness (Robert et al., 2007:124).

The SME's new opportunity is given by internationalization. The direct investments and the goods and services export within EU have an increasing importance for the SME's. In our opinion, they contribute to important structural changes marking the transition from the primary sector to the tertiary one. The difficulty implied by this internalization, consists of accumulating solid commerce knowledge, necessary for the processing of external markets that represent the basis of international affairs. For analyzing the different

external markets and the opportunities of using certain ways of entering the market, it takes time and therefore an inevitably neglect of day by day business, takes place. For many SME's, the main advantage of the networks, is that they can offer the possibility of competing effectively on bigger markets (Dennis, 2000).

Naturally, the entrepreneurs' perception as being models to be followed has played a decisive role in the influence or even in the concrete demarches of some, in establishing an enterprise. The studies have shown that a successful entrepreneur, representing an endogenous agent of the entrepreneurship, possess along with technical and management abilities, also a solid education (Karami, 2007 p. 131). In 1989 Brock and Evans have shown that the high level of education correlated with a high demand for labor force that led to a diminution of salaries has contributed to the establishment of enterprises in high number (Stel, Caree & Thurik 2005). If networks, as shown above, allow the SME's to access a wider market, the directly responsible for the quality or evolution of these networks will be the entrepreneur, determining the success or failure of his enterprise. Casson was talking in 1982 about superior knowledge's of the market, coming from the entrepreneurs (Drakopolou-Dodd, Jack, & Anderson, 2002:213). The exhausting hours spent at work, trying to solve all sort of problems and assuming the responsibility for any decision taken not forgetting his employees' jobs are involved, have conferred the entrepreneur, the characteristics of a driving force of his small enterprise and the market, on which he is increasing the impact area. Therefore the followed lifestyle, characterized by the will for independence and sustainability (Borza et al., 2009:25) of the entrepreneurs, not only has influenced him personally but also everyone involved in the activity of his enterprise, such as clients and suppliers.

### Conclusions

Although, much of the emphasis is on the problems faced by SME's during crises, there are important issues that have been underlined by us, like the fact that crises have created for SME's both positive and negative effects in the economy. By examining these effects carefully, we have obtained a greater understanding on how crises work on SME's and what we can learn from them.

We highlighted that the changes that took place at the international social and economic level, have influenced the SME's at the organizational level and at the personal one as well. Having unfortunately nowadays a reduced utilization level of managerial elements and also limited time for making the adjustments necessary for a continuous and rapid adaptation, the entrepreneur remains incapable of exploiting as many as possible newly created opportunities, by these changes made by the crisis. Maybe that is why Storey and Johnson (1987) didn't observe the growth in the SME's competitiveness but rather the low performance of large enterprises (Storey 1994:38), as the reason that led to their revival.

Two others prolific authors from the entrepreneurial field, like Audretsch and Thurik are using the term entrepreneurial economy. They suggest that moving to a knowledge based economy has represented the trigger that facilitated the transition from large enterprises to the small ones. The authors highlighted at the same time that this kind of economy functions best when the inherent uncertainties within the market and also the asymmetries in creating knowledge, are absorbed by a small enterprise and not by a large, dominant one (Stel, Caree & Thurik, 2005). Therefore, despite the conventional approach, on crisis we have given sufficient evidence that crisis have played an important role in development the SME's. It was interesting to observe that from the turmoil emerged from the industrial revolution, the growth of cities, the crisis of identity of the role models or the state, significant economic opportunities were created

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## THE IMPACT OF THE HUMAN RESOURCES MANAGEMENT ON THE PERFORMANCES OF THE COMPANIES

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**Abstract:** *We very often wonder why, in the severe conditions of economic crisis and recession, many companies are bankrupt but some- and they are not a few, are gaining more clients, are becoming more profitable than ever before and are renewing with products that we have never dreamt about. The answer is only one, and it is not consisting in investments for high-sky technologies, but it means the ways in which the executive management understood to motivate and give confidence to its personnel that they are able to survive together with their companies, through their innovative ideas put in practice.*

**Keywords:** human resources, management, performance

**JEL classification:** M1

### Introduction

In the contemporary economy, both managers and employees should face permanently, some complex and challenging pressures which will generate opportunities. They need to be ensured that all their resources, existing ones and those that can be drawn, can create ways in which the prosperity and efficiency are guaranteed on longer term.

*Efficiency* means the ability to identify what is necessary to be done in the future (the most adequate products and services, the involvement of the best procedures and functional structures, recruiting and maintenance of the personnel with high professional abilities and competences). Thus, it is possible to reach an optimal level of adapting the continuous changes of the economic, social environment, as well as political, ecological and sometimes geographical ones.

If we are going to mention an only one constant in life, generally or in the economic aspects specifically, this has one name and this is: **Change!** As far as we succeeded to deal on favorable conditions with the permanently changes and to maintain the organizations, either they are profit-oriented ones or non-governmental companies, we are constantly ensuring the future efficacy and why not, efficiency which is a higher level of doing what is right and needed to increase the chances of the organizations to exist and ensure their activities on a longer term strategy.

### Chapter 1. Intellectual capital. Theories and practical implications.

Even the Human Resources management has continuously enriched its content and area of comprehension, the rise of international competition and the intensity of globalization process have determined the necessity of taking into account the international sizes of this phenomenon.

The extension of the companies' activities at a global level, assumes the growth of the complexion of the actions, especially the development and the diversity of the managerial instruments of the human resources that are used to administrate economical, cultural and institutional variables for each country. All these evolutions influence the re-thinking of the strategic role of the personnel and its intellectual belongings or archives of know-how inside a company, this being a competitive advantage for each organization.

Any institution has at its disposal, several resources, such as:

- materials;
- finance;
- time;
- employees, including its managers, as well.

The famous "Z" theory demonstrates that when an institution owns motivated personnel, one can develop quality processes in even time to face the competition, such as the clients to be satisfied and on the way to become loyal clients which can lead to nothing else than a healthy cash-flow for the company.

Maintaining the actual organizations, on conditions of heavy economical crisis, on the balance of economy and why not, on a rising trend, can not be only the advantage of a high technology that is owned by any of the companies. The difference is made by the quality of the human resources, by the way in which it is motivated and encouraged to be developed, that meaning involvement, innovation and assumed responsibility.

The “ Z “ theory is also known as the “ Equity Score Card “ because it takes into account four dials to which a certain manager has to follow to understand the performances trend in the company that he is leading and that means:

1. Stake-holders persons that are interested to obtain a profit from the organization;
2. Clients
3. Employees
4. Innovation and development.

This card can be synthesized as follows:

**Table 1: Equity Score Card**

Stake-holders	Clients	Employees	Innovation, training and development
owners, profitability, costs-economy, financing institutions	market-share, degree of necessities satisfaction, internal and external clients	Internal process, management	growth, development of new products/services
<b>Crucial factors of success</b>			
Objectives Criteria Intensions Initiatives	Objectives Criteria Intensions Initiatives	Objectives Criteria Intensions Initiatives	Objectives Criteria Intensions Initiatives

Source: Author's own manipulation

The above mentioned model evaluates performance from four expectations, such as:

1. Financial;
2. Clients;
3. Internal process;
4. Innovation

The model has been first discussed by Kaplan and Norton (1992, 1996). This is mostly an evaluation card and not necessarily a source of balancing the interests of the groups involved in the mechanism of the companies.

**Table 2: Equity Score Card for the ROLOPLAST TEHNOCONSTRUCUT –SRL company**

Financial Perspective		Client Perspective	
Objectives	Performance Criteria	Objectives	Performance Criteria
Survival	Cash-flow	New products	Percentage of new products sales Percentage of new innovative products sales
Success	Growth of terms sales and of the profit from exploitation of the divisions	Delivery on request	Delivery to the clients on the established terms
Prosperity	Bigger share market and growth of profit per share	Favorite supplier	Percentage of acquisitions from the key accounts in comparison with the 3 main competitors
		Partnership with the clients	Number of technological actions in co-operation

Internal Perspective		Innovation and development perspective	
Objectives	Performance Criteria	Objectives	Performance Criteria
Technological capacity	Production structure in comparison with the competition	Technological supremacy	Time to develop the new generation of products Necessary time for the ripeness of the process
Excellence in production	Production cycle Cost per unit of product Efficiency	Maturity of fabrication process	Percentage of the products which ensure 80% of the sales Diagnosis in comparison with the competition
Productivity of designing	Efficacy of used materials Technological efficiency	Concentration on the products	
Launching of new products	Technique characteristics Real planning degree	Estimated time for getting the products on the market	

Source : Author's own manipulation

According to the above mentioned authors, the main points involved in the process of structuring the following strategy are :

- How do we settle the objectives to reach the needs of obtained profitability;
- How are the clients looking at our company ?
- What are the fields in which the employees must prove excelency?
- In which ways can we continue to improve our products/services and to create added value?

In a study case, for the company Roloplast Tehnoconstruct-SRL (LTD) from Pitești, Argeș county, Romania, it can be drawn as in the table 2.

**Chapter 2. The role of human resources activity and the executive management.**

The management and the development of the labor force in an organization is the main task of the human resources department. It has to deal with the following problems:

- project and organizational development;
- know-how management;
- relationships with the employees;
- work and health protection;
- social protection;
- human resources administration;
- respect of the legal requests;
- insurance of the equal chances;
- planning and developing the personnel careers.

The personnel department has to deal with:

- efficacy in organizing the growing of the competences of the employees;
- creating a proper environment for attending the organizational objectives through maintaining optimal relationships between the employees and the executive management;
- offering an official frame in which the people will be able to maximize the creative potential for their benefit and also for the company profit.

An adequate function of the human resources department can lead to four well-defined functions:

- a) **partnership** with the company management for establishing the strategy to maximize planning the functions of the personnel from the recruitment phase up to the phase in which they bring an added value for the external clients;
- b) **motivation and loyalty** by coordinating the individual objectives with those of the organization;

c) *insurance of the necessary conditions for costs-cutting*, but without lowering the levels of the quality. This could be possible through a better organization and planning of the activities;

d) *continuous transformation of the organizational culture* in order to become a more flexible and fast-adapting to market and economy changes both on the commercial and labor aspects.

The role and the activity of the human resources can vary on a sequence of different approaches, such as:

- values and mission of the company, which can be focused more or less on a special contribution of the specialized department for achieving the organization goals;
- involvement of the personnel function at a decisional level or simply limiting it at an administrative activity;
- when the importance of the human resources department is given at a strategic implication, the results will be of a higher quality and with better chances of long-term performances;
- the type of institutional organization, be it on more or less hierarchyc levels, centralized or not, national or world spread, such as the case of multinational companies;
- standards and managerial style, in short- the type of organizational culture;
- experience and credibility of the personnel department;
- types of used technologies and accent put from and towards the competences and abilities of the staff;
- motivation factors and ways that they are applied or not;
- accomplishment of the basic conditions, known as" prophylactic factors";
- the importance given to the human resources department and the eventual possibility of autonomy for the strategy of developing the personnel;
- traditional culture and the authority of the mentioned department.

Sisson (1995) mentioned the fact that the management of the employees is not an homogeneous activity, but one which implies a great diversity of roles and activities, with big differences from one organization to another, or even inside each company. Though Tysson (1987) underlined that managing the personnel can become an action without much inter- connections, having a trend to cover a large variety of roles and activities.

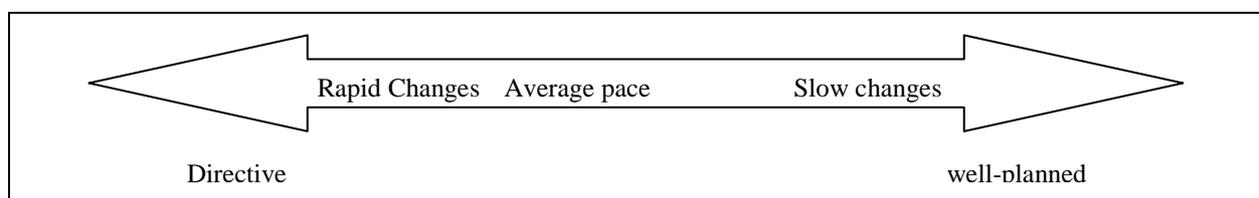
One of the actual solutions of the companies is to dissolve the inside human resources department and to give the responsibilities to a third party which will take care of the specific functions with more objectivity and nevertheless lower economic and social costs.

### Chapter 3. Economic approaches of the change management. Study case.

Working and living in a world characterized by the constant of change is not an easy task for the existing companies. They have to chose through *three different phases* of implementing the requested transformations for adapting to the realities of economic environment:

1. Slow changes;
2. Medium paced changes;
3. Rapid changes

**Figure 1: The pace of companies changes**



Source: Competitive Management, CODECS Publishing: Bucharest, 2002

The difference in applying a certain type of change is made by the goals established by the respective companies. In my example, I shall speak about a private company, Metabet-SA, from Pitești, which has been first established in 1915 as the „ Workshop for Romanian Rail-Ways and Bridges ”. This factory has known an impetuous development through the years, especially after 1945, having a sort of monopol for producing concrete and metallic pieces, spare parts for all that meant rail-ways and bridges in Romania. Unfortunately, after the events of 1989, the competition and the debts aquired from the state

budget, transformed this unique company in an organization meant to close its gates and to dismiss more than 80% of the working people.

Due to the privatization system, this factory was bought by a group of companies, ALCADIBO, also from Pitești, and its new share-holders put into the market a very innovative system of marketing, combined with encouragement of initiative of all the involved personnel. In this way, they realized in the last 2-3 years of crisis, records of both turnover and profit figures, as shown in the figure below:

**Table 3: METABET-SA – Turnover between 2003-2010**

Year	2003	2004	2005	2006	2007	2008	2009	2010
Lei	29.920.365	30.104.515	32.655.535	29.507.390	29.399.654	42.417.491	83.750.203	56.420.318

Source: Metabet-S.A. company records

Also, even if in the last year the turnover has decreased, the profit was 40% higher than in 2009, due to the work of innovations. They didn't stuck for their only buyer in the country, The Romanian Rail-Ways, but they participated at international auctions and succeeded to gain two important contracts in Germany and France, for unique metallic pieces for bridges and cranes.

Though, one of the most important problems of this company seems to be not the contracts and the future ensured by them, but the lack of specialists in the engineering fields of activity, as their personnel with high special studies have an average age of 55 years, that means that soon they will be retiring and no other generation is taking their place, as in the universities there are no enough students interested to study such a theme, or if they are, their intentions are to leave the country after accomplishing their studies, in order to find a better job and life somewhere else in a developed, western country.

### Conclusions

Diagnosis, change and effectiveness, all depend upon people. Whenever we think that we have enough data, the interpretations are always provisional and there is always scope for improvement. The management of human resources is not and will never be, easy or straightforward.

“The reasonable man adapts himself to the world: the unreasonable man persists in trying to adapt the world to himself. Therefore all progress depends on the unreasonable man”. (George Bernard Shaw).

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## THE CONTRIBUTION OF THE EUROPEAN STRUCTURAL FUNDS TO THE DEVELOPMENT OF HUMAN RESOURCES IN ROMANIA FROM A REGIONAL PERSPECTIVE

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**Abstract:** *The European structural funds are one of the biggest opportunities Romania has to resolve structural economic and social problems, especially in the current background of budget constraints due to the financial crisis. Among the European funds, ESF is particularly concerned with the development of human resources by providing them better skills and better job prospects. This paper begins by summarizing the absorption of the European structural funds in Romania at the end of 2010, and continues with the analysis of the allocation of the financial resources under the SOP-HR, the priority area of education and training in support for growth and development of knowledge based society. The paper aims to provide answers to questions like: what is the distribution of the absorbed funds on the development regions of Romania, what types of institutions absorbed the funds for the development of human resources, what is the role of higher education institutions in this process and others alike.*

**Key words:** structural funds, European Social Fund (ESF), human resources, development region, higher education institutions (HEI)

**JEL classification:** R11, O15

### 1. Overview of Structural Funds in Romania (2007-2013)

European Union issued the European structural funds as the main instruments of the economic and social cohesion policy to fill up the differences in the economic development between the European regions. The new cohesion policy - enforced starting with 2007, contains various changes with respect to the 2000-2006 period. There are three financial instruments: The European Social Fund (ESF), which focuses to improve: the adaptability of workers and companies, the access to employment and the participation on the labour market, the social inclusion and the partnerships in the field of employment and inclusion; The European Regional Development Fund (ERDF), which promotes public and private investments with a view to reducing regional disparity inside EU and to support programs of regional development, economic change, strengthening competitiveness and territorial cooperation throughout the EU territory; and, The Cohesion Fund, which intervenes in the sectors of environment and trans-European transport networks; it is activated for the Member States that have a GDP below 90% of the community average. These funds aim to meet three objectives for the 2007-2013 programming period: convergence; regional competitiveness and employment; and territorial cooperation.

In the programming period 2007-2013, Romania benefits from financing from all three structural funds mentioned above, as the entire territory of Romania is eligible in this respect. Romanian actors have at their disposal for this period Community funds amounting to approximately EUR 29.5 billion, of which EUR 17.317 billion are structural and cohesion funds and EUR 12.183 billion are agricultural and rural development funds.

Looking at the financial allocation for Romania under the European Social Fund we notice that the total European contribution for the period 2007-2013 rises up to EUR 3.68 billion, amount that places Romania on the 10th rank among the 27 Member States. Romania's share of ESF money is higher than the EU-27 average of EUR 2.8 billion. To this amount of European funds (EUR 3.68 billion), it adds up 651 million as national co-financing from the national budget, leading to EUR 4.33 billion to be accessed under the ESF in the period 2007-2013. The European Union provides financial assistance to Romania under the Convergence Objective through seven Operational Programs (OP): SOP Increase of Economic Competitiveness; SOP Environment; SOP Transport; Regional OP; SOP Human Resources Development; OP Administrative Capacity Development; OP Technical Assistance.

Having said that, Romania's objective becomes that to ensure the highest absorption rates until the end of the 2007-2013 programming period. In fact, National Strategic Reference Framework (NSRF) sets out a target absorption rate of structural and cohesion funds under the Convergence Objective of at least 90% of the available allocation. Table 1 shows the progress registered in terms of the number of approved projects, the total value of the approved projects (financed by both European and national contribution), the amount of the European funds absorbed and the absorption rate, cumulated since the launch of the programs till the end of January 2011. We notice that the highest absorption rate was registered for the Human Resources SOP (95.6%), followed by far by the Regional OP (56.2%). The poorest performance is shown by the Transport SOP (15.3%), justifying the governmental concerns to speed up funds absorption, in order to ensure a swift injection of capital into the economy so as to mitigate the effects of the economic crisis, to facilitate key investments at national, regional and local level and to avoid the disuse of funds allocated to Romania, in the last three years of funds' availability (2011-2013).

**Table 1: EU allocation under the OP / SOP in Romania and the absorption rate at 31 January 2011**

Operational Program (OP) / Sectoral Operational Program (SOP)	Allocation of EU Funds 2007 - 2013 (cumulated) (EUR)	Approved projects (31 January 2011)			Absorption rate
		Number	Total value (EUR)	Of which, EU contribution (EUR)	
OP Regional	3,726,021,762	1,309	3,203,839,872	2,093,914,378	56.2%
SOP Environment	4,512,470,138	170	3,519,772,062	2,179,003,581	48.3%
SOP Transport	4,565,937,295	40	1,872,192,002	697,428,153	15.3%
SOP Increase of Economic Competitiveness	2,554,222,109	2,333	2,679,295,788	1,211,473,916	47.4%
<b>SOP Development of Human Resources</b>	<b>3,476,144,996</b>	<b>2,626</b>	<b>3,527,656,300</b>	<b>3,324,594,588</b>	<b>95.6%</b>
SOP Development of Administrative Capacity	208,002,622	306	111,780,027	92,970,497	44.7%
OP Technical Assistance	170,237,790	59	63,711,629	50,423,008	29.6%
<b>TOTAL</b>	<b>19,213,036,712</b>	<b>6,843</b>	<b>14,978,247,681</b>	<b>9,649,808,121</b>	<b>50.2%</b>

Source: ACSI, 2011

It is worth to underline that the above absorption rates are calculated for the approved projects. In terms of actual payments made to beneficiaries, the situation goes to the other extreme, as demonstrated by the figures: only 14.95% SOP-DHR, 15.86% for OP Regional, 10.35% for SOP Competitiveness, and below 10% for the rest.

## 2. Aspects of Human Capital in Romania

Human capital's importance to economic growth has been largely acknowledged throughout theories over time, starting with the writings of A.W. Lewis ("Economic Development with Unlimited Supplies of Labour", 1954). The use of the term in the modern neoclassical economic literature dates back to Jacob Mincer's article "*Investment in Human Capital and Personal Income Distribution*" from 1958. After that, T.W. Schultz contributed to the development of the subject matter. The best-known application of the idea of "human capital" in economics is that of Mincer and Gary Becker of the Chicago School of Economics. Becker's book entitled "*Human Capital*", published in 1964, became a standard reference for many years.

More recently, according to the works of Schultz (1971), Sakamoto and Powers (1995), Psacharopoulos and Woodhall (1997), human capital theory rests on the assumption that formal education is highly instrumental and even necessary to improve the production capacity of a population. In short, the human capital theorists argue that an educated population is a productive population. Thus, investments in education and training have very high return on investment rate and the rising of the educational attainment of the labour force accounts for increased economic growth rates.

Human capital refers to the stock of competences, knowledge and personality attributes embodied in the ability to perform labours so as to produce economic value. It is the attributes gained by a worker through education and experience.

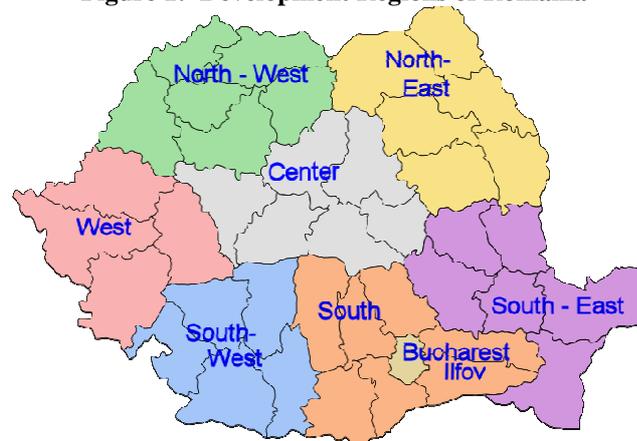
The **educational system** in Romania underwent much restructuring over the last years. In the interval 2007-2010, the education sector was characterized by significant measures aiming at the consolidation of the legal framework and decentralization. Thus, the Ministry of Education, Research, Youth and Sports (MECTS) developed the Strategy for the de-centralization of the pre-university, vocational and

technical education. In addition, the new National Education Law (Law no. 1/2011) was released and entered into force, bringing major changes to the educational system in Romania. The findings available for Romania indicated a relatively insufficient correlation between the educational offers / qualifications provided by initial training and education, including university education, on the one hand, and requirements of the labour market, on the other hand. The high youth unemployment rate, unfortunately, supports this conclusion.

Thus, investments in education should focus on ensuring key competences for all and adequate supply, in quantitative and structural terms, of qualifications according to the changing demands of the labour markets.

In what follows, the regional perspective will be considered in the discussion. According to Law no. 151/1998 on regional development, eight development regions were established in Romania through the voluntary association of counties, unit appropriate to statistic level NUTSII (see Figure 2). Among these regions are major differences in terms of social and economic indicators.

**Figure 1: Development Regions of Romania**



**Long-term unemployment** in Romania has grown in both absolute and relative terms in the last few years, indicating a major problem to be addressed as soon as possible, European structural funds proving to be good instruments for this. Priority should be given to projects from the underprivileged regions in this respect, such as Center and South (see Table 2.1).

**Table 2.1. ILO Long-term Unemployment (over 12 months) (%)**

Development Region	2004	2005	2006	2007	2008	2009
Center	5.9	4.5	5.6	3.9	3.4	4.1
South	5.7	5.4	5.5	4.2	3.2	2.8
South - East	5.9	4.2	5	4.4	3.3	2.4
West	4.6	3.8	3.5	3	2.7	2.1
North - East	3.6	3	2.9	2.6	1.8	1.9
South - West	4.6	4.1	4.5	3.5	2.6	1.6
North - West	3.5	3.1	3	1.8	1.1	1.4
Bucharest - IF	4.2	4.1	2.2	2	1	0.4

Source: National Statistics Institute of Romania, 2011

As regards the youth long-term unemployment, it varies from 15% in the Center region to 4.4% in Bucharest-Ilfov; in 2009, as compared to 2008, it recorded a dramatic increase in Center (from 11.8% to 15%), and a significant decrease in Bucharest-Ilfov (from 8.2% to 4.4%) and South-East (from 14.2% to 9.8%) (See Table 2.2).

**Table 2.2. ILO Long-term Unemployment for Youth (over 6 months) (%)**

Development Region	2004	2005	2006	2007	2008	2009
Center	16.7	13.1	15.6	16.7	11.8	15
South - West	13.6	13.2	18.1	16.3	12	12.9
South	17.8	17.1	17.9	14.7	12.5	12.2
West	13	11.9	10	11.6	12	11.4
South - East	15.2	12.3	16.9	18.5	14.2	9.8
North - East	12.1	10.5	11.2	9.8	7.1	8.6
North - West	10.8	11.6	12	8.5	5.9	6.3
Bucharest - Ilfov	15.1	15.7	8.2	10	8.2	4.4

Source: National Statistics Institute of Romania, 2011

In the last two years, we note a significant decrease in the **number of enrolled students in higher education**. Considering the year of 2007/2008 as baseline, we see that the number of enrolled students in 2009/2010 dropped by 14.55%. Actually, 2007 is the year with the highest number of students enrolled (907353 students), and it was the year when the first signs of the economic and financial crisis hit Romania.

**Table 3: The Evolution in the Number of the Enrolled Students per Development Region (2004/2010)**

Development Region	Students enrolled						Variation 2007/2008 = base	
	2004/ 2005	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2008/ 2009	2009/ 2010
Academic Year								
Bucharest-Ilfov	210,139	253,247	302,248	389,769	388,397	285,971	-0.35%	-26.63%
Center	68,746	75,782	84,734	96,589	105,602	104,386	9.33%	8.07%
North-East	77,266	78,970	79,762	83,518	79,034	77,065	-5.37%	-7.73%
North-West	90,919	97,616	98,063	99,788	92,028	89,454	-7.78%	-10.36%
South	39,519	39,609	36,780	37,232	33,150	36,154	-10.96%	-2.90%
South-East	47,507	51,101	55,192	62,739	62,863	59,172	0.20%	-5.69%
South-West	43,819	45,138	47,521	52,450	50,572	50,993	-3.58%	-2.78%
West	72,420	75,001	81,206	85,268	79,452	72,124	-6.82%	-15.41%
TOTAL	650,335	716,464	785,506	907,353	891,098	775,319	-1.79%	-14.55%

Source: National Statistics Institute of Romania, 2011

The regional perspective underlines the fact the Bucharest has lost in two years of economic crisis more than one quarter of the students enrolled in higher education (-26.63%). Another development region with large university campuses - the North-West region with main campuses in Cluj, Oradea, Baia Mare – registered a decrease (-10.36%) in the number of students enrolled in 2009/2010 as compared to 2007/2008. Center – where regional branches of universities are more present - is the only development region that recorded an increase of 8.07% in the number of enrolled students, which may lead us to the conclusion that students preferred higher education studies in regional institutions closer to home and / or less competitive and / or strongly embedded in the region. (See Table 3).

### 3. Regional Analysis of the Absorption of Funds under the SOP Human Resource Development

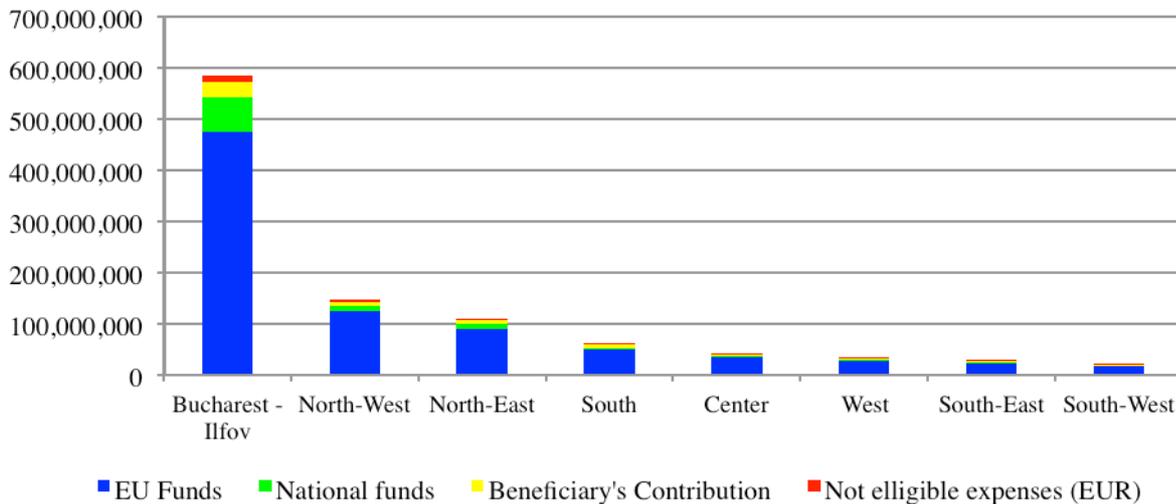
The National Strategic Reference Framework (NSRF 2007-2013) that comprises the strategic planning of structural and cohesion funds has as **major objectives**: the development of an education and training system that will meet the needs of the labour market; the increase of employment by attracting and keeping people on the labour market; the improvement of adaptability and entrepreneurship; and, the promotion of equality of chances and social inclusion.

The total budget of SOP DHR for the period 2007-2013 is 4.25 billion Euro, of which EUR 3.476 billion from EU funds (as shown in Figure 1), which accounts for about 18.1% of NSRF envelope. The Programme is financed by the European Social Fund and is implemented through 7 Priority Axes in a total

number of 21 key areas of intervention (KAI). The Programme was approved by the European Commission in November 2007, with the first calls for projects launched on 15 February 2008.

The following analysis is made for the Priority Axis 1 *Education and training in support for growth and development of knowledge based society* on cumulated values, from the launch and up to November 2010. The **overall objective** of this priority axis is to enhance the development of flexible lifelong learning pathways and increasing the access to education and training by delivering modern quality initial and continuous education, including higher education and research.

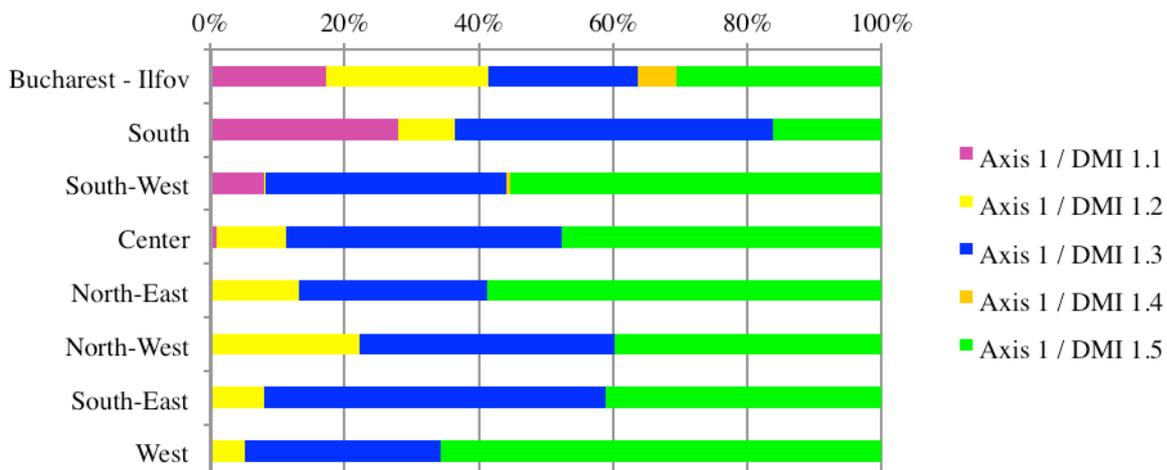
**Figure 2: Value of Financed Projects per Development Region, SOP-DHR, P.A. 1, at 30.11.2010 (EUR)**



Source: Author's calculation based on ACSI data, 2011

After a slow start in 2007 and 2008, the absorption of POS-DRU funds accelerated in 2009 and 2010, reaching a degree of 95.6% at the end of January 2011. More than half of the POS-DRU A.P.1 funds (56.65%) was absorbed by the Bucharest-Ilfov development region, whereas the South-East and South-West regions lag behind (see Figure 2). It appears that the activities of the North-West Regional Pact for Employment and Social Inclusion (PROIS-NV) and the Intermediary Regional Body for the North-West region (OIR) paid off. They jointly organised instruction and advisory sessions with interested actors in the counties belonging to this region.

**Figure 3: The Structure of the Total Value per Axis and Development Region**

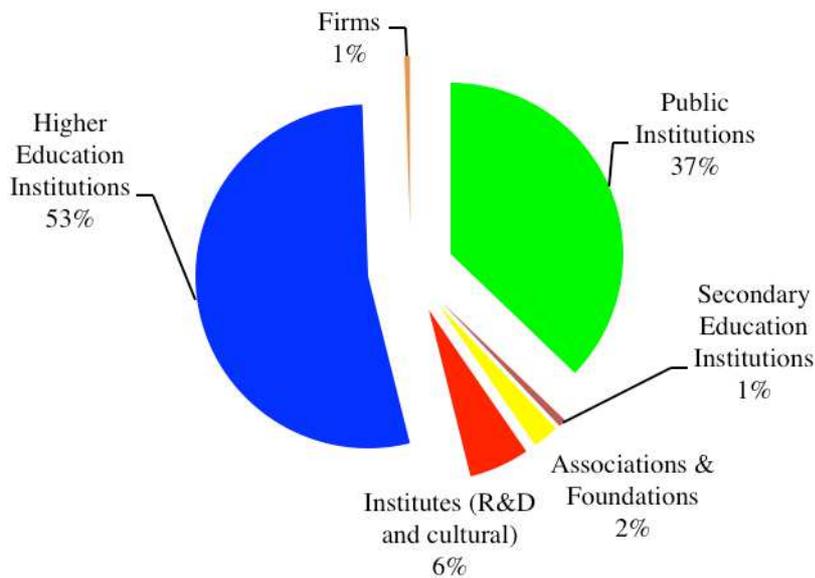


Source: Author's calculation based on ACSI data, 2011

In terms of key areas of intervention (KAI) we might observe the focus of the beneficiaries from most development regions (West, North-East, South-East, Center & South-East) on KAI 1.5 – Doctoral and post-doctoral programs to support research. The South-West region predominantly absorbed funds under KAI 1.3 – Development of HR through education and professional training, and KAI 1.1 – Access to quality

education and professional training. The Bucharest-Ilfov region presents a rather balanced approach of all five KAIs, being the only development region with notable absorption of KAI 1.4 – Quality in Permanent Professional Education and Training.

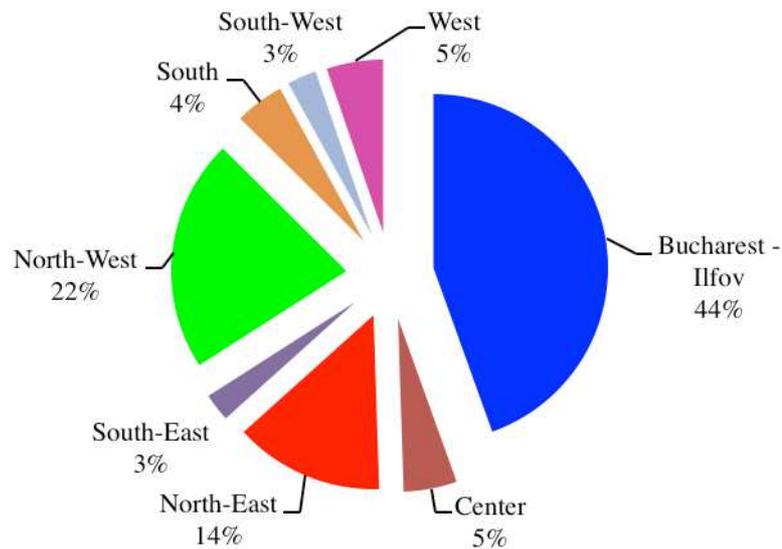
**Figure 4: The Structure of the Total Value per Type of Beneficiary**



Source: Author’s calculation based on ACSI data, 2011

Evidence show that higher education institutions (HEI) were the most active in accessing SOP-DHR P.A.1 funds so far (53%), followed by public institutions (37%) – see Figure 4.

**Figure 5: The Distribution of HEIs per Development Region**



Source: Author’s calculation based on ACSI data, 2011

The distribution of absorbed funds by HEIs under SOP-DHR P.A.1 per development region indicates that almost half of the funds (44%) were granted to projects submitted by beneficiaries from Bucharest-Ilfov region, followed by North-West (22%), and North-East (14%) regions – see Figure 5.

These findings are consistent with the number of faculties located in respective development regions, and the number of enrolled students and teaching staff. – see Table 4.

**Table 4. Higher Education (HE) Indicators per Development Region for the academic year 2009/2010**

Development Region	HE institution	Faculties	Students enrolled	Teaching staff
Bucharest-IF	34	166	285,971	10,726
North-West	17	97	89,454	5,616
North-East	15	75	77,065	3,994
West	14	79	72,124	3,297
Center	13	75	104,386	2,875
South-East	7	53	59,172	1,694
South-West	4	42	50,993	1,653
South	4	37	36,154	1,248
<b>TOTAL</b>	<b>108</b>	<b>624</b>	<b>775,319</b>	<b>31,103</b>

Source: National Statistics Institute of Romania, 2011

A direct relationship with the number of HEIs located in the development regions is not sound to be made, although it appears to be correct. This due to the fact that the largest share of funds is split between several large HEIs, as demonstrated by Table 5. "Politehnica" University of Bucharest is the leader in terms of projects and value of absorbed funds for human resources development, followed closely by "Babes-Bolyai" University of Cluj and The University of Bucharest. To successfully fulfill their educational, research, and informational functions in the 21st century, tertiary education institutions need to be able to respond effectively to changing education and training needs, adapt to a rapidly shifting tertiary education landscape, and adopt more flexible modes of organization and operation. European structural funds for the development of human resources are instruments universities can easily use to keep pace with the developments in the economic, social and technological sectors.

**Table 5: Top universities in terms of accessed funds from SOP-DHR PA1**

Higher Education Institution	Projects' Count	Projects' Value
University "Politehnica" Bucharest	20	320,018,797
"Babes-Bolyai" University	17	222,415,992
University of Bucharest	19	190,915,239
Technical University of Cluj-Napoca	12	172,249,330
Academy of Economic Studies	9	124,198,889
"A.I.Cuza" University, Iasi	10	119,202,313
"Carol Davila" University of Medicine and	7	105,191,863
National School of Political and Administrative Sciences (SNSPA)	10	84,490,842
"Gh. Asachi" Technical University	6	78,915,208
Technical University of Civil Engineering,	6	65,467,999
"I. Hatieganu" University of Medicine and	6	61,101,417
"Valahia" University	6	59,683,462
"L. Blaga" University	6	43,643,327
OTHER	92	708,429,650
<b>TOTAL</b>	<b>226</b>	<b>2,355,924,328</b>

Source: Author's calculation based on ACSI data, 2011

In **conclusion**, evidence from the present research shows that the development regions with the highest absorption rates of SOP-DHR managed to significantly improve social indicators, like the long-term unemployment, presented herein. The effects of SOP-DHR on the improvement of human capital will be visible on the long run, and the main preoccupation of Romanian actors should be the entire absorption of the EU funds in a context where any financial aid is vital.

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**Acknowledgement:**

*This work was co-financed from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project number POSDRU/1.5/S/59184 „Performance and excellence in postdoctoral research in Romanian economics science domain”*

## THE ANALYSIS OF THE STRATEGIC OBJECTIVES OF AN ORGANIZATION

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**Abstract:** *There are several means of analyzing the strategic objectives of an organization. Since the objectives must precede the activities and a strong interdependency must exist between them, it is useful to approach the analysis of an organization strategic objectives from the perspective of its activities, structured according to the model of Porter's value chain. The analysis of objectives will be achieved on the 2 types of activities (auxiliary and main) and consists in two stages:*

- *identifying the objectives according to activities;*
- *establishing the convergence degree of objectives.*

**Key words:** the strategic objectives, auxiliary activities, main activity, the degree of convergence of objectives

**JEL classification:** M21

### 1. Introduction

The organization objectives represent the purposes that it chooses to achieve in different periods of time. These objectives must derive from the company's mission and develop logically in relation with the potential it disposes of. The objectives act as goals of the company, helping it not to deviate too much from the established course. For this reason, in practice the term "target" is used, which in English means "goal".

When we speak of strategic objectives, we speak most of the times of long-term objectives since the strategy supposes longer achievement duration. Unlike the short and medium term objectives, which can suffer modifications according to the influence of the internal and external factors of the company, the long-term objectives should remain unchanged as long as the organization did not propose a very different approach of the business. A constant long-term objective thus ensures continuity to the activity, focusing at the same time the organization efforts towards a known direction (Peter Druker, 1995).

There are several modalities of analyzing the strategic objectives specific to an organization. Since the objectives must precede the activities and with a strong interdependency between them, it is useful to approach the analysis of an organization's strategic objectives from the perspective of its activities, structured according to Porter's value chain (Porter, M.E., 1990).

### 2. The possible objectives for the auxiliary activities and the main activities

The activities that belong to the value chain of an organization (in M. Porter's vision) are divided into (Porter, M.E., 2008):

- *auxiliary or support activities:*

- the company's infrastructure: general management, planning management, legal management, finances, accounting, public relations, quality management etc.
- human resources management: recruiting, development (education), retention and compensation of employees and managers;
- technological development : research and development, automation of processes, design, redesign;
- supply: raw material procurement, service, procurement of pieces, buildings, machines/devices etc.

- *main or primary activities:*

- entry logistics: receipt, stocking, inventory control, transport planning.
- exploitation activities: equipment production, packing, assemblage, maintenance, testing and all the other activities that create value, which transform the inputs into the final product.
- the output logistics: the activities necessary for delivering the final products to the clients: depositing, delivery of orders, transport, distribution management.
- marketing and sales: selection of the information, delivery channel, advertising, promotion, sales, establishing the price, retail management etc.
- post-sale services: activities that maintain and improve the product value, including: support given to the clients, repairing, installation, training services, parts managements, upgrade etc.

The objectives will be analyzed according to the 2 types of activities and consists in two stages:

- identifying the objectives according to activities;
- establishing the degree of objectives convergence.

For the auxiliary activities, we consider that we can focus on the following objectives:

**Table 1. The possible objectives for the auxiliary activities:**

<b>Auxiliary activity</b>	<b>Possible objectives</b>
Company infrastructure	<ul style="list-style-type: none"> <li>- reducing the indirect expenses of the organization regarding the management, planning, financing, bookkeeping, legal formalities and the relation with the authorities (Kotler. Ph., 1999);</li> <li>- reducing other overheads;</li> <li>- streamlining the functional relations between the departments and sectors from the perspective of their localization in space.</li> <li>- developing the organization infrastructure.</li> <li>- increasing the percentage of “green” (unpolluted) infrastructure.</li> </ul>
Human resources management	<ul style="list-style-type: none"> <li>- increase of work productivity;</li> <li>- developing the professional and communicational competences;</li> <li>- developing the professional and communicational skills and abilities;</li> <li>- increasing the degree of loyalty and affiliation;</li> <li>- reaching the optimal level of position filling;</li> <li>- reducing the personnel costs;</li> <li>- streamlining the processes of recruitment and selection from the perspective of time, cost and quality parameters;</li> <li>- developing an infrastructure and certain training and in-service programs.</li> </ul>
Technological development	<ul style="list-style-type: none"> <li>- ensuring a high level of technological equipments from the quality point of view;</li> <li>- maintaining a low degree of physical and moral wear for the technologies existing in the organization;</li> <li>- implementing modern means of monitoring and communication, of stocking and processing data at all the organizational levels;</li> <li>- organizing research, technological and demonstrative programs, promoting the cooperation with other similar organizations, research centers and universities;</li> <li>- stimulating the professional training and the researchers’ mobilities.</li> </ul>
Supplying	<ul style="list-style-type: none"> <li>- reducing the costs, times and distances in the procurement process;</li> <li>- eliminating the “stock gaps”;</li> <li>- ensuring multiple supply sources.</li> <li>- develop a “supply center” (Brânză A., 1999)</li> </ul>

**Table 2. Possible objectives for the main objectives**

<b>Main activity</b>	<b>Possible objectives</b>
Input logistics	<ul style="list-style-type: none"> <li>- increasing the stocking capacity;</li> <li>- ensuring the optimal conditions for depositing the raw materials;</li> <li>- informatizing and streamlining the flow of orders.</li> <li>- reducing the number of deteriorations in the supply process;</li> <li>- streamlining the registration and inventory keeping process</li> <li>- optimizing the transport routes</li> </ul>
Exploitation activities	<ul style="list-style-type: none"> <li>- increasing the execution quality in the production, assemblage, packaging activities;</li> <li>- reducing the number of wastes;</li> <li>- streamlining the production flow;</li> <li>- reducing the exploitation costs;</li> <li>- implementing the production ecological processes and technologies</li> <li>- streamlining the informational flows between different exploitation activities;</li> <li>- implementing the ISO standards in the exploitation processes;</li> <li>- developing new products</li> </ul>
Output logistics	<ul style="list-style-type: none"> <li>- improving the depositing conditions;</li> <li>- reducing the time for delivering orders;</li> <li>- streamlining the transport of merchandise under the aspect of time and costs;</li> <li>- reducing the deterioration of merchandise during transportation;</li> <li>- streamlining the assortment activities;</li> </ul>
Marketing and sales	<ul style="list-style-type: none"> <li>- increasing the level of informational and promotional messages penetration;</li> <li>- reducing the promotion costs;</li> <li>- streamlining the communication mix;</li> </ul>

	<ul style="list-style-type: none"> <li>- increasing the volume of sales;</li> <li>- reducing the number of refusals;</li> <li>- increasing the transaction value;</li> <li>- streamlining the sales techniques;</li> <li>- increasing/improving the company/brand/product image</li> <li>- entering new markets</li> <li>- introducing new products or characteristics</li> <li>- supporting the price politics;</li> <li>- identifying market niches</li> </ul>
Post-sale services	<ul style="list-style-type: none"> <li>- increasing the level of clients' retention</li> <li>- reducing the costs in the service activity</li> <li>- improving communication with the clients</li> <li>- increasing the quality of counseling and installation services</li> <li>- reducing the times in the service activity (delivery of exchange parts, execution and repairs, maintenance activities)</li> </ul>

These categories of objectives can certainly be particularized and completed according to the nature of each business field and each company. In addition, after selecting them according to organization interest, they must be formulated according to the SMART model of defining an objective (George T. Doran, 1981).

**3. Establishing the degree of objectives convergence**

In order to establish the degree of convergence of objectives that refer to the different components of the value chain of a company, we must first refer to the main convergence guiding mark (that we will name 0-degree guiding mark). This must be the general long-term strategic objective of the organization, the objective that outlines its direction in the estimated competition framework. Second of all, we must establish the intermediary guiding marks, on the medium term (1-degree guiding mark) and short-term (2 degree guiding mark). The third step is that of establishing the relations of determination between the existent objectives, from the perspective of their contribution to reaching the strategic objectives. These relations can be:

- of *convergence*, they will be marked with "+"
- of *divergence*, they will be marked with "-"
- *neutral*, they will be marked with "=".

For exemplification, we will analyze the following situation;

Strategic objective:

- on the long term:

- TL – occupying the position of market leader in the t+3 year (t being the reference year, present)

- on the medium term:

- TM 1- increasing the market share with 10% every year;
- TM 2- developing and launching 3 new products until the end of the year t+2;

- on the short term:

- TS 1- developing the market from the geographical point of view by opening 4 sale centers in the localities A, B, C, D until the end of the year t +2;
- TS 2- reaching the level of 3 retail units in the existent markets until the end of the year t+1;
- TS 3- re-technologizing the "Y" section until the end of the year t+1.

Randomly selecting, for exemplification, one objective per activity, the analysis matrix of the convergence degree of objectives will be the following (Table 3).

The score of objectives is determined according to the dominance rule: a bigger number of convergent objectives give a convergence score, a bigger number of divergent objectives gives a total divergence score. If there are an equal number of convergent and divergent objectives, the total score is neutral. The total score of the support activities' objectives will be taken into account for determining the general convergence score of objectives, having the same importance degree as the score of any main activity.

In the example taken, we notice that certain support activities are divergent or neutral in relation with the strategic objectives. This led to the situation when the total score of the support activities was divergent for the TS 1 neutral objective and TM 1. In totality, only for the TS 3 objective, there is not a good degree of convergence of objectives due to the difference of strategic orientation of this objective in relation with the others – it is a strategic objective with effect in the productiveness plan and not directed towards the market as the others.

**Table 3. The analysis matrix of the degree of convergence of objectives**

Activities	Objectives according to activities	Strategic objectives					
		TS 1	TS 2	TS 3	TM 1	TM 2	TL
Company infrastructure	Developing the organization infrastructure	+	+	+	+	+	+
Human resources management	Reducing the costs with the personnel	-	-	+	-	-	-
Technological development	Ensuring a high standard of technological equipments from the quality point of view	-	+	+	+	+	+
Supply	Achieving a vertical upstream integration	-	-	=	-	+	=
Objectives score for support activities		-	=	+	=	+	+
Input logistics	Increasing the stocking capacity	+	+	=	+	+	+
Exploitation activities	Developing new products	=	=	=	+	+	+
Output logistics	Reducing the time for delivering orders	+	+	=	+	+	+
Marketing and sales	Entering new markets	+	+	=	+	+	+
Post-sale service	Increasing the degree of customer retention	-	+	=	+	+	+
Total score of objectives		+	+	=	+	+	+

In general, the degree of convergence of objectives is ensured if we start from the general towards the particular in formulating the objectives. Even if it seems a centralized system of presenting the strategic objectives, it is the only method through which the synergic effect of the specific objectives can be maximized. Thus, it is very difficult to correlate the convergence sense of the objectives according to activities, especially at the level of large companies where there are multiple 1- and 2-degree objectives.

#### 4. Conclusions

The analysis of objectives according to activities allows their correlation with the structure and capacity of the organization to develop efficient strategies. It is important to establish their convergence or divergence degree since they will determine in their turn their strategic convergent or divergent models. If we want synergic effects at the level of the organizational strategy, there must be a synergy at the level of activities that compose the value chain at the level of objectives. The analysis matrix of the degree of convergence of the proposed objectives offers the possibility of useful comparisons that can have as end the identification of the optimal strategy for the organization.

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“This paper has benefited from financial support through the project “Post-Doctoral Studies in Economics: continuing training program for elite researchers - SPODE”, finance contract no. POSDRU/89/1.5/S/ 61755, project funded by European Social Fund through Human Resources Development Operational Sectoral Programme 2007-2013”.

## COMPARATIVE MANAGEMENT – FINDING FINANCING FOR DOCUMENTARIES

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**Abstract:** *What can a young filmmaker do if he has a good idea and talent, but he has no money? Young filmmakers (both directors and producers) face the problem of funding, as they need financing for their films (fiction or documentaries). Although Europe is only one, it is not unitary and there are quite big differences between European countries with respect to financing a documentary. This paper aims to provide a critical comparative analysis between conditions in various countries of Europe. It highlights the main tools to be used for finding filmmakers' most appropriate financing solutions.*

**Key words:** comparative management, financing, strategy, documentary filmmaking.

**JEL classification:** D40, E22, M14

### 1. Introduction

Young film directors are interested in promoting their documentary projects, as they do not have a finished film, but they have a project; they have an idea and the required talent, but they do not have the money needed to sustain their project. Therefore, they want to bring their idea to the European market and they want to promote their documentaries through the trades.

Europe (the market Romanian directors mainly concern with) is composed of many different parts – the countries are different, the markets are different, their cultures and ways of thinking are also different.

### 2. Financing documentaries' filmmaking. Comparative Analysis in Europe

There is a quite interesting way of dividing Europe into three main parts that have a series of common characteristics, by thinking of their main preference with respect to alcoholic drinks. Therefore, there are three main types of countries:

- countries of spirits (Northern countries – Finland, Denmark, Sweden, Norway)
- countries of wine (Italy, Spain, Portugal, Greece)
- countries of beer (Germany, Netherlands, United Kingdom)

These countries are totally different also in documentary filmmaking.

#### 2.1. Countries of spirits (Scandinavian countries)

These countries make a lot of documentaries and offer institutional support and copyright funding. People from these countries are open-minded; they are quite open to stories that are not familiar to them – documentaries on other countries and cultures, which are not common in their everyday life. They appreciate drama documentaries and experimental documentaries. For instance, in Finland there is not any problem in watching a 90-minute black-and-white film when nobody says anything (Pasanen, 2011). Their taste is considered a bit different, although there is a trend of changing, as American and German style push their styles. Generally, the taste in Northern countries is very similar to the ones in the East European culture. They have a strong belief in director's point of view, visual approach and creativity. They have slow pace; they are not interested in action, but in creating atmosphere, moods. They do not like dubbing and actually they do not dub at all, they only subtitle, as they want to hear the original language. This tendency is even exacerbated to the point that protagonists should not use at all another language, even if they can speak (for instance, English). Maybe the only real problem with them is that they do not pay a lot of money. Although they are very curious and make a lot of documentaries that have nothing to do with the Northern countries (they buy, pre-buy and co-produce), they do not put in big amounts, because they are small countries. Finland, for instance, has about 5 million people. The broadcaster does not pay depending on how much the documentary costs to make, but on his possibility of showing. Of course, smaller countries mean a smaller number of people to show. In Finland, for around 5 million people, they will pay about 1,500 euros to buy a documentary and show it to the television and about 5,000 euros if they pre-buy it or co-produce it. By

contrast, Germany will pay for the same documentary 20,000 euros if they buy it and somewhere between 60,000 and 100,000 euros if they pre-buy it or co-produce it, which means a big difference, as a result of the fact that Germany has 80 million people watching.

However, even if the amount is small, in the documentary world Finland is called “the paradise of documentary filmmaking”, as they are very curious, open and active.

A possible solution to the small amount is of course selling the same film to Finland, Sweden, Norway and Denmark. This is possible due to quite similar taste and similar approach. Anyway, we can not omit the fact that the broadcaster does not buy the DVD, but the rights to show it. Therefore, a very important factor to be considered here is the territory they will have the rights for (for example, only for the Finnish territory, for at least two years and around three shows). It is also important to consider other payments that are continuously changing – catch-up TV (the possibility of seeing the film on the internet in the same week later on) or the VOD (Video on Demand – the possibility for the audience to go on the internet and ask to see the film). However, they are buying mainly the possibility of showing the film for their territory, for a number of runs and for that language version, with subtitles.

**Table 1: Financing documentaries’ film-making in countries of spirits**

Advantages/Opportunities	Disadvantages/Threats
<ul style="list-style-type: none"> <li>• Author’s recognition</li> <li>• Possibilities of starting a director / producer’s career (institutional support)</li> <li>• Country specificity is preserved</li> </ul>	<ul style="list-style-type: none"> <li>• Broadcasters pay less (small countries)</li> <li>• Excessive tendency towards experimental movies</li> </ul>

**2.2. Countries of wine (Italy, Spain, Portugal, Greece)**

If Finland is called the paradise, Italy is actually “the hell of documentary filmmaking” (Tealdi, 2011). Television has very little interest in documentaries in all these countries – Italy, Spain, Portugal, Greece, and maybe in Italy it is the worst situation. They show very few documentaries on their channels and when they do show them, they generally buy documentaries mainly from BBC. They dub everything, in Italy nothing is subtitled. They do not take care of the artistic approach: they often take the film, chop it up and use the scenes in various programs. They have no concern at all about the director’s approach, about what the director thinks of the film and why a film is made in a particular way. If they buy it (which is actually quite rare), they will actually buy it in order to use it in their own ways, as parts in various programs. Italy is the worst, even if it is a big country, of about 60 million potential people for watching television and they can pay up to 18,000 euros to buy a documentary. The written project in Italy does not value much, as there is the personal connection which counts more. Actually, taking someone to lunch is a clearly better idea than sending a written project (Tealdi, 2011). In Italy there are not many “real” documentary producers, they are mainly directors who became their own producers (Radu, 2011).

Spain is very similar to Italy, their national television has very little interest in documentaries. They pay around 15,000 euros for a 1-hour-documentary and generally invest very little on documentaries. However, Spain has an advantage on Italy, because it has a lot of regional television stations. These regional televisions are very strong, because they broadcast in their original language (i.e. Television de Catalunya is a television of the Catalan region, in which Barcelona is the capital, which broadcasts in Catalan). These regional television stations are more interested in producing and investing in documentaries, but here it comes another problem: documentaries always need to have a sort of link with the territory. This is an absolute must if they co-produce and even if they buy something, as they are very close to the idea of nationalism.

Portugal is a much smaller country and therefore they pay much less. They also invest very little. The advantage in Portugal is that they have a national film fund, for the national filmmakers and producers, which is very important (Italy and Spain do have similar national film funds, but they do not invest in documentaries; the documentaries are only short-length films, whilst their national funds invest more in feature-length films, of around 90 minutes). Moreover, documentaries should be shown on television, so they are not interested in financing them.

In the wine countries, personal links are very strong; personal relations mean getting any project; otherwise, it is very difficult. They generally lost the tradition of making films and they rush. In the wine countries television is not a public service, but rather a propaganda, a political channel, which explains the almost completely loss of approach to documentary.

**Table 2: Financing documentaries’ filmmaking in countries of wine**

Advantages/Opportunities	Disadvantages/Threats
<ul style="list-style-type: none"> <li>• Opportunities of partnerships (many directors become producers)</li> </ul>	<ul style="list-style-type: none"> <li>• Little interest in financing documentaries</li> <li>• Loss of cultural specificity</li> <li>• No concern about the director’s approach</li> </ul>

France and Belgium are exceptions in the countries of wine; France is more similar to the countries of beer from the point of view of documentary filmmaking. They make very good documentaries and they invest a lot of money in this. Actually, in the last 30 years they have created a documentary culture, both in terms of audience (watching them) and in terms of industry (making them). The French broadcasters invest large amounts in producing documentaries and they show many documentaries on their channels. They have ARTE television, a channel that shows and produces a lot in Europe, which is mainly a French and German channel. In France the author is very important, therefore cutting up a documentary and showing parts on the television would not be possible; they value a lot the personal approach of the author. They generally do not use narration or they use it very little and they have all lengths of documentaries (ranging from 25-minute-films to feature-length documentaries), for which they invest big amounts. Of course, there are problems also in France. It is true they invest a lot, but it is important to understand that they invest mainly on their filmmakers (a kind of chauvinistic approach). They really invest in their culture. They are very open to co-production, but one always has to pass through a French producer. The situation becomes complicated, because the television puts around 100,000 euros on the documentary, the French producer puts another amount of 40,000-50,000 euros from a National Film Fund (i.e. Sense or another very strong fund) and the filmmaker should then put another amount. Therefore it is a great opportunity, but not at all easy to handle. It is actually very difficult for someone who is at the beginning of his/her career. Another element not so much liked about France is that they want many details in the project. When a project is sent to Northern countries, it is clearly a brief one (2-3 pages), as they want it to the point. The same project (with the same idea, the same film) will have actually 30-40 pages when sent to France or Belgium (Kiselov, 2011).

Belgium is good for co-production, because they are very curious and invest in documentaries (like in France), but, as a result of the fact they are a smaller country, the amount they can give on each film is very low. Another problem might appear when making a film with ARTE. Belgium has difficulties in financing such a film, because ARTE can also be seen in Belgium. A possible strategy for dealing with this is concentrating on selling the film first with Belgium and then with ARTE.

**Table 3: Financing documentaries’ filmmaking in France and Belgium**

Advantages/Opportunities	Disadvantages/Threats
<ul style="list-style-type: none"> <li>• Investment in documentaries</li> <li>• Power of the author</li> <li>• ARTE: a powerful television for documentaries</li> </ul>	<ul style="list-style-type: none"> <li>• France: need for a French co-producer</li> <li>• Chauvinistic approach</li> <li>• Detailed project to be able to persuade</li> </ul>

**2.3. Countries of beer (Germany, Netherlands)**

Germany is a big country that invests big amounts in documentaries. Germans are not as chauvinistic as the French are; they are open to co-production with any company coming from Europe. They put a little less money in documentaries than French do. For instance, Germany is a strong part of ARTE also. In an ARTE co-production a documentary of 100,000 euros for the French side means somewhere between 60,000-80,000 euros for the German side. The choice is somehow difficult, because going to the French side means the need for a French co-producer, whilst going to the German side means less money. Germans are mainly interested in information; therefore documentaries in Germany belong to the educational genre. They want to know all the little details (i.e. exact date); therefore a 20-minute narration in Romania for a 1-hour film is about 40 minutes long in Germany (double). Germans generally dub; almost all their programs are dubbed, but they also subtitle. In conclusion, Germany is a very good country for co-producing (they pay 20,000 euros when they buy a film and around 60,000 euros when they make it). Germans are really interested in co-producing and in paying in advance, therefore being able to control the project.

Netherlands is a very interesting country. They invest much less than Germany and France, but more than Scandinavian countries. They are also very open and very curious. They like good documentaries and want to see the director’s approach. They have seven national channels, but the arrangement is somehow complicated. It is quite difficult to understand how the channels work, as on the same width band of the TV

it is possible to have one night one channel, the next night another channel and so on. They have a totally different and somehow complicated system. However, it is important to underline the fact that they have seven national channels and each of these channels has particular interests (arts, current affairs, etc.).

**Table 4: Financing documentaries' film-making in countries of beer**

Advantages/Opportunities	Disadvantages/Threats
<ul style="list-style-type: none"> <li>• Investment in documentaries</li> <li>• Interest in co-producing</li> </ul>	<ul style="list-style-type: none"> <li>• Need for more details in a narration</li> </ul>

United Kingdom is also a country of beer, but it seems to be separated from the rest of all the European culture. In United Kingdom there are big investments in documentaries. They have very important television channels (i.e. BBC) that have made the history of documentaries. BBC makes documentaries not only for programs, but also for selling them to the rest of the world. They are totally uninterested in anybody that does not speak English, as they do not dub and they do not subtitle. The protagonist has to speak English, which is a barrier for many filmmakers. Therefore it is extremely difficult to work with the United Kingdom. They make very good documentaries, but English speaking is compulsory. Another real problem in working with them is that they do not care who the director is, for them the most important person in the documentary is the producer and consider that the director can be changed anytime.

**Table 5: Financing documentaries' film-making in United Kingdom**

Advantages/Opportunities	Disadvantages/Threats
<ul style="list-style-type: none"> <li>• Big investments in documentaries</li> <li>• Television channels associated with the history of documentaries (i.e. BBC)</li> </ul>	<ul style="list-style-type: none"> <li>• The director is not important at all, only the producer counts</li> <li>• English is compulsory for any protagonist</li> </ul>

### 3. Conclusions

A good manager (both director and producer) has to know the specifics of each European culture and should always be able to adapt his/her project, depending on the financing power of each country and the audience's interests. His/her objective is to materialize the project, therefore some clear steps should be followed:

- finding out the key persons to address for a partnership;
- working on developing strong relationships with these potential partners;
- making all the necessary efforts to persuade them that his/her project meets their partners' needs.

### 4. Acknowledgements

This work was co-financed from the European Social Fund through Sectoral Operational Programme Human Resources Development 2007-2013, project no. POSDRU/1.5/S/59184 "Performance and excellence in postdoctoral research in Romanian economics science domain".

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## PRODUCTION AND ORGANIZATION OF A COMPANY

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**Abstract:** *Production is business-transformation processing of material goods and services available in primary forms (natural) or secondary (produced) in pursuit of finished goods and finally it would result in human satisfaction. In marketing a product is anything that can be offered to a market that can satisfy a desire or need (Kotler and others, 2006). Given that production must satisfy the consumer, the manufacturer must follow: the achievement of production organization in order to obtain semi-finished products to be included in the range of consumer demands, economic activity attracting customers must follow the market and use of resources for production does not lead to exhaustion or saturation of the market.*

**Key words:** Management; Production, Business organization.

**JEL classification:** D20, D24, M10, M11, M54.

### 1. Introduction

Production is business-transformation processing of material goods and services available in primary forms (natural) or secondary (produced) in pursuit of finished goods and finally it would result in human satisfaction. In marketing, a product is anything that can be offered to a market that can satisfy a desire or need (Kotler and others, 2006). Given that production should satisfy the consumer, the manufacturer must follow:

- Achieving the production structure in order to obtain semi-finished products to be included in the range of consumer demands;
- Economic activity attracting customers must follow the market and use of resources for production will not lead to exhaustion or saturation of the market.

The concept of market orientation includes spheres organized as follows: production of material goods (primary or secondary) and tertiary production or service. Gross primary production is the stage of processing the product for further processing or storage, its storage for a period of time. Secondary production represents the processing of real-finishing material for sale or consumption. Service production is the economic aspect of a company or agency that provides a human element in favor of creating it with satisfaction. In addition to traditional factors of production: nature, labor and capital can be considered a new factor of production and entrepreneur skills.

By processing the material in the production of the good it gets primary or secondary nature of cargo. The main objective justifies the establishment and operation of companies, associations, or organizations of the companies is the production.

### 2. Sections

Production concept is used in the current scientific language with two different meanings: the process and result of a process.

Production viewed as a process is defined, the most general terms, as a set of operations or activities aimed at conversion through labor and means of employment, goods and services in other goods and services. It takes place in a well-defined organization designated by the concept of an undertaking, business or organization which means any agent or group of operators who organize and perform such transformations in order to meet specific needs of both consumers and a time to make a profit. In other words, this first sense output is designed as a process of transforming inputs into outputs according to a specific production functions and using a technique that given technology.

As is known, the goods and services (inputs) are subject to changes come directly from nature, took the form of natural factors, or may themselves be the results of previous manufacturing processes, meeting the quality of intermediate consumption. The difference between the expression of a monetary term outputs and inputs or cash to the resources consumption is entrepreneur profit (or enterprise).

In the second sense, the concept of production covers all the material goods and services (useful effect) resulting from the execution of production processes and intended for consumption (productive or unproductive). These tangible or intangible assets have the capacity to produce consumer satisfaction.

Microeconomics operate with both senses of the concept of production, proposing and finding solutions to minimize consumption of resources with which a given output is achieved and to maximize the differences between outputs and inputs (the entrepreneur's profit) and utility (satisfaction of consumers receiving yields and limited disposable income).

As inputs and outputs in the production process (seen as a result of the production process) can take both physical form (the body size and shape concrete materials) and immaterial (services where also very practical, whose usefulness measurement and manifests during the production process, unable to detach or separate from this process).

The production, seen as a result of implementing the production process. Acknowledge that the concept of production is complex, requiring a different approach following criteria:

a) production is different in nature:

- Economic activities that provide services
- Economic activities out their production by assembly
- Economic activities that produce the raw materials and materials processing.

The first category includes the provision of services or intellectual nature which results in a material product.

The second category includes only those businesses which perform assembly operations on different parts or components they purchase from other economic activities.

In the third group of businesses products obtained by processing raw materials and materials using tools or equipment.

b) In terms of continuity of their performance, production processes can be classified as follows:

- Staple production processes, ie non-linear production processes, characterized by the fact that the products obtained by processing successive different jobs grouped in workshops or production departments, and production is a production batch manufactured at the sides and production unique mass;
- Continuous production processes, whose output is linear and is characterized by the fact that the processing of raw materials and does not pause between two consecutive jobs requiring intermediate storage between jobs.

Production is carried out continuously or technology or manufacturing lines characterized by a regular-speed processing and transfer and continuous supply.

c) After defining the types of manufacturing firm-client relations:

- Manufacture the order that is characterized by the fact that the product does not run only after receiving a firm order to determine how the product, quantity, quality and lead times;
- Manufacture of stock, which is characterized by the fact that the products are executed without knowing the buyers, the products can be ordered immediately by customers;
- Joint production is a custom version of the production, the company running the stock parts or subassemblies that will be mounted in an operative way to control recipients.

Types of production, concept, classification criteria, characteristics

Leading and organizing the production of economic activity is in direct dependence to the type of production. By understanding the type of manufacturing is a state organization and functioning of economic activity due to the nomenclature of manufactured products, production volume executed on each heading of the degree of specialization of economic activity, departments and jobs, how to travel to different raw materials, semi finished products from one job to another.

In practice three types of production are distinguished:

- Type of mass production,
- Type of production in series,
- Individual production type.

Predominant type of production that characterize an enterprise requires methods and techniques for organizing the production of basic and auxiliary service training and how to manufacture new products for accounting and control of productive activity.

Type is characteristic of mass production business that manufactures a small range of product types and each type of product is implemented in very large quantities, ie mass.

With this type of production has been a specialization of economic activity as a whole or sections and workshops to the job.

The movement of this type of production from one job to another can be done continuously, usually on a piecemeal basis, using for this purpose means of transport in most mechanized and automated.

The characteristics of mass production type of manufacturing automation and create conditions for its organization of production lines as flow.

Type of production in some economic activities that characterize a wide range of manufactured products in large, medium or small. In relation to the nomenclature of manufactured products and manufacturing batch size and the degree of specialization of departments, workshops and jobs, it can be accentuated or reduced, and a movement of labor from one place to another is done quantity equal to the size of the consignment.

To move goods from one job to another using public transport is running continuously in the series and went big batch for the manufacturing of small series.

The economic activities characterized by placing some type of production machinery are different in homogeneous groups or production lines in flux.

#### **Type of production individually**

The companies characterized by this type of production runs of a wide range of products, each as a unique product or executing it in very small quantities.

After the quantity of the type of individual products, the various sections, workshops and jobs are organized on the principle of technology, using machinery and workforce to the universal nature be adapted quickly to the implementation of a variety of kinds of products in terms of economic efficiency.

Another feature of this type of production is the fact that the products or parts moving from one job to another piece by piece or in small batches, using means of transport to move away discontinuous. Due to the unique nature of the product or the wide range of products, technical preparation of production is not as detailed as the type of mass production.

#### **Methods of organizing the basic production**

Starting from the wide range of economic activities which they operate within the national economy, may determine specific methods and techniques to organize themselves into groups of economic activities, taking into account certain common criteria.

Production methods based organization is influenced by the degree of processing of finished products and the degree of technological complexity of process operations.

The first type of basic production organization is the organization of production lines manufacturing flow - specific economic activities that produce a wide variety of products low in bulk or large series.

In these cases the organization of production flow and is characterized by specific techniques such as tape technology organization lines, automatic production lines and leading to higher aggregate forms within the organization of workshops, sections or economic activity the whole production flow under a high degree of mechanization and automation.

Organizing production flow is characterized by:

- Technological process operations division multiple equal to or in terms of workload, and specify the most rational sequence of their execution,
- Distribution of the activation of an operation or a small group of operations on a particular job,
- Job placement in the order imposed by the execution sequence of technological operations,
- Passing different raw materials and semi-finished parts to a job to another in a continuous or intermittent or self-regulated pace compared with the degree of synchronization of the operation of technological operations;
- Execution of operations concurrently in all workplaces within the production line flow;
- Movement of materials, parts, semi or products from a job to another by means of suitable,
- Performance in the form of production organization in the flow kind of product or item or more similar products in terms of constructive technology and raw materials.

In conclusion, we can say that the organization of production flow can be defined as that form of organization characterized by specialization of production jobs in the execution of certain operations need to manufacture a product, or group of parts or components similar products by locating jobs in the order imposed by the sequence of operations and performance of products or parts moving from one job to another with appropriate means of transport, and deploying the entire production process is synchronized based on a previously established working mechanism.

Characteristics of business organization for individual and small series production In economic there are a number of economic units that perform a wide range of products in very small batches and unique.

This requires adopting a system based organization of production which corresponds to best achieve the unique products or small series.

- The main characteristics of this mode of organization are:
- Organization of production units on the principle of technology. Under this method of organizing production units are created for carrying out certain stages of technological process and the location of the units and their equipment is made of homogeneous groups of machines.
- In this case employment is equipped with machinery that will allow all operations to a wide variety of technological products.
- Moving from one job to another product takes place piece by piece. In this case there is a great economic activity in the production process, resulting in long cycles of production and large stocks of work in progress.

To develop a technology to manufacture products that will fix these issues:

- a) the nature and sequence of operations to be executed
- b) groups of machines to be executed operations,
- c) how SDV sites (tools, devices, checkers), which will be used.

This technology will be defined for each job.

- Manufacturing technology to design legal use grouped, showing the detailed development of technologies that would require a long time and high costs.

### **The management of the production**

It is a complex concept that includes all activities carried out by an enterprise when identifying a requirement for market by the distribution of goods requested by the beneficiaries.

In practical terms, to identify the activities involved in production management is necessary to start from the full cycle of activities undertaken by the enterprise to manufacture a product or performing work.

In an industrial cycle management activities related to the production cycle consists of marketing and production cycle, production is being practically at their interference.

Production management is a complex activity that is used to carry out a number of ways:

Used linear programming in optimizing resource allocation

Linear programming takes into account two elements: objectives and restrictions. Linear programming can be used to solve production management problems:

- The distribution of production on different machines in terms of maximizing profit,
- Goods transport between jobs and between them and points of distribution,
- To determine the quantities of various goods to be produced.

### **PERT Method**

Apply for the production of complex and unique importance, in which successive operations must be carried out subject to restrictions and terms of priority.

### **The Method "Just in Time"**

This is considered by specialists as an important condition for obtaining a superior organization of production and its application to help reduce production costs for stocks of raw materials, parts and subassemblies.

Current and future trends in the organization of production

In advanced manufacturing systems, manufacturing system to change their answers to various tasks in terms of manufacturing efficiency and competitiveness.

Flexible manufacturing system is a response to specific requirements but is not a universal solution applicable in all conditions.

A current manufacturing system is the result of evolution over 100 years and is a response to changes in economic environment in which it operates.

A flexible manufacturing system is a production system able to adapt to different production tasks both in terms of shape and size and technological process to be achieved.

It is considered that a flexible manufacturing system must have the following characteristics:

- 1 - integrability,
- 2 - adequacy,
- 3 - adaptability,
- 4 - structural dynamics.

In practice there can be no absolute but only features some degree of integrability or structural dynamics, they can not be achieved stimulant all these features.

Experience has shown three stages of flexible manufacturing systems with varying complexity and scope of the following:

1. Flexible manufacturing unit

Rule machine this means complex equipped with multipurpose shed a automatic manipulator system that can operate automatic.

2. Flexible manufacturing cell

It consists of two or more flexible processing units equipped with computer-controlled machinery directly.

3. Flexible manufacturing system

Includes several manufacturing cells linked by automated transport systems, and the entire system is under direct control of a computer system that manages and storage, automated measuring and testing equipment and a total coordination of economic subsystems through the electronic computer.

Compared to rigid manufacturing systems, the flexible the following advantages:

- High capacity to adapt to changes by changing work pieces, being able to change the software and equipment do not change;

- The ability to process semi-random order;

- Functional autonomy for the three shifts without direct intervention of human operator;

- Intensive use of numerically controlled machines, robots and automatic transmission control systems;

- Possibility perfectly gradual evolution, and depending on production needs.

Development of flexible manufacturing systems and introducing new directions in the robots technique is organizing, inducing significant effects on all subsystems of production.

The introduction of new robotic technologies has the greatest importance organizational training activities. It was found that in many cases fund for robotic technologies used in a proportion of only 50-55%. This situation is due to some technical errors on the construction or operation of the computer, but an incorrect organization and management of production units.

This means that the danger is not the effect of technological changes on humans, but rather in their inability to recognize the and therefore has to refer to and influence effects. Introduction of the robot technology financial situation of industrial change and increasing the volume of assets, improving production conditions, which will lead to the production of certain mal functions and increased reliability of operation, execution and management.

### Case study

As a case study will present the company "Rom Developement Group" which has the object of wood waste recycling as part of the service sector. Above mentioned company was created in 2006 and had a trend of rapid growth in the value of turnover reaching as two years to reach a turnover of over U.S. \$ 4 million.

Organize and conduct business in our company includes the following categories of income and expenses:

- Revenues from the sale of finished products
- VAT collected
- Entries of finished products
- Output of finished products
- Raw materials and consumables
- Staff costs
- Interest expense
- Income from foreign exchange
- Costs of exchange differences
- Cost of fines and penalties
- Income from grant related materials
- Fees and rental charges
- Depreciation and amortization of tangible assets
- Income tax expense

Production cost structure is as follows:

- Raw materials and consumables

- Staff costs
- Depreciation and amortization
- Expenses for services, external services (transport, advertising, etc.).

Administrative costs:

- Cost of royalties, rentals
- Staff costs
- Depreciation and amortization of tangible assets.

By subject or activity, a company aims to use the means of production efficiency that it holds under more complete use of production capacity, a high quality of products and profit. These basic features of an enterprise of industrial production may have several distinct features depending on the specific conditions under which a company or its other business.

### 3. Conclusions

Starting from the wide range of economic activities which they operate within the national economy, may determine specific methods and techniques to organize themselves into groups of economic activities, taking into account certain common criteria.

Production methods based organization is influenced by the degree of processing of finished products and the degree of technological complexity of process operations.

By subject or activity, a company aims to use the means of production efficiency that it holds under more complete use of production capacity, a high quality of products and profit.

In conclusion, we can say that the organization of production flow can be defined as that form of organization characterized by specialization of production jobs in the execution of certain operations need to manufacture a product, or group of parts or components similar products by locating jobs in the order imposed by the sequence of operations and performance of products or parts moving from one job to another with appropriate means of transport, and deploying the entire production process is synchronized based on a previously established working mechanism.

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## THE ECOLOGICAL ECONOMICS AS A BASIS FOR A NEW MANAGEMENT APPROACH

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**Abstract:** *The aim of the present paper is to make an intro on the concept of the Ecological Economics emphasizing on its features and developing the idea that a new management approach is needed in order to have a sustainable development of the new SMARTEST business objectives. An overview of the Romanian approach on this subject will be presented, given the steps already taken for sustainable development..*

**Key words:** Ecological economics, sustainability, management, social responsibility

**JEL Classification:** M12, M14, Q01, Q56, Q57

### 1. Introduction

The financial crisis reopened the discussions about the importance of keeping the environment safe and approaching the sustainable development based on harmonious integration of the social, environment and the economy. The early warnings raised up by the experts of Club of Rome, 40 years ago, were not followed massively in the socio-economic development strategy, thus globally, our society, arrived in a moment in which without radical actions, the existence of the Earth himself and the people is in danger. Although the ecologists' work started to be recognised, a series of laws and projects taking into consideration the environment protection, there is not yet a major change on the global mentality. The capitalist society based on consumption, continued its way to an accelerated profit increase despite the signals of irreversible destruction of the resources and the environment.

In his works, Lester Brown was one of the voices who rose the necessity of a sustainable development, introducing the concept of eco-economy and militating for a revolutionary thinking on the economy at the global level. He said: „ Today we need a similar shift in our worldview, in how we think about the relationship between the earth and the economy. The issue now is not which celestial sphere revolves around the other but whether the environment is part of the economy or the economy is part of the environment. Economists see the environment as a subset of the economy. Ecologists, on the other hand, see the economy as a subset of the environment” (Lester R. Brown, 2001,p. 3).

Ten years after this quote, we are facing global crisis, which, no matter how we call it: “financial-economical crisis”, “energy crisis”, “urban crisis” or “demographic crisis”, “all have the roots in a bigger crisis of our narrow perceptions, inadequate over the reality” (F. Capra, 2004, p. 273, quoted by Carmen Costea, Popescu și Taşnadi, 2010, p. 448). The issue is how we update to the new paradigm that both economy and environment are subsystems of one big system: the Earth.

Referring to sustainable development issue, at the G8+5 Conference held in London in 2009, professor Johnston, representative of Club of Rome considered that the last global financial-economic crisis highlighted the necessity of a common effort, “a concerted approach, worldwide, to stimulate investment in infrastructures and services for an energy-diverse and low-carbon economy which offers new opportunities for prosperity for all”, and that all these efforts must be integrated “into a holistic strategy for the world's future prosperity and stability”(Johnston, 2009, p.1). On the same idea, at the Amsterdam Conference, professor Mohan Munasinghe (2009, p. 33) talked about the *sustainomic* as a framework for a more sustainable world “with balanced consideration of sustainable development triangle (economic, social and environmental elements)” that “transcend conventional boundaries using innovative, holistic, integrative approach”.

Obviously a new approach on the sustainable development implies a new management approach towards new visions on the humans as social and environment different from the old monetary vision oriented on money, wealth and poverty which appears today obsolete. In Hazel Henderson's opinion (quoted by Costea Carmen, Popescu și Taşnadi 2010, p. 448), the old economical vision “has as a core the ignorance on the interdependency between the economy, the human social and natural ecological”

## 2. Ecological economics: What is it?

Astonishingly or not, both words ecology and economy can be traced back from the ancient Greek „Oikos” which means house or household.

While Ecology results from oikos „household” and logia „the study of” meaning the „study of the household”, the economy comes from οἰκονόμος "one who manages a household". “Literally, economics is the management of the household and ecology the study of the same” (Farley J., Erickson and Daly, 2005, p. 1)

In time from the „Eco” term derived terms such as: eco-city, eco-municipality, ecocommunalism, eco-friendly, econometrics, economy and ecosystem. What draws the attention is the common origin of the words ecology and economy through their prefix Eco (Oico).

Nowadays, putting one next to the other we might see the Ecological Economics as one who manages society carrying for the environment.

Out of all the definitions given to Ecological Economics, we adhere to the one describing it as a transdisciplinary field of academic research that aims to address the interdependence and co-evolution of human economies and natural ecosystems over time and space. (Wikipedia)

While agreeing on a definition for the Ecological Economics it is worth mentioning some key moments and contributors to this concept. Ecological economics was introduced in the works of Lester R. Brown, Nicolae Georgescu-Roegen, Herman Daly, Robert Constanza, Donella Meadows and others. In vast majority of the specialty literature these names will be quoted for their personal contribution to creating and developing this new concept. On the other part, there are some organizations and groups of specialists that contributed over the last forty years to the development of this concept.

Out of the founders of the field of ecological and evolutionary economics we will refer into more detail to the works of Nicolae Georgescu-Roegen (1906-1994), a Romanian-born mathematician and economist. He first introduced the concept of thermodynamic into the economic process. Today the laws of thermodynamics are also considered one of the fundamental laws of the Ecological Economics. Then, in 1971, Georgescu-Roegen published *The Entropy Law and the Economic Process*, where the second law of thermodynamics plays a central role in production theory, with implications for the sustainability of economic growth.

Herman Daly (2007, p. 128-129) cited Nicolae Georgescu-Roegen works mentioning that he introduced the natural resources on the „Solow-Stiglitz variant” of the „Cobb-Douglas function” as :

$$Q = K^{a_1} R^{a_2} L^{a_3}$$

Where, Q is output, K is the stock of capital, R is the flow of natural resources used in production, L is the labour supply and  $a_1 + a_2 + a_3 = 1$  and of course  $a_i > 0$ .

From this formula it follows that with a constant labour power  $L_0$ , one could obtain any  $Q_0$ , if the flow of natural resources satisfies the condition:

$$R^{a_2} = Q_0 / K^{a_1} L_0^{a_3}$$

Another key point in the evolution of the ecological economics, was in 1972, when the Club of Rome published its Second report on the so-called „The limits to growth”, conducted by Donella Meadows. The conclusion of this report was that „the current trends in the consumption of fossil fuel and other resources, use of land and pressure on the Earth’s capacity to deal with pollution lead to various environmental risks”. As a consequence the society will face increasing variety of environmental and social tensions.

As of 2009, the Netherlands Environmental Assessment Agency published the „Growing within Limits” report, delivered to the Global Assembly of the Club of Rome. According to this report, „the most significant challenge is to create the appropriate institutional conditions toward innovation and fundamental transitions that will help bring the „green” economy into everyone’s mindset. Here, an integrated approach is crucial, given important trade-offs and synergies between climate change mitigation and biodiversity protection and other important considerations, including the achievement of the Millennium Development Goals. Effective policies in this context require long-term targets and strict regulations to reach them. The current economic crisis might serve as an opportunity to foster such a change process.”

As any new concept, the Ecological Economics has some features deriving from the definition, on which we will develop bellow:

### i. Integrated, transdisciplinary concept

„An environmentally sustainable economy – an eco-economy – requires that the principles of ecology become the framework in designing the economic policy, where the economists and ecologists work together to fashion the new economy. Ecologists understand that all economic activity, indeed all life,

depends on earth’s ecosystem – the complex of individual species living together, interacting with each other and their physical habitat. Economists know how to translate goals into policy. Economists and ecologists working together can design and build an eco-economy, one that can sustain progress (Brown L, 2001, p. 4).

We believe that the statement above might be improved and that it is not only the economists and ecologists who must work together but many more specialists. During the last decades, due to the efforts started in the 70s, a new concept - the ecological economics – emerged. It is now a transdisciplinary concept that requires not only studies but also implementation and maintenance at the global society level. To do this, some other categories such as sociologists, biologists, anthropologists, psychologists, coaches, teachers, social media specialists, etc have to joint their efforts in continuing studies and multiplying their results, on provoking the switch from a paradigm to promoting the concept beyond the academic research and publications. It is not only the individuals’ job to do this but is also at the level of the companies, organizations, communities that have the resources and the power to persuade in order to implement the new concept.

For those who do not see yet the benefit of the ecological economics approach let’s make an exercise of imagination and multiply for long term the short term results, not only in terms of revenues but also in terms of consumption. How do you see the future now? The fact that the polluting heavy industries have already taken actions towards a green evolution, it constitutes a big argument for us in sustaining the ecological economics concept and its integrated, transdisciplinary feature.

ii. Sustainability - The interdependency and co-evolution between ecosystems

As previously mentioned on this paper and in order to be consistent we will continue referring to the definition of sustainability given by Wikipedia. Sustainability is “improving the quality of human life while living within carrying capacity of supporting eco-systems. It is also a call to action, a task in progress or „journey” and therefore a political process, so some definitions set out the common goals and values. Sustainability is thus viewed both ways in which the ecosystems develop in equilibrium and in evolution. Equilibrium means that one intervention in a part of the system attracts a change (an update) on another part. Evolution comes from the interventions in time, taught on long term implications and results.”

This feature is also demonstrated by Nicolae Georgescu-Roegen while introducing the second principle of thermodynamics into the economic process. He took into consideration the solar energy and the use of the other natural resources and demonstrated that human economic systems can be modelled similar to thermodynamics systems. The economic systems always use matter, energy, entropy and information. The fundamental idea behind it is that we can use some resources at a fixed flow rate and others at the expense of future generation.

The world’s challenge is to develop a sustainable global economy. People started to feel the effects of pollution, which is the result of the deep intervention of humans on the natural ecosystem without any equilibrium. Sustainability though is more than this; it is a bigger picture on which stopping and preventing the pollution become more urgent than ever. On the other hand just taking care of the environment without taking care of the social (humans) will not lead to the sustainability of the concept.

**Table 1: Major Challenges to Sustainability**

	<b>Pollution</b>	<b>Depletion</b>	<b>Poverty</b>
<b>Developed economies</b>	- greenhouse gases - use of toxic materials - contaminated sites	- scarcity of materials -insufficient re-use and recycling	-urban and minority unemployment
<b>Emerging Economies</b>	- industrial emissions - contaminated water - lack of sewage treatment	-over-exploitation of renewable resources -over-use of water for irrigation	- migration to cities - lack of skilled workers - income inequality
<b>Survival Economies</b>	- dung and wood burning - lack of sanitation - ecosystem destruction due to development	- deforestation - overgrazing - soil loss	- population growth - low status of women - dislocation

Source: Harvard Business Review, Hart, 2007, p. 107

As we stated before, the actual crisis might be the best moment ever, for those who manage societies, communities, companies, small companies, organizations, to realize that continuing degrading environment, accelerating the gap between poverty and wealth, will not allow them making business in the near future. Correctly assessing the environment and population potential development will allow managers

to think of alternative green business solutions. They will be able to develop such solutions based on the interdependency of the human and natural eco-systems.

As the world is in different stages of economical development, their interactions create the major social and environmental challenges.

Sustainable development is a very fashioned term, everybody likes it, some are going further to understand it but far less are going to implement it. It is used on the academic papers, it is used on strategies and policies written at all society's level but the issue is not to remain at the statements' level. It is to rapidly progress.

iii. Uncertainty and complexity

The Ecological economics navigates through concepts and sub systems. It comes with new hypothesis and emphasis on seeing the interdependence between complex subsystems. It requires rapid decisions to face the dynamics of the whole system, decisions that are taken based on lack of sufficient knowledge. Add to this, the global perspective and the time scale, this is how the uncertainty and complexity become features for the ecological economics.

Some would like to abandon the concept of sustainable development altogether, arguing that it adds nothing to standard economics and is too vague to ever be useful. But most important concepts are not subject to analytically precise definition – think on democracy, justice, welfare. Important concepts are more dialectical than analytic, in the sense that they have evolving penumbras which partially overlap with „their” other (Daly H., 1996, p. 2). They raise questions, they find the clear where there is unclear and vice versa.

As a conclusion of this chapter we might respond to the question: Why now the Ecological economics?

The answer appears very easy, it is because the world today it is so very different of that of the last centuries when the Industrial Revolution has been born and the conventional economic theories have been developed. Since then, growth limits have been pushed far away with a global impact on environment and on the morale of societies. The humans have altered irreversibly the environment in their completely ignorance on the ecosystems. The actual economical crisis is just a part of a larger crisis of morale, economy and environment fuelled by the rush of humans for a rapidly accumulating wealth and big egos.

Any big change needs a revolution. It is about a mind revolution through which a shift to the new paradigm of sustainability might occur. This revolution, was called by A. R. Edwards, in his works, as “Sustainable Revolution” and he identified “five key characteristics or dimensions, which are: i) remarkable similarities among sustainability groups in overall intentions and objectives; ii) a large and diverse number of such groups; iii) a wide range of issues addressed by these groups; iv) leadership by a group of decentralized visionaries rather than a single charismatic figurehead; and v) varying modes of action: oppositional and alternative. (Edwards, A. R., 2005, p. 6-7)

In order to create, implement and maintain this new paradigm, it is needed the design of a new management approach based on the features exposed on this section.

### 3. Management approach in Ecological economics

One of the questions that come back on the view of the new transformations is: How is the new management approach responding to the Ecological economics?

Alan Greenspan, former US Federal Reserve Chairman compared the current economic crisis with an „economic tsunami ... a once in a 100 year event”.

In 1960s, 1970s the businesses (corporations) refused to accept “their negative impact on the environment” (Hart S. quoted by Harvard Business Review, 2007, p. 100). In 1990s and 2000s til 2008, what happened had primarily and almost unique focus on economical growth and economy was seen mostly in terms of the stock market and other financial instruments. Thinking on sustainable development was not very useful due to the pressure of rapid Return of Investments rates. The short term thinking prevailed in establishing business objectives and competitions even between the employees of the same company were not a lonely example. Today shifting to the Ecological economics is actually a shift to a strategic thinking on long term results. After the collapse of the economy in 2008, there were many visible examples of lessons learned that already became best practices in corporations. We noticed their implications on the society and the engagement on the Corporate Social Responsibility projects that seems to be nowadays the new fashion.

Today, companies are facing different kinds of risks, some of them being opportunities for new businesses. More and more companies, most of them acting in highly polluting industries, not just accepted their negative impact on the environment but they are trying to mitigate the risk of pollution through reengineering their processes having as a result a „green policy” and green products and services.

The achievement of sustainability will mean “billions of euros in products, services and technologies that barely exist today. Whereas yesterday’s businesses were often oblivious to their negative impact on the environment and today’s responsible businesses strive to zero impact, tomorrow’s businesses must learn to make a positive impact. Increasingly, companies will be selling solutions to the world’s environmental problems”. (Hart S., quoted by Harvard Business Review, 2007, p. 105 ).

To respond to the Ecological economics requests, new management process will have to develop approaches deriving from the features of the Ecological economics, approaches that we will try to list and explain below. As a general remark we think that businesses’ management will have to start from the point where the top management will realize the impact of their businesses into the environment and if they provoke a problem, they will have at hand tools to solve it. In order to achieve this, they will have to be aware of their Ecological intelligence and improve it. In view of the aforementioned, we consider the concept of Ecological Intelligence as the collective ability to understand the human impact on ecosystems and to act in ways that improve them (Golleman D, 2009);

In listing the features of the new management, we started from the potential risks that could affect the value of a company (Lash and Wellington, quoted by Harvard Business Review, 2007, p. 133-137). These risks are also potential income generators if turned into opportunities. In the scope of this paper we will just mention them: Regulatory risk, Supply Chain risk, Product and technology risk, Litigation risk, Reputational risk, Physical risk.

The new management approach will have to:

i) Have long term thinking or a so called strategic thinking. Of course it is important to have results and we do sustain that measuring and obtaining results on short term is wrong but we argue that it is at least as important to have part of the results planned for long term;

ii) Envisage the general picture means that it is important to see the business as part of a larger context. The business in itself is not only in competition with other business but also in co-operation with them in order to create and keep the global equilibrium of the supply chain. “A clear and fully integrated environmental strategy should not only guide competency development, it should also shape the company’s relationship to customers, suppliers, other companies, policymakers and all its stakeholders” (Hart S., quoted by Harvard Business Review, 2007, p. 120);

iii) Redesign the processes within their organizations taken into considerations their business impact on the environment; new efficiency of the resources creates a better attitude towards consumption, which will have to be implemented to even individual people within the organization, in order to realize the impact of every day usage of the resources;

iv) Share the vision within the organization and even individual people to understand the meaning of the „why” in order to create the „how”;

v) Build an organization based on trust, in other words said instead of spending time and resources to market the self-assessment of personal actions, better emphasize on direct, simple communication between the leaders and the teams and/or among the people in the teams, one of the biggest barrier being to renounce to the big egos;

vi) Create and develop the sense of belonging of the business to the local communities;

vii) Introduce new sustainable business objectives that will go from SMART to SMARTEST as we will develop further in this paper;

viii) Navigate through ambiguity; this means that the new management will have to rely more often on the common sense and intuition such as compare the process to a journey without compass guidance. This might require “a leap of faith”. Instead of feeling that “the risks associated with investing in unstable and unfamiliar markets outweigh the potential benefits” better “recognize the power of such a positive mission to galvanize people in the organization” (Hart S., quoted by Harvard Business Review, 2007, p. 120);

ix) Create a “transparency” (O’Toole, J.; Bennis, W, 2009) of the processes where the information will have to rapidly flow throughout the organization in order to give access to the information at all levels;

x) Encourage creativity among the teams of the companies, searching also for opposite opinions as they are the best challengers that management needs in order to improve performance;

xi) Anticipate and quickly adapt to the environment and social needs;

xii) A shift in the paradigm from the „what” to the „how”, the coaching attitude and tools to be applied at every level of the organization. Adopting this will allow people to see how fewer resources lead to more results. The “how” will also relate to the concept of ethics under the new paradigm.

Management will have to create a new type of corporate culture, built on trust; trust is built on good performance, competencies and on the accepted responsibility. Without a good performance, no trust within organization can exist. Better processes, a better work place, direct communication inside and outside the organization, involvement of people in business' social responsibility, a culture of candour are some of our proposals for a new type of management.

We do not consider these features being as the only ones; the list can be further challenged and improved and we encourage you to do so. We also didn't have as a scope for the present paper to develop on the new competencies the new management will need in order to change things. This topic will be in the scope of another paper.

Within the topic of this paper, we focus now on the business objectives which currently are SMART, where SMART is:

- S Specific/ Significant/ Simple
- M Measurable/ Meaningful/ Motivational
- A Attainable/ Achievable/ Agreed
- R Realistic/Relevant
- T Time-Bound/ Time limited/ Timetabled

In view of the Ecological Economics the business objectives will evolve from SMART to SMARTEST, which stands for:

- S Specific/ Significant/ Simple
- M Measurable/ Meaningful/ Motivational
- A Attainable/ Achievable/ Agreed
- R Realistic/Relevant
- T Time-Bound/ Time limited/ Timetabled
- E Environmental/ Ecological**
- S Social responsibility**
- T Team oriented**

In order to achieve the SMARTEST objectives it is necessary to redefine the performance from "seen just on financials –profit, turnover-revenues-" to "firstly in a human being approach" because "people who grow up spiritually and are satisfied and happy are also more efficient" (Costea Carmen, Popescu, Taşnadi, 2010, p.38-39).

For the scope of enforcing the above we will make the following assumptions that will have as a consequence the measurement of the performance through SMARTEST objectives rather than SMART ones:

- i. The business is run under a „green” policy;
- ii. People are aware of what means „green policy”, why it is good to have it and how they can apply it in their job within the organization but also in their personal lives;
- iii. People are not alone in what they do but in a team, therefore a collective approach should be taken into consideration;
- iv. Time-Bound receives now two values: a long term objective with break downs for short term;
- v. Special objectives linked to the ecological approach will be defined at each level within the organisation;
- vi. Responsibility for society is ours and in order to be aware of it, it has to start being formalised.

An Environmental objective will take into consideration, depending on the activity type to be assessed: no damage to the environment, or improvement on resource allocation.

Social responsibility objective will be that, and do not necessarily link to the core business of an organisation but to the way people volunteer on the society, the organisation and people participate to different „green programs”, allocate part of their time on behalf of the community they belong, actions that in the end will create a social cohesion.

For those who will argue that what people are doing after working hours is their problem, we respond that we fully agree but in the sense of sustainability the society now needs more. For example, companies may allocate part of their employees' time for social actions/programs etc. This is an issue of social implication, a next level on the development of humans by assuming that each of us has the right but also has an obligation to be socially responsible.

It is also important, in our view, to mention that considering the discrepancies between the development stages of the economies, “the emerging economies cannot afford to repeat all the environmental mistakes of Western development” (Hart, S., quoted by Harvard Business Review, 2007, p. 111) and have to be aware of what it means social responsibility.

#### 4. Sustainable development and related management in Romania

As all over the world, the process of integration of the sustainability concept into the Romanian economy, has begun before 1989, being managed and implemented based rather on the idea of environmental protection than social protection. Although the declarative model urged at the time for the “new people”, the social cohesion and protection consisted more on keeping the unemployment rate very low than creating premises for people development.

Romania was one of the most affected countries by the communist period due to the long time passed under the communist management but also due to the intensity and hardness of the country’s dictatorial management.

Looking back, some initiatives were based on strategic thinking and a sustainable approach but the fact that equilibrium between social, environment and economy was not respected and was completely de-balanced in the favour of the centralized economy and partially on the environment protection, led to: i) a negative reaction of people towards the actions, ii) a non trust society, iii) a perception of mandatory instead of real volunteering, iv) a lack of social responsibility, v) lack of entrepreneurship attitude, vi) a selfish and opportunistic approach and the list can continue.

The dictatorial management led to a sick society, which instead of valuing potentially good concepts at origin, it didn’t accepted them, because they were mandatory without any explanation given for their positive impact and in the end people did not believe on them. The lack of the charismatic and trusty leader, the hard pressure put on people, the lack of alternatives and opportunities, the lack of empowering people, the lack of encouraging people to speak and actually punishing the contrarians, the over excessive centralized management approach with no creative and transparency communication led to implementation of some sustainable actions but without the proper new management approach needed.

We might consider Romania as a good and suggestive example of what means the absence of the equilibrium between the sub-systems and where this may lead.

In view of the academic research we must remain objective and list here some activities we consider were initially based on sustainable development for the mentioned period and also the actual version of their implementation:

i) The “3 R” initiative (Recuperare, Refolosire, Reconditionare). An action implemented from the very low level, on the schools, where kids were obliged to bring used bottles, papers, green therapeutically plants, etc to the recycling centres. Today this initiative has started to be again implemented but in a different format: different recipients are found on the street for waste separation, “bring back” campaigns for white goods, “buy back” programs for cars – one of the most polluting industry - are developed, etc.

ii) Volunteering for green projects. An action implemented at the “block of flats level”, schools, institutions, where all people were required during spring time to clean the parks and the green spaces. Today there are several similar initiatives proposed by “green NGOs”.

iii) Low energy consumption. Among actions that were implemented at the household level were the weekly blackouts for energy and heat. Today there is an initiative at the global level “The Earth day”, once per year one hour, when everybody may choose not to use energy for lighting.

What happened was that, when they could, people abandoned the actions because they simply belong to a period of time in which they didn’t believe. The post 1989 period, the so-called “Transition period” was characterized by renouncing at the minimal environment care initiatives. As the social protection was almost closed to zero and the economy was over centralized the new focus was on creating the capitalism by abandoning even the good initiatives of the precedent period of time. Moreover in the absence of any campaigns towards environment protection and with the rapid wealth growth desire people started to cut the woods, to pollute the waters generating natural disasters with direct effect on people’s existence. What happened was that again, the equilibrium of the 3 subsystems was affected, this time being completely de-balanced in the favour of the economy and partially on people’s professional development as part of the social subsystem.

Still, some progress started to be seen after 2000, both on legislative and also on practical initiatives, where more and more institutions, NGOs, schools were being implicated in the general effort of environment protection. It is necessary to continue approaching the environment protection in correlation with the social implication where the final goal is for human accomplishment. In this context, the management process has to be also in Romania governed by the new paradigm of sustainable development. "In present, a lot of companies function based on the classical scholastic management approach that does not encourage thinking outside the box. This is a model based on the 5 principle of management which can be an obstacle for the progress. Our challenge is not just thinking outside the box but also to find a way to work with these management principles while replacing the old limits with new opportunities" (Pauli, G, 2010, p. 59)

In this regard the new management will have to take into consideration the return on investment principle not just for the core business but also for its care towards environment and society. As stated on a previous chapter of this paper, management will have to be creative and to encourage a creative thinking.

When addressing the concept of management is not just the micromanagement but also the macro management. Each of the actors participating in the economy has its own role to play and one will put pressure on the other, thus they will help each other on future developments. Practical initiatives are good but they have to be formalised through a coherent and viable legislation. Each individual law has to create the same framework of ethics for all the actors.

The Romanian society still bear the lack of trust in heritage and in legislation, lack in responsiveness attitude, lack of personal implication on social projects but also lot of negative critics and can not do attitude.

Acceding to EU in 2007 and the beginning of economical crisis in 2008 created lots of opportunities to mitigate and reduce the strong roots coming from the past and we are confident that this is the beginning of a shift in paradigm.

Here bellow we will list actions for a sustainable development in Romania and also the opportunities they bring:

- i) As stated before, closing the big polluted plants create the opportunity of increasing the green areas, developing a green infrastructure and consequently develop an eco-tourism;
- ii) Accessing EU funds to train people may led to a re-conversion of people for other new type of jobs;
- iii) Study of the sustainable development on the academic field may create an opportunity to develop at local level specialists on Ecological economics;
- iv) Corporate Social Responsibility projects, initiated by big companies such as but not limited to: OMV Petrom, Vodafone, Raiffeisen Bank, Orange shown an alternative at the society level. Their ideas went behind the papers and were implemented for a healthy society;
- v) Projects implemented by local state institutions in creating green areas or encouraging people to do sport will lead on long term also to a healthy society;
- vi) Update the Romanian legislation on Ecolabel to the European legislation on Ecolabel created the framework for the businesses to be a part of a sustainable development;
- vii) The lack of some businesses and products in Romania actually is a huge potential for further sustainable development directly;
- viii) The creation of Green ONGs (ROGBC, Mai mult Verde) develop on the culture of green and help on promoting what means social responsibility, offering also the necessarily framework for those who want to start;

## 5. Conclusions

For the last decades, the society grew under the thought of rapidly return on investment no matter what, no matter how. „Results oriented” are still the key words in a lot of curriculum vitae...and are still highly appreciated by some of the employers. Societies pushed the limits beyond their limits in even area from education to financial, from manufacturing to real estate, from services to sports. We still leave in a demand-offer curve of goods and services without real usual think on a demand-offer curve of natural resources ...But this is going to be changed though stepping to a new mentality..

The Ecological economics shares many concepts with conventional neoclassical economics. For example, "both take as basic the concept of opportunity cost, defined as the best alternative that has to be sacrificed when you choose to do something. But ecological economics has a fundamentally different starting point – a different visions at its core of the way the world really is. On brief, conventional economics sees the economy, the entire macro economy, as the whole. To the extent that nature and the environment are

considered at all, they are thought of as parts or sectors of the macro economy – forests, fisheries, grasslands, mines, wells, and ecotourism sites and so on. On the other part, ecological economics envisions the macro economy as part of a larger enveloping and sustaining Whole – the Earth, its atmosphere and its ecosystems. The economy is seen as an open subsystem of the large „Earth system”. The larger system is finite, none growing and materially closed, although open to solar energy (Daly H., 2011, p. 15).

Today the Ecological economics proposes a shift in our paradigm: it is about a “steady-state economy at optimal scale” (Daly, H., 1996, p. 31). The proposed long term thinking on sustainability seems to be an alternative. Less is more receives new attributes, with less inputs (resources) we might obtain more outputs (results). We wanted to bring to your attention the concept of Ecological economics and how the management approach can adapt to it. The newly proposed approach towards SMARTTEST objectives stands for how there are measured considering the new frame of reference. It is about introducing the social and the environment on the integrated concept of Ecological economics.

The time of big egos set off. Leaders need to learn to value the society and to give back to the communities where they belong. Volunteering for the community is part of our future development as human being. It means that the world steps on a new level on which the human being is seen in morale, material and spiritual dimension whose accomplishment is a goal in a shorter or a longer term.

In view of exemplifying the integrated approach of Ecological economics, a special attention was given during the paper to sustainable development in Romania. We illustrated how one missing piece of the puzzle jeopardizes the idea of sustainability. Not concentrating on the three sub-systems economy, social and environment in the same time and focusing on one or both does not mean sustainability.

As a conclusion, what Ecological economics proposes is a common sense approach, a shift in paradigm at the individual and collective level. It is a highway we do not see and we do not know, but not taking on it let us go on the highway we already know that will end.

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## USING 360-DEGREE FEEDBACK FOR IMPROVING EMPLOYEE'S PERFORMANCE. DIFFERENT PERSPECTIVES - AN OVERVIEW

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**Abstract:** *In the present paper we have chosen to make an analysis regarding the most used multi-source feedback method: 360 degree feedback, because a variety of individual and organizational improvement goals have been attributed to these feedback processes. Throughout a synthesis review of the literature we try responding to frequently questions about 360 degree feedback*

*Also the paper discusses the purposes of using 360-degree feedback which is a very controversy topic in the practical and theoretical use: developmental purposes versus appraisal purposes or both of them are accepted. The results of a number of case studies reviewed in this paper show that using 360-degree feedback for appraisal purposes are some significant disadvantages and also can have a negative impact on outcomes. Therefore we are totally agreed that the real purpose of 360-degree feedback is a developmental one.*

*The final of the paper ends with some conclusions and an outlook fore future trends and research need for 360-degree feedback.*

**Key word:** *360-degree feedback, development, performance appraisal, improving performance*

**JEL classification:** M10

### 1. Introduction

The challenge of improving employee performance requires high quality and specific feedback.. Multi-source assessment (MSA), offers an excellent tool for targeted performance feedback because it enhances the accuracy and credibility of performance information by enlarging the assessment pool form one supervisor acting alone. Jobs are multifaceted and different people see different things. Evidence form a number of sources is more likely to provide a balanced picture of an individual's strengths and development needs. Multi-source feedback can range from simply asking peers or other managers to make comments with examples, on an individual's performance, to the more sophisticated 360 degree feedback systems. (Fletcher, 2004) As the name implies, 360-degree feedback is intended to provide employees with as accurate a view of their performance as possible by getting input form all angles: supervisors, peers, subordinates, customers and the like. Although in the beginning, 360-degree system was purely developmental, and was restricted mainly to management and career developmental, it has migrated to performance appraisal and other administrative applications.

According to Human Resource Consultant, William M. Mercer, forty percent of American companies used 360 degree feedback in 1995; by 2000 this number had jumped to sixty-five percent. In 2005, 90% of Fortune 500 companies were using a 360 degree performance review process. (Alexander, 2006). This popularity is based on the perceptions of organizational leader's that 360 degree reviews establish a culture for continuous learning and provide more global feedback for employees, which leads to improved performance and organizational communication.

Peter Ward defines 360-degree feedback as: "the systematic collection and feedback of performance data on an individual or group, derived from a number of stakeholders" (Harvard, 2001). By performance he means the behavior of individuals and teams. In this sense, 360-degree feedback is concerned with what people do rather than what they achieve. The emphasis on behavior, or how people do their jobs as well as what they deliver by way of measurable results, it what appears to interest organizations.

### 2. Method

A synthesis review was deemed appropriate because it integrates isolated information into a more comprehensive and internally consistent whole. It thus facilitates the integration of separate studies with different focuses and uses a variety of methodologies to provide a comprehensive account of the

phenomenon being reviewed. This type of review is a powerful knowledge development tool because it enables knowledge to be accumulated that goes beyond merely evaluating the strength and weaknesses of existing knowledge, in order to create a whole new and more informative understanding of the phenomenon being studied. As such, this principle is consistent with good practice in research.

**3. Literature review**

There are a variety of terms used in the literature for 360-degree feedback: multi-source assessment, multi-rater feedback, 360-degree assessment, full-circle evaluation. We wanted to mention it, from the very beginning because in the following we will use all of these terms.

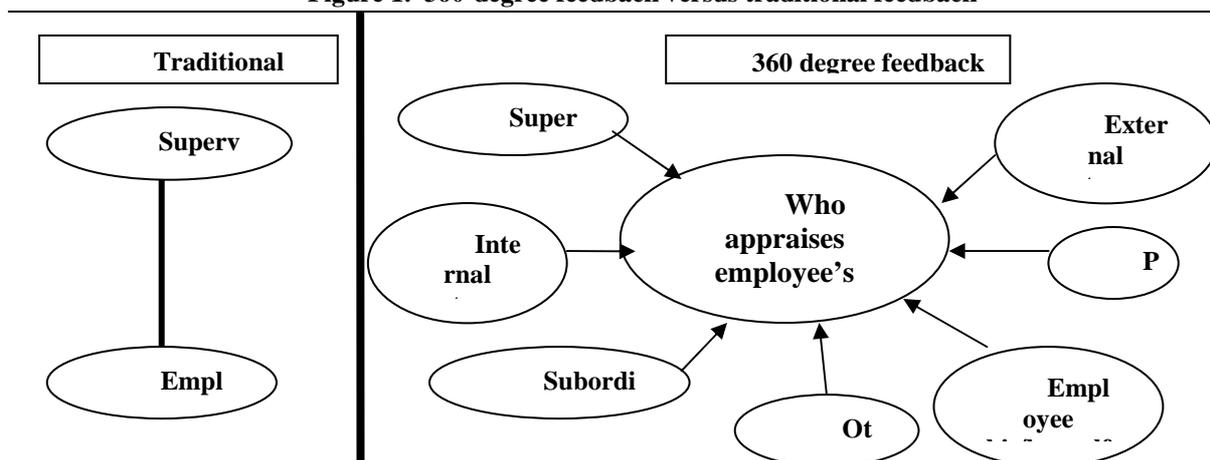
**How and when did 360 degree feedback develop?** The ideas behind 360 degree-feedback are not new. Assessment centers developed by Germany Military during World War II recognized the value of gaining performance insights from multiple perspectives. In organizations, early methods of 360-degree feedback were by surveys used to gather employee opinions. The fundamental premise was that information gathered from multiple perspectives was thought to be more comprehensive and objective than information obtained from only one source. Over the decades, these opinion surveys were used to gather information about various aspects of the organization, including compensation, benefits, leadership, and so forth. But the use of 360-degree instruments for individual assessments was rare prior to the 1980s. Because of the traditional hierarchical structure of most organizations during that time, performance appraisals typically were top-down, single-source assessment. (Fleenor and Prince 1997).

**How do 360 degree reviews differ from more commonly used feedback/review processes?**

*Classical performance feedback* is in the form of an annual evaluation in which your performance is measured against pre-established criteria. A standard form or format is usually followed with checklist-type criteria measuring the individual’s performance against the organization standards.

Garber identified ten common pitfalls of classical performance feedback systems (Garber: 2004): performance feedback in the organization is given only during annual performance evaluations, performance appraisals are based on a single evaluator’s feedback, feedback is presented only by the supervisor, performance evaluations are more of an argument built to support the overall performance rating that is being given, performance feedback is negatively based, performance feedback addresses only the formal aspects of job performance, performance feedback is tied to raises/performance feedback is not tied to raises, performance feedback is not specific enough about the person’s performance, formal performance reviews are full of surprises, the design of many performance appraisal systems results in making 80 percent of those affected by them mad.

**Figure 1. 360-degree feedback versus traditional feedback**



Source: Adapted from Edwards and Ewen: 1996, p.8

*Multiple-source performance feedback* differs substantially from the traditional single-source assessment completed by the supervisor and provides an individual a number of different perspectives about how others in the organization see him or her. This can be particularly valuable feedback for the individual because it eliminates many of the inherent problems of single-source feedback discussed earlier. As the name implies, a person receives feedback from the “full circle” of other people who work around him or her. Feedback is provided by others from every direction including peers, subordinates, supervisors, internal customers, external customers, and even the individual him- or herself. This main feature in comparison to classical feedback is exposed in figure 1. Usually, multi-source feedback is collected for managers or

supervisors, but it could be collected for any employee, with the raters depending on the employee’s role in the organization.

As we can see in the picture above 360-degree feedback systems provide the individuals with feedback from a variety of levels in the organization. In a traditional supervisor-subordinate performance evaluation, the supervisor looks at a person’s performance from an evaluative viewpoint. In 360-degree reviews, the purpose of the information is more from a feedback viewpoint. This is a very important distinction: The focus is on feedback rather than evaluation, taking this information out of the organization’s formal evaluation process with all its implications on the person’s career and future.

**What are the benefits and disadvantages of 360-degree feedback?** It is becoming widely recognized that 360-degree feedback offers several advantages over single-source assessment. Its benefits can be grouped into four categories:

- 360-degree assessments offer new perspective by which individual skills, behaviors, abilities, or performance can be judged (Nicholas, 1992; McCauley and Moxley, 1996 ;). Because 360-degree assessments obtain input from new and varied perspectives, the feedback creates a more complete picture of an individual’s performance and skills.
- 360 assessments (Nicholas, 1992; Ward, 1995). Single-source assessments are subject to the biases and subjectivity of a single individual. Reliance on a single source(for example, the supervisor) for retrospective evaluation, which often cover a year of performance information may not provide fair and valid -degree assessments alleviate some recognized deficiencies of top-down, single source feedback.
- 360-degree assessments provide the unique opportunity for individuals to rate themselves (Ward, 1995; London and Smither, 1995; McCauley and Moxley,1996); self-evaluations have been used for purposes other then 360-degree feedback how ever this evaluations traditionally focused on job satisfaction or organizational effectiveness, rather than on individual performance. With 360-degree feedback, self evaluation adds yet another perspective from which performance and behaviors can be observed.
- 360-degree assessments can be use to reinforce organizational values and vision (London and Smither, 1995). According to Parker-Gore (1996), organizational cultures must be reinforced and developed in this capacity, 360-degree feedback can reiterate the value of specific abilities, behaviors or actions to over all organizational values. (Heisler, 1996). For example, a manager who must be innovative in order to be successful can receive specific feedback on his or her ability to be creative and open to new ideas. When 360-degree assessments are aligned whit organizational visions and values, individual feedback may be more valid for use in that organization. Gebelein (1996) argues that the full impact of 360-degree feedback will not be realized if it only supports individual change and does not integrated that change into the organization strategy.

360° feedback has many proponents and opponents. Organizations that are pleased with the results of the 360° component of their performance management systems have cited the following as positive features to both the employee and to the company (see table 1). Organizations who have reported less than positive results with the 360° review method have cited the following factors as potential problems with this type of evaluation process. (see table 1)

**Table 1: Pros and Cons of the 360 degree feedback:**

<b>Pros of 360-degree appraisal</b>	<b>Cons of 360-degree appraisal</b>
The system is more comprehensive in that responses are gathered from multiple perspectives	The system is administratively complex in combining all the responses
Quality of information is better (quality of respondent is more important than quantity)	Feedback can be intimidating and cause resentment if the employee feels the respondents have “ganged up”
It complements TQM initiatives by emphasizing internal/external customers and teams	There may be conflicting options, though they may all be accurate from the respective standpoints
It may lessen bias/prejudice since feedback comes from more people, not one individual	The system require training to work effectively
Feedback from peers and others may increase employee self-development.	Employees may collude or “game” by giving invalid evaluations to one another

Source: Sherman et al, 1998, 314

When Intel established a 360-degree system, they observed the following safeguards to ensure its maximum quality and acceptance: *assure anonymity* (make certain that no employee ever knows how any evaluation-team member responded; the supervisor’s rating is an exception to this rule); *make respondents accountable* (supervisors should discuss each evaluation-team member’s input, letting each member know

whether he or she used the rating scales appropriately, whether their responses were reliable and how participants rated the employee); *prevent "gaming" of the system* (some individuals may try to help or hurt an employee by giving either too high or too low an evaluation. Team members may try to collude one other by agreeing to give each other uniformly high ratings. Supervisors should check for obviously invalid responses); *identify and quantify biases* (check for prejudices or preferences related to age, gender, ethnicity or other group factors); *use statistical procedures*. (Sherman, et al, 1998).

More than 65 percent of organization now use some form of multi-rater feedback, despite the fact that 360-degree feedback programs have been associated with a 10,6 percent decline in shareholder value. (Pfau and Kay, 2002: 56). The reason appears to be that many organizations have jumped on the 360-degree bandwagon without careful planning and strategizing about why and how the program is being used within the organization. Unless each rater has a consistent view of effective performance relative to the organization's strategy, disagreements can cause unexpected conflicts and problems and result in communication breakdowns that require time to solve.

Despite their popularity, 360-degree feedback programs can create sever problems if not designed, implemented and managed carefully. The organization's strategy and culture must support such a system. Otherwise, the organization runs the risk of performance problems that inevitably will impact bottom-line profitability and value. (Jeffrey and Mello, 2006:449). Despite the advantages of multi-rater systems, collecting additional performance data results in a greater economic cost (relative to opportunity cost of the time of those involved in the process) and a more complex process in attempting to process and analyze the data to provide meaningful feedback to employees, If is not designed and implemented carefully 360-degree feedback systems can result in the collection and processing of excessive amounts of information that provide no benefit to either the organization or the employee. (Jeffrey and Mello, 2006:449)

**Developmental purpose versus evaluation purpose.** Despite general acceptance, a great deal of controversy still exists as to whether 360-degree feedback should be used for appraisal, with administrative consequences, or strictly for development. (Maylett, 2009:1). With the recent shifts in the economy, the case for using 360s is again under the microscope. These initiatives fall into two general categories: feedback for development and feedback for performance appraisal. Before determining whether to use multi-rater feedback for development or for appraisal, it is important to understand the role of feedback within an organization. Feedback is a vital part of performance, growth and development. Understanding oneself and how one interacts with others helps to understand the impact one has on one's surroundings. (Maylett, 2009:2). The perceptions of others within one's circle of influence, whether those perceptions are accurate or inaccurate, determine each employee's level of success.

An organization needs to decide up front if the purpose of the feedback is developmental only, or if it will be evaluative and linked to promotion and reward. A 360 degree process is most often used as an assessment tool for personal development rather than evaluation and experts warn that linking 360 degree feedback to administrative actions such as selection or pay could skew the feedback and become detrimental to the process. (Alexander, 2006). For example, if the results of a 360 degree process are tied to an employee's eligibility for advancement either in pay or position, the raters, who may see themselves as competitors, may become motivated to provide negative feedback. The process would be seen as a control tool, negatively impacting its reliability and validity within that organization.

*Feedback for development only.* Many feel that 360-degree feedback should not be used for appraisal purposes. Dalton (1996) consider that when 360-degree feedback is used for development, the data are private or own by the ratee , but when is used for appraisal, the feedback data are not private. The authors argue that using 360-degree feedback for appraisal violates principles about learning, growth, and change. Performance appraisals differ in that they measure past performance and are specific to the employee's particular job. Because performance appraisals are retrospective, they can be more easily affected by bias and may not provide the information an individual needs to improve performance.(Jones and Bearley, 1996). Research has demonstrated that when ratings become evaluative rather than purely developmental some raters (up to 40%) change their ratings (London and Smither, 1995)

UPS tested the potential of using 360-degree feedback for evaluation. The company asked employees after they had provided upward ratings whether they would have altered the ratings, if they knew they would be used as part of their manager's formal performance evaluation. Their findings suggested that some individuals would raise and some would even lower, ratings if they were to be used for evaluation. 360 degree feedback is typically collected anonymously. (Waldman, et al, 2000: 465) Rating that are not anonymously may differ from those that are. Some companies have abandoned the use of 360-degree feedback for appraisal purposes. For example, half of the companies surveyed in 2000 that had implemented

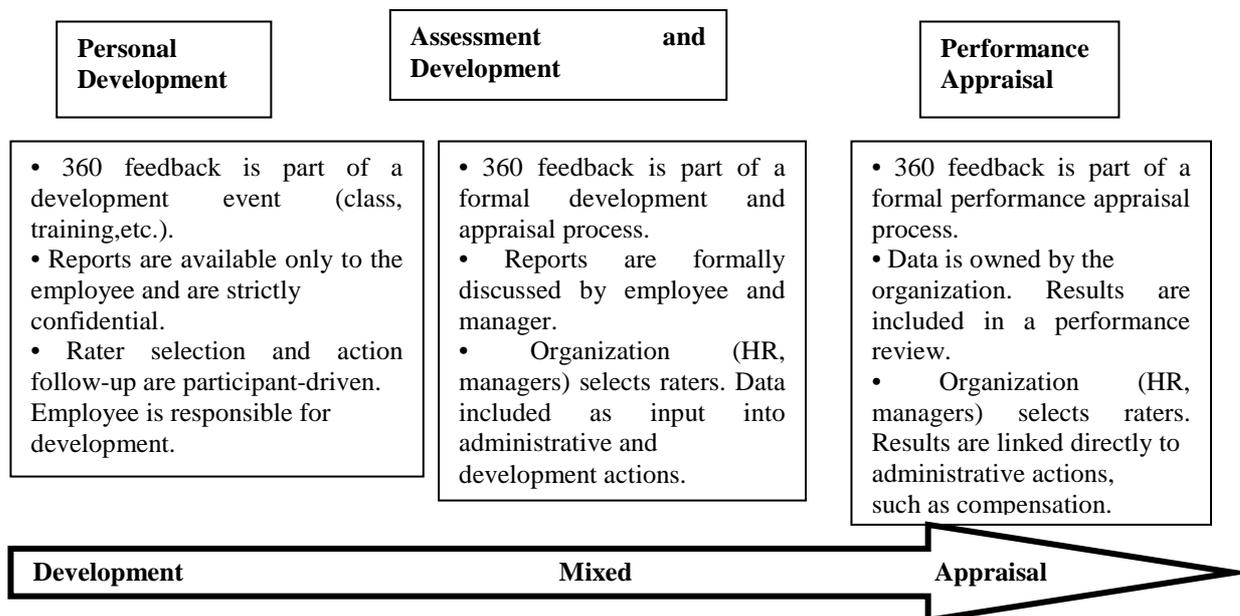
360-degree feedback for appraisal had removed it because of the negative attitudes from employees and the inflated ratings. (Waldman, et al, 2000: 465).

Another example is student evaluations of teaching. They were designed to be mainly developmental in nature, providing faculty with information that could be used to improve teaching. Over time, university administrations have increasingly used this feedback for evaluative purposes, e.g., for promotion and tenure decision. Has this feedback process resulted in improved student-faculty relationship, trust and communications? Has it had any effect on student learning outcomes and the satisfaction of ultimate customers- employers and society? Student feedback, especially when is used for evaluation, can certainly modify a teacher’s style without having an impact on student learning

*Feedback for performance appraisal.* Whether one agrees with it or not, economic reality has caused an increasing number of organizations to begin using 360-degree feedback for appraisal rather than exclusively for development. This carries with it some significant pros and cons.(Maylett, 2009:2). A possible advantages of using 360-degree feedback for performance appraisal its that multiple sources of feedback may cancel out those biases and provide a more well-rounded picture of the employee’s past performance (McGarvey and Smith, 1993). Some also feel that using 360-degree assessment for appraisal will promote the acceptance of the decisions because the information on which the decisions are base this more complete. In many cases today, the decision to use 360 degree feedback for appraisal has already been made. Fortunately, a number of organizations have been able to successfully use 360-degree feedback for development and then begin using it for appraisal purposes at a later date, once the organizations become more adept at giving and receiving feedback (Maylett,2009:5).

These companies often find that gathering multiple perspectives for appraisal provides very rich data. Although less common, some organizations have been able to successfully use multi-rater appraisal from the very beginning. The organizations that succeed are those that understand the difference ahead of time and build their processes accordingly

**Figure 2. 360-Degree Feedback: the Transition from Development to Appraisal Purpose**



Source: Addapted from Maylett Tracy, p 6

*Feedback for development and appraisal.* Some organizations are now attempting to incorporate 360-degree feedback into their appraisal and development processes (Dunnette, 1993; London and Beatty, 1993). As cost-constrained organizations began to look for ways to get the biggest bang for their evaluation buck, using 360-degree feedback for both performance appraisal and development seemed to be an attractive solution.(Maylett,2009:2) The question from many executives soon became, “Why not just combine the two?” However, most managers failed to realize that these two forms of feedback, although similar in design, produce significantly different results. We think that successfully using 360-degree feedback for both employee development and performance appraisal requires a clear understanding of objectives and possible outcomes

When using 360-degree feedback for the first time, implementing a process for personal development during the first year and progressing toward performance appraisal use in the following years generally provides a better long-term result. (Maylett,2009:5) The speed at which an organization moves from using 360s for development to performance appraisal largely depends on the culture of the organization and employees’ openness to feedback. The figure 2 illustrates a common migration path.

In conclusion using 360 degree assessment for appraisal has some significant advantages as well as disadvantages. We consider that it is important to note, however, that 360s for performance and 360s for development are likely to produce completely different outcomes.

When employees understand that the feedback they receive will be used purely for their own developmental benefit, they tend to be more receptive to the feedback provided. Rather than receiving the feedback from a defensive posture, employees are more apt to accept the feedback as a “gift” from those they affect. When 360-degree feedback has administrative consequences, such as raises, promotions, bonuses or possible layoffs, employees may be more likely to attack the feedback rather than accept it. After all, they may have much more to lose. Similarly, raters may be less likely to provide honest, candid feedback when they know that it may affect someone’s pay or position.

Based on the literature reviewed and the next case study we suggest caution in adopting 360-degree feedback and use it strictly developmental at first. 360-degree feedback was originally born out of a way to improve the performance appraisal process. Therefore we are totally agree that the real purpose of 360-degree feedback is a developmental one.

**4. Case study. A typical case of 360-degree feedback implementation for employee’s development**

For 360-degree appraisals and feedback to be effective, there has to be trust throughout an organization. More generally, trust is a critical ingredient in any performance appraisal and feedback procedure. In addition research suggests that 360- degree appraisals should focus on behaviors rather than traits and results and managers need to select the appropriate raters. (Gareth and Jennifer, 2011:409). Moreover appraisals tend to be more honest when made anonymously and when raters have been trained in how to use 360- degree appraisal forms. Additionally, managers need to think carefully about the extent to which 360-degree appraisals are appropriate for certain jobs and be willing to modify any appraisal system they implement if they become aware of unintended problems it creates.( Peiperl, 2001: 145) Multi-rater feedback processes, if not correctly implemented, can be costly to implement, administratively complex and time-consuming. (Maylett, 2009:1)Whatever the use of 360-degree feedback, there are three main stages to the implementation process: preparation, administration, and follow-up.

A large telecommunications company from Romania decided to implement in its Customer Service team 360-degree feedback. Over the previous years, the team (comprising of approximately 80 agents, 8 team leaders and 2 managers) had already done a lot of training and development — not only in technical skills and product knowledge, but also in soft skills. They had used the SDI (Strength Development Inventory) as part of their Customer Service training and also to help their Team Leaders and Managers to improve their leadership skills. A lot had been achieved with their SDI learning but they were now facing a particularly challenging time. A large competitor was withdrawing from the market place and the company was flooded with new clients. The sudden increase in business was affecting the customer service agents in a more negative way. They wanted to do something that would help the team leaders better manage and motivate their teams through this difficult period. And so they decided to expand their SDI work into the area of 360-degree feedback. This feedback would be used to encourage changes that would better support the agents, increase satisfaction and impact performance levels.

When conducting 360 feedback, there are some basic principles that should be followed in order to ensure the process goes smoothly, the feedback given is honest and beneficial, and that something useful is done with the information gathered. So here is how our company approached the project:

**Table 2: Ground rules for effective 360-degree feedback**

Steps	The Basic Principles	What Telecommunications Company Did
1	Ensure that the 360 process fits with your other development activities e.g. it's a logical next step in the development processes you have been doing and will not be a shock to the participants.	This was a natural progression to the SDI development they had already done. All were already familiar with the SDI and the Team Leaders were keen to learn more about themselves.
2	Ensure you have a clear intention for the purpose of the process e.g. to continue the development of your	Their intention was to improve agent motivation, satisfaction and performance by improving Team

	management team by creating individual development plans for all participants and based on the results developing a Management Development program that will address common, weaker areas.	Leader performance. Giving them the chance to see the impact that their actions had on others and so identify improvement areas.
3	Ensure all participants are fully briefed about the reason for the process, what will be involved, outputs of the process and the benefits they can expect from participating in this. Deal with any concerns and ensure the participants feel positive and optimistic about the process. (360 will not work if you 'impose' it on those who do not wish to do it. So it must be clearly communicated and commitment gained).	The Team Leaders were fully involved from the beginning and totally understood the process and the benefits they would gain. Their concerns were that the feedback from there directs reports and their boss would conflict — they would expect different things and so be impossible to please all.
4	Ensure that all those who will be asked for feedback are also briefed so that they understand why their input is needed, what exactly they will need to do, how much time it will take, what will happen with the information they give and what benefits they can expect from the process.	Within this group, 3 people were SDI qualified and these people explained carefully to the agents what the process would involve and what their part in this would be, how their feedback would be used, etc.
5	In addition to yourself, the following people are usually asked to give feedback: <ul style="list-style-type: none"> <li>• your boss</li> <li>• 3 – 5 direct reports</li> <li>• 3 – 5 colleagues/peers</li> </ul>	After reviewing themselves, the Team Leaders were reviewed by their boss and their direct reports. It was felt that due to previous trainings the Team Leaders as a group already knew each other very well and it was not necessary to add this 'colleague' feedback into the process.
6	Usually the feedback given by each individual remains confidential, with the exception of the boss. This is to encourage honesty when answering. This is achieved by producing separate reports of the feedback; all the results from the group of colleagues, and all from the group of direct reports. Some 360 feedback processes are open so that they encourage face-to-face discussion between the feedback provider and feedback recipient as a way to further strengthen learning and build the quality of the relationship. This should only be done where there is a sufficient level of emotional maturity in the organization.	The open style for the SDI feedback was just what this group needed. And in terms of maturity, company was ready for this. The feedback results were treated with respect and the openness encouraged more one-to-one sharing, discussion, and future planning.
7	All 360 processes ask for feedback by completing some kind of questionnaire which asks for feedback on certain criteria. These criteria can be competencies (as relevant for that job or company), skills, potential strengths, and weaknesses. The important thing is that the criteria are useful and relevant for the participants.	Here, the language of the SDI, which everyone was already familiar with, served as an excellent tool. The team leaders completed for themselves the SDI, the Portraits, the SDI Expectations Edition, and the Expectations Portrait. Their managers completed the SDI Expectations Edition and the Expectations Portrait. The agents completed the Feedback Portraits. Everyone already knew each other's actual SDI results.
8	Ensure enough time is allowed in the process for briefings, completing questionnaires, and collating feedback reports. These things often take longer than expected due to holidays, absences, and daily pressures of work.	One month was allowed to collect all the questionnaires. Some completed assessments individually while others came together in small groups and completed their feedback after a briefing
9	Once all the feedback is gathered, reports should be produced and given directly to the feedback recipient with no other copies given to anyone else. Knowing that the feedback is confidential will also increase the likelihood of honest answers when people are giving the feedback.	We (the facilitator) then used the SDI software to put together various comparisons of the data. Custom reports were printed and put it into a personal folder for each team leader. For example, we compared their own SDI and portraits with their job expectations and portraits. We compared their manager's Expectations with their own Expectations. We compared the agents' Feedback Portraits with their own Portraits, etc.
10	Each participant should be given time with an independent person (or coach) who will help them to	Each team leader was then given their reports about a week before meeting with a "coach."

	interpret and understand the feedback they have received. This is an opportunity to make sense of the sometimes conflicting feedback and decide how they might be able to use this information to improve their relationships and performance.	This allowed participants a chance to make their own conclusions and identify questions and discussion areas for their coaching session. They spent 2 – 3 hours with a personal coach to help them to make sense of the data and decide what they wanted to do about it
11	The tangible output from the 360-degree feedback process should be a personal development plan which the participant has developed with the help of their 'coach' or 'adviser'. This development plan should then be discussed and agreed upon with their boss. There may also be a 'group' development plan that results from the process, which can be used to create a management development program later.	Each team leader identified a personal action / development plan which they created with the help of their facilitators and coach. They then took this back to their managers and discussed the plan in more details with them.
12	Participants decide whether to show their report to anyone else or not. Sharing should be encouraged as many more benefits can be gained from face-to-face discussion of feedback, both with the boss, direct reports or colleagues. However, the individual should be free to choose if they are comfortable with this or not.	Many of the company team leaders chose to share their reports with their boss and with some of the agents in order to clarify some of the feedback and discuss how they might best use the information to improve relationships and performance.
13	The creation of the development plan is not the end of the process. There also needs to be mechanisms in place for reviewing progress, carrying out development in improvement areas, providing feedback on progress made, and possibly completing a follow-up 360 process to see if goals have been met and identify new areas for improvement.	The managers continued to work with their team leaders to put their development plans into action. They also decided to perform the 360-degree feedback program on themselves to improve their relationships with team leaders and better understand what they were trying to do.

As we can notice in this case study, with careful planning and implementation, the benefits of 360-degree feedback can be successfully realized, rather than merely taken on faith. It also showed that implementing of this process should be tailored to the needs of employees and organization. One year after the implementing of 360-degree feedback, the Customer Service team is going strong. Each team leader has just undertaken an SDI team development process with their direct-reports in order to build on the original 360 feedback process and continue the work of developing and motivating their teams.

So, did they achieve their goal? Yes! Results were calculated using various performance measures including customer satisfaction levels, speed of call answering, time on one call, achievement of goals etc and all of these indicators improved. But the main benefit that they saw was the motivation of the agents and team leaders. Communication between agents, team leaders, and customers — internal & external — greatly improved. Barbara Gorse, manager of the Call Centre had the following to say: “The 360 feedback process is an ingenious tool to understand the relationships in your team and the behavior of all individuals. It is a perfect process to improve the working atmosphere and to build a good working environment, where people are more relaxed, enjoy working with each other, and can get better results. Can you imagine anything better than an environment where everyone is aware that each and every person is unique, respects the differences, and uses these differences to build stronger healthier relationships? 360 feedback process brought us here. The investment in this process is nothing compared to the results we achieved.”

**5. Conclusions.**

Increasingly, major companies are using 360-degree appraisal and feedback systems. In contrast to the traditional approach, where a single person- usually a supervisor – rates employee performance, 360-degree systems collect performance information from a set of colleagues and internal customers who form a circle around the employee. Multi-source evaluations are perceived as more fair than single-source approaches. The evaluation process produces more valid results because it involves a group of people who interact with the employee in many different ways. For the same reason, the process should be less susceptible to gender and ethnicity biases than are single-source evaluations.

Another conclusion regarding this method is that it is a very cultural sensitive method – it depends very much on the organizational culture how you implement it and how you can use the results. Ideally, this type of assessment helps the employee gain a better understanding of her/his skills and behaviors as they relate to the organization’s mission, values, goals and vision.

Three hundred and sixty degree feedback makes better performance possible because it: enhances information quality, provides specific performance feedback, targets developmental areas, provides strong motivation, facilitates performance improvement, allows measurement of training effectiveness, enhances self knowledge, support continuous learning, improves the reliability and validity of performance information.

Ideally, organizations should use both a multi-rater assessment for development and a separate performance evaluation, whether it is multi-rater or single rater, and they should be clearly separate

Experts ( Waldman et al, 2000) do agree that 360-degree performance appraisals should:

- be used more for employee development than for making personnel decisions
- be part of a formal goal-setting system
- be administrated on a regular basis rather than only once
- provide aggregated, anonymous feedback to recipients
- provide orientation and training to performance raters
- assure that raters evaluate employee behaviors only in work roles for which they have adequate knowledge and first-hand experience

Originally used almost exclusively for developmental purposes, using 360-degree feedback for purposes other than employee development increased significantly over the past decade. One application increasing in popularity is the use of multi-rater feedback for performance appraisal. This, in turn, serves as input into administrative decisions, such as compensation. Opinions are mixed as to whether 360-degree feedback should also be used for appraisal purposes or used exclusively for development.

*What are future trends and research needs for 360-degree feedback?* One trend in 360-degree feedback is growing popularity of electronic methods, such as personal computers, for administration and feedback reporting. Although computer PC administration may increase the price of the consumer, the method has many benefits, especially in the presentation of the feedback to the recipient. Instead of sifting through mounds of data to find, for example, the highest rated items, a manager can get the software program to sort and arrange the information in a fraction of the time.

Not only is more research needed related to business initiative and impact, there is a need for additional research on the psychological implications of giving a receiving 360-degree feedback (London, 2003). This research should be targeted towards issues such as rater psychology, self-awareness and feedback receptivity; it should also focus on the overall impact and design of 360-degree feedback, including the possible effects of electronic administration and customization of 360-degree feedback instruments

Every indication is that the use of 360-degree feedback will continue to grow. Further experience with this technique will lead to new ideas and methods but also may identify pitfalls to avoid. There is still little agreement in the literature on the several issues surrounding 360-degree feedback. This lack of consensus, however, has not seemed to slow its growing popularity. To fairly evaluate 360-degree feedback, one must be aware of its benefits but also be cautions of its complexity. Because it can be such a powerful tool, the potential for error and misuse is increased.

### Acknowledgments

*The authors wish to thank for the financial support provided from the program co-financed by THE SECTORAL OPERATIONAL PROGRAM FOR HUMAN RESOURCES DEVELOPMENT, Contract POSDRU 6/1.5/S/3 – "DOCTORAL STUDIES, A MAJOR FACTOR IN THE DEVELOPMENT OF SOCIO-ECONOMIC AND HUMANISTIC STUDIES".*

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## CONSIDERATIONS REGARDING THE EMPLOYEE'S ATTITUDE TOWARDS THE CHANGE REFLECTED IN THE RESEARCH COMOR

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**Abstract:** *The project COMOR - managerial behaviour in organizations in Romania is a complex exploratory research carried out at national level, economic organizations in all fields of activity, whose objective is to identify the cultural dimensions that characterize the organizational management of the Romanian territory and the main types of behaviour management.*

*Under the impact of the dynamism of the knowledge revolution and ruled the current scientific and technical progress, survival and development capacity of organizations depends to a decisive extent on the attitudes of managers towards change.*

*This study characterizes employee attitudes towards change in Suceava County, drawn from complex analysis, descriptive and factorial of responses by asking a number of 222 subjects from 17 business organizations, in accordance with the methodology of the research process of COMOR.*

**Key words:** managers, change, cultural dimensions, managerial behaviour

**JEL classification:** M12

### 1. Introduction

In the present context, the emphasis on globalization and internationalization of economic activities, the transition to knowledge based information society, organizational change is not only inevitable but necessary, and management must identify the opportunities that arise in this regard and to coordinate effectively.

To do this, organizational change must be well grounded, so the incentives for change by knowing and immobility of the forces that generates organizational benefits resulting from implementation, but also the difficulties that arise and hinder this process. Although essential to the success of organizations, the change should be conducted at random, just to be in line with new trends, but only when the objective needs require. Usually, the most common causes triggering requires fundamental organizational changes are: changing the legal status and ownership, substantial changes in income, productivity and competitiveness of the organization, expanding and / or restricting market, image and prestige of the company etc..

The increasing complexity of this process makes to the management of change is now an essential feature of a performance management, providing solutions to increase sustainability and ensure sustainable competitive advantage of organizations.

This paper proposes, based on the questionnaire developed under the project initiated by the Society for Scientific Management in Romania, to identify - among others, the attitude of employees in general, but especially for managers, not to be neglected as a factor acting the change in economic organizations in the county of Suceava.

Our analysis is based on opinions expressed by a sample consisting of 222 subjects who work within 17 business organizations in the trade (8), industry (6), construction (2) and distribution (1).

### 2. Brief methodological notes

The whole COMOR research study aims widespread views about the views expressed by a stratified random set on the main economic attitudes of employees in organizations on organizational culture dimensions, method and style of leadership, organizational communication and employee motivation, attitude toward change.

From the methodological point of view, research shows that a symbiosis between quantitative and qualitative based on "convergent use of statistical methods and case law, use of methods that are both quantitative and qualitative" (Chelcea, 2007, p. 75). As a result, the data processing software through several steps and successive reviews have been quantified in specific indicators that allow us to develop scientific

arguments both descriptive analysis (quantitative) and factor analysis (qualitative) of each size each type of cultural and organizational behaviour - management.

Specifically, **this program processing steps were:**

*Step 1. Setting variable clustering raw data, they can be distinguished:*

- organizational variables: scope of work, organization size, type of organization;
- individual variables (respondents): sex, age, education, managerial training, hierarchical position.

*2nd Step. The level of aggregation of information processing: organizations (only at the request of stakeholders), county, regional development, macro, macroeconomics.*

*3rd Step. Calculation of indicators to analyze descriptive statistics (quantitative)*

- the share of value judgments on each variable group set in step 1;
- The proportion of variables on each trial value of securities (total agreement, partial agreement, indecision, partly disagree, strongly disagree).

*4th Step. Calculation of statistical indicators for factor analysis (qualitative) the factual judgments:*

- scores calculated according to the converted values of Rensis Likert scaling for each question in the questionnaire which is characterized by a specific cultural dimension, that a certain type of behaviour;
- Standard deviation (dispersion) calculated for the group of questions in the questionnaire, which signifies a certain size or a certain type of cultural behaviour
- identifying the module and, respectively, the median, the statistical range of scores corresponding to those questions which signifies a certain size or a certain type of cultural behaviour.

### 3. Case study on the attitudes of employees to organizational change Suceava County

#### 3.1. Primarily informational support

Information on organizational change to employee opinions was collected from the 222 responses given by subjects to three questions from the questionnaire applied in the 17 business organizations in the county of Suceava.

These questions were:

				at	ap	i	dp	dt
Q32	To obtain a change (in technology, organization, strategy, management, culture, etc.), your organization	Pa	resort to experimentation and innovation					
		Pd	should resort to experimentation and innovation					

				at	ap	i	dp	dt
Q35	In your organization	Pa	to adopt new organizational structures, including changing the legal status of the organization, leading to increased competitiveness					
		d	should adopt new organizational structures, including changing the legal status of the organization, leading to increased competitiveness					

				at	ap	i	dp	dt
Q36	In your organization	Pa	is often adopt new marketing strategies to promote new products / services or to penetrate new markets					
		d	should adopt new marketing strategies to promote new products / services or to penetrate new markets					

As with other questions in the questionnaire (80 questions in total), and in this case, each respondent was asked to give their opinions on a Likert-type ordinal scale with five levels of value judgments (total agreement - at, partial agreement - ap, indecision – i, partly disagree - dp, disagree - dt), as it perceives reality of his organization - Pa (current practice) and as he considers should be - Pd (required practice).

Commenting on the content questions, detach the fact that they were made so by the responses received, Interpretations may be made to help with the conclusions generalizing on purpose. In this case, it refers to the attitude of employees towards organizational change, ways of making the implementation and change.

Thus, the *question Q32* examines how to achieve change within organizations, focusing on the role of experimentation and innovation. The approach is interesting because it is known that is not enough for organizations to want to change or adjust on the fly to changing conditions, but must anticipate, initiate and lead change in order to achieve competitive advantage. This requires that today's manager to be very active, dynamic, sometimes even aggressive, stimulating creativity and innovation staff as important factors of economic growth and competitiveness of firms. Creativity decisively influence the pace and scope of renewals, being a minimal force management organizations and a true and inexhaustible source of change.

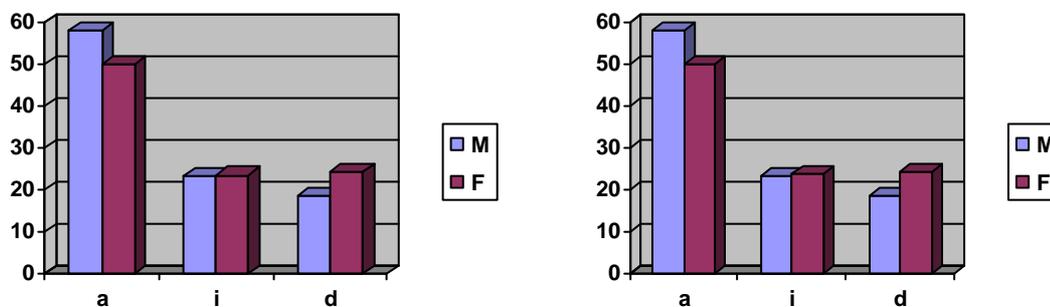
In dealing with organizational change should be a clear distinction between the small changes that have implications for individual or group work (e.g. work schedule change, of posts and functions within the organizational structure, information channels, etc.) And change organizational, causing major changes, radical as a whole organization, with key implications of the behaviour of all employees (such as introducing new technologies fundamentally change the organizational structure, redesigning the system of evaluation of professional performance and motivation of employees, implementation of new marketing strategies or modern systems of management: management by objectives, management by projects, management by budgets, etc.). In other words, organizational change involves changes in the mission and vision of an organization and human resources generated by the acquisition of new knowledge, skills and abilities for successful implementation of new tasks and procedures (Nica, 2004, p. 274). Responses to the *question Q35* helps us find just the opinion of employees on this type of major change in the organization.

The explosion of knowledge in the contemporary period, the fast pace of technical and technological progress generates major changes in the overall work of the organization, requiring acutely new products and services or to improve significantly the quality level of the existing ones in order to meet a higher internal and external consumer demands and efficient conduct of activities in a competitive environment increasingly stronger. Also needs a strong prospect for market activity, using modern methods and techniques for adopting the most appropriate marketing strategies as essential tools in the process of organizational change. Employee attitude to such aspects of organizational change is highlighted by the responses to *question Q36*.

### 3.2. Quantitative analysis of opinions from organizational change

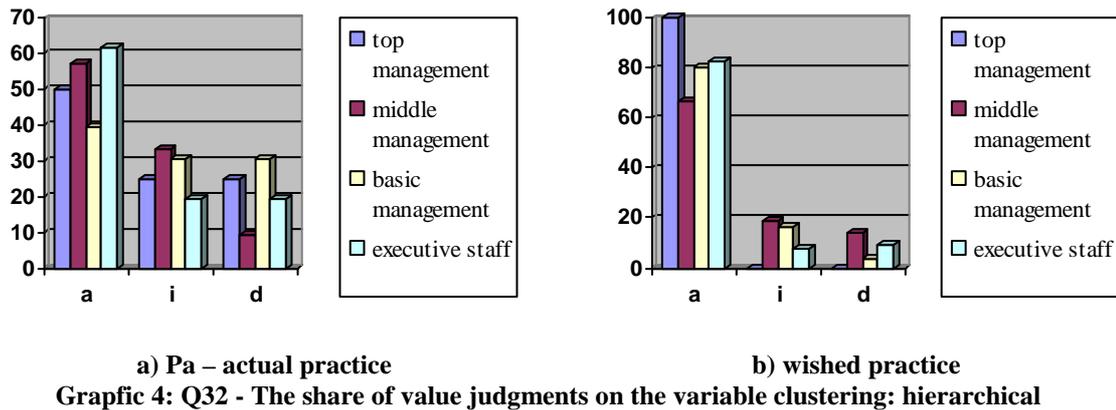
For the descriptive analysis of respondents' opinions of organizational change was calculated share value judgments (agreement - *a*, indecision - *i* and disagree - *d*), grouping the following variables: gender, age, education level and hierarchical level.

In terms of *promoting change through experimentation and innovation - Q32*, respondents' gender influences only a small extent, the views expressed in the sense that men are more receptive to the introduction of the new creation. By analyzing the graph 1 (a) that at least half of respondents (50% - 58% women and men) agree with current practices existing in the organization in this direction, a trend that is still significantly increase the practice of choice (Graphic 1.b), meaning that 82.7% of men and 77.8% of women agree with this way of implementing organizational change.



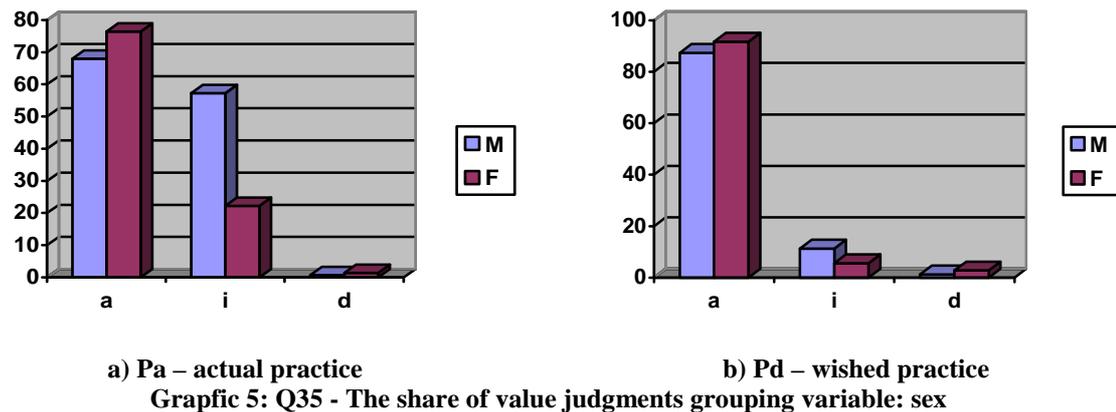
a) Pa – actual practice  
b) Pd – wished practice  
Graphic 1: Q32 - The share of value judgments grouping variable: sex



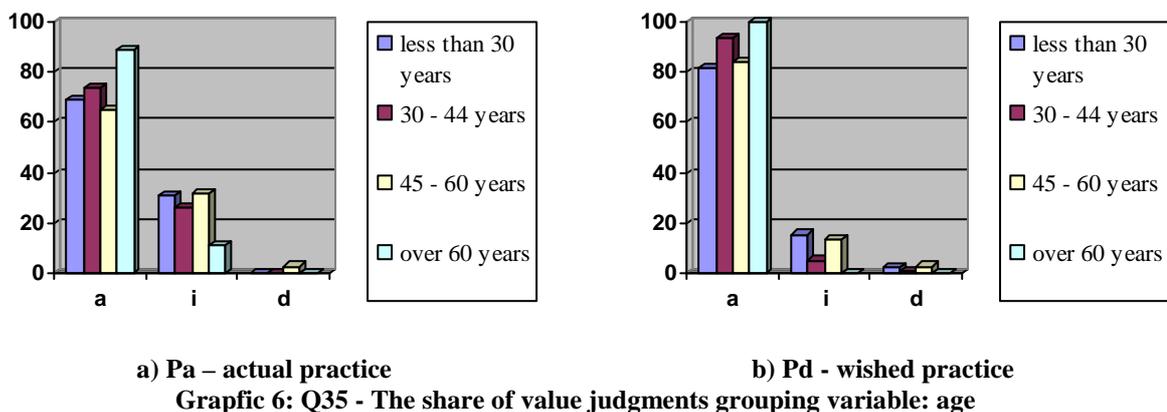


Regarding the question Q35, the analysis shows that, in general, there is the attitude of the respondents agree and support to change by adopting new structures within the organization and legal status changes, in order to increase competitiveness.

Thus, graphic 5 shows that 76.3% of women surveyed and 68% of men with agrees that radical changes in organizations in which he operates favourably affect competitiveness, compared to a small percentage, about 0.9% of those who disagree with this. In contrast, in the future, this positive attitude towards change is strengthened and amplified, something underscored by the high percentage of 91.7% to 87.3% in men and women, those who had manifested their consent for such practices .



In Chart 6 we notice that most of its employees, regardless of age agrees with the practices of reorganization, restructuring or change in legal status to obtain beneficial results for the organization. If we are to achieve a ranking of the age groups for both current practices and for the desired change in this way is supported mainly by people over 60 who have extensive experience and have built already a professional career (88.9% - 100% Pa - Pd), the second ranked respondents hovering between 30-44 years (73.7% - 93.9% Pa - Pd).







numeric values (from 5-1, and from 2 to -2) are above average, being quite close to the maximum of the scale.

The overall feedback from the three questions, which were investigated opinions about organizational change (Q32, Q35, Q36), these indicators show trends econometric summary below:

Nr.	Explanations		Medium score $\bar{x}$	Standard deviation $\sigma^2$
1.	Scale values for Pa	de la 5 la 1	3,868	<b>0,329</b>
		de la +2 la -2	0,868	<b>0,347</b>
2.	Scale values for Pd	de la 5 la 1	4,480	<b>0,249</b>
		de la +2 la -2	1,480	<b>0,256</b>
3.	Pd trend towards Pa		grow 	decrease 

where:

$$\bar{x} = \frac{\sum_{i=1}^n x_i f_i}{\sum_{i=1}^n f_i} \tag{1}$$

$$\sigma^2 = \sqrt{\frac{\sum_{i=1}^n (x_i - \bar{x})^2}{\sum_{i=1}^n f_i}} \tag{2}$$

where:

$x_i$  - represents the opinions score for each question (Q) that characterize a certain attitude towards change;

$f_i$  - number of respondents to each question in the questionnaire;

$i$  - the number of questions coming in characterizing the attitude toward change, taking values from 1 to n (in the case study,  $i = 3$ ).

The situation in the surveyed firms, a large number of respondents believe that the concerns for change are quite present, they stood at 3.868 level on a scale ranged from 1 to 5 and 0.868 at the scale values range from 2 to -2. However, for the future, more and more respondents believe that the process of organizational change should be stronger, as confirmed by the increase in score value opinions, 0.612, is very much closer to the top of judgments of value (4480 to 5 maximum value respectively compared to February 1480, the highest value on the scale from 2 to -2).

The same trend is found from the analysis of variations of the standard deviation of 0.329 to 0.249 on the scale from 1 to 5, respectively, from 0.347 to 0.256 on the scale with values from 2 to -2, which reflects changes actually concentration of positive opinions toward the superior pole of the scales within which value judgments have been expressed.

If this is the situation overall, we ought to do some nuances of the views expressed by some of the variables most important structures of the sample group used in research.

Thus, men are more wary of small changes. They opt for profound changes, substantive changes to allow a long-term competitiveness, such as those aimed at the organization's mission, with obvious implications on management strategies, marketing, human resources etc.. They see things in perspective, with greater lucidity, refusing rush things without a thorough grounding. Consider that organizational change must be based on creativity, innovation, experimentation accompanied monitored more responsibility.

The same categories of major options are cast by the managers (at all hierarchical levels), especially by persons who occupy executive positions, which they perceive as the difference between the desired situation to that existing is greater.

Options to change women are especially targeted by the customer and his needs, but also the psychosocial problems of human resources within organizations. This group of respondents focus on marketing strategies, market exploration, introduction of new products and / or services (quality and their price, distribution network, etc.), As well as the internal re-evaluation of performance, strengthening accountability through motivation the use of modern management model (through goals by budgets, etc.), giving the hierarchical structures and promoting matrix structures.

It should be noted that such options are well received and by a majority of managers at all hierarchical levels, where we conclude that a number of managers are women.

### Conclusions

With the change became an important attribute of modernity in a world that continues to evolve (Helfer, Kalica, Orsoni, 2000, p. 348), organizations ability to adapt to new environmental requirements is subject, directly, their attitude toward change. Therefore, the change should be seen by all employees, especially by managers as an important cultural dimension because it is a dominant feature of the current organizational climate, an endless source of creative opportunities for enhancing innovative capacity of organizations, a genuine opportunity for survival, viability and continued growth of competitiveness.

The success of change depends crucially on the potential and performance of managers, their ability to learn, to anticipate and plan for change, for its harmonious integration strategy of the organization. This will not only allow organizations to adapt continuously to new conditions, but also a greater mastery of their position by promoting the management of change, which is now an essential feature of management. Referring to the important role of managers in organizational change process, RM Kanter pointed out that "managers who find appropriate changes that need to take their organizations to successfully implement these changes allow their organizations to be more flexible and innovative. Since change is so important a part of their organization, so managers are extremely valuable for organizations of all types "(Kanter, 1989, p. 85-92).

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## DEBT STRUCTURE AND CORPORATE CASH HOLDINGS

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**Abstract:** *The relationship between the cash and leverage is still puzzling in literature. This paper fills this gap by examining how debt heterogeneity and derived debt structure are related with corporate cash holdings. We find that corporate cash holdings have a strong relationship with the structure of debt, and the direction of relationship varies depending on the type of debt. In particular, corporate cash holdings are negatively correlated with the proportion of secured debt, short-term debt, commercial paper and bank debt. On the other hand, firms show the opposite direction of cash holding behavior as they have a larger proportion of subordinated debt, long-term debt and convertible bonds. This paper provides a new insight on the understanding of relation between corporate cash holdings and leverage policy.*

**Key words:** Corporate Cash holdings, Debt Structure, Financial Flexibility

**JEL classification:** G20, H20

### 1. Introduction

Many researchers have investigated the relationship between corporate cash holdings and leverage. However, the relationship between the cash and leverage is still puzzling. Opler et al. (1999) argues a negative relationship between cash holdings and leverage based on pecking order theory that firms decide to issue debt after using up internal funds. Faulkender and R. Wang (2006) also supports the negative relationship by providing the finding that as leverage increases the additional dollar value of cash is decreasing since the cash will be transferred to debtholders. In contrast, a recent paper by Acharya, Almeida, and Campello (2007) suggests a theoretical background that cash is not the same as negative debt, and it can play distinct roles depending on firms' hedging needs. In the existence of uncertainty about future cash flow, they argue that firms have incentive to save the proceeds from the debt issuance (hoarding cash) and transfer resources across time for the optimization of investment.

This paper attempts to shed a new light on this question by investigating how the debt structure heterogeneity affects the interplay between corporate cash and debt policies. Most empirical papers in this literature have ignored the heterogeneity of debt and the corresponding significance of debt structure, and only focused on leverage ratio despite the fact that the heterogeneity is well-known in theoretical research and the real world. However, when firms decide to obtain debt financing, they have to choose the characteristics of the debt obligation such as priority, source or maturity depending on firms' specific characteristics. From recurring debt financing activities, their accumulated decisions may entail substantial variation in debt structure across the firms.

A recent paper by Rauh and Sufi (2009) shows the importance of recognizing the heterogeneity of debt in capital structure. Using the data set on the debt structure of public rated firms, they show that firms simultaneously use different types, sources, and priorities of debt, and thus, a unique focus on leverage ratios misses important variation in security issuance decisions. The findings in Rauh and Sufi (2009) supports the motivation of this paper.

Using a sample of 300 randomly chosen U.S. firms for the period 1996-2005, we examine the relationship between the structural features of corporate debt and cash holdings. We expect different debt structures that produce the same net debt level may lead to significantly different cash holdings depending on the relative proportions of different debt. Following the data collection process from Rauh and Sufi (2010), we restrict the sample to firms with an issuer credit rating and collect the debt structure data directly from financial footnotes in firms' annual 10-K filings. Since the variables of interest in this paper are the structural characteristics of debt structure, we use the proportions of debt structure components which are scaled by total debt.

The prevailing argument for corporate cash holdings is the precautionary hypothesis (Kim, Mauer, and Sherman (1998), Han and Qiu (2007), Bates, Kahle, and Stulz (2009) and Moyen and Boileau (2010), Han and Qiu (2007). The precautionary hypothesis argues that firms maintain excess cash as a precaution against the possibility of a future negative shock or liquidity constraints. Distinct characteristics of debt

structure suggest two primary rationales connecting debt structure and the precautionary cash holdings: financial flexibility and bankruptcy risk. We, separately focusing on these two channels, build and test the hypotheses about how priority structure, sources and maturity allocation of debt structure affect corporate cash holdings.

First, the financial flexibility derived from the existing debt structure is expected to affect the optimal level of corporate liquidity. Financial flexibility represents the ability of a firm to access a large amount of capital in the face of an unexpected event. Debt structure with more restrictive covenants that prohibits additional borrowing motivates firms to hold more cash against a negative liquidity shock. On the other hand, a firm preserving financial flexibility with their debt structure, where existing bonds' indentures retain the option to issue additional debt, has less incentive to hold large precautionary cash reserves. Since corporate financial flexibility or debt capacity is largely determined by their debt structure and the corresponding presence of covenants, we expect firms' cash holdings to vary across the debt structures.

The second rationale predicts that corporate cash holdings will show cross-sectional variation depending on how much their debt structures are exposed to bankruptcy risk. Firms will hold more internal liquidity if their debt structures are exposed to more risk. A recent study by Acharya et al. (2010) finds that corporate cash holdings are positively related to firm's credit risk. Another paper by Acharya et al. (2007) also identifies a hedging motive behind financially constrained firms' cash and debt management and argues that the propensity to accumulate cash out of cash flow is strongest for constrained firms. Those papers suggest that the different debt structures that produce the same net debt level may lead to significantly different levels of bankruptcy risk and corresponding cash holdings. With regard to the bankruptcy risk, in particular, we expect that there are significant differences in likelihood of renegotiation, and level of rollover risk, depending on corporate debt structure.

We present hypotheses about how three primary components of corporate debt structure affect corporate cash holdings through the two channels of financial flexibility and bankruptcy risk. We group existing theories regarding the relationship between debt structure and cash holdings into non-mutually exclusive testable hypotheses, which are summarized in Table 1. As illustrated in Table 1 and developed further in Section 2, each of these hypotheses represents a possible mechanism of how debt structure affects corporate cash holdings.

We find that the relationship between corporate cash holdings and leverage varies depending on the type of debt. In particular, we find that corporate cash holdings are negatively correlated with the proportion of secured debt, whereas the proportion of subordinated debt is positively correlated with cash holdings. This result is consistent with the *Financial Flexibility Hypothesis* that firms with more secured debt hold lower level of cash because they preserve more financial flexibility which does not exclude the additional issue of debt. On the contrary, firms with more subordinated debt hold higher levels of cash because they preserve less financial flexibility.

With regard to the sources of debt, we find mixed evidence supporting both the *Financial Flexibility Hypothesis* and the *Easy Renegotiation Hypothesis*. The proportion of commercial paper (public source) is negatively associated with corporate cash holdings. Thus, it provides support for the *Financial Flexibility Hypothesis*. Since firms issuing public source debt tend to have high-quality credit and have better accessibility to external funds, they have better financial flexibility with less stringent covenants, and thus, less incentive to hold internal cash reserve. However, we also find that firms also hold less cash when they issue a higher proportion of bank debt (private source), which supports the *Easy Renegotiation Hypothesis*. Taking into account the high correlation between the sources and the priority structure of debt, these results suggest the relationship between the sources of debt and cash holdings come from priority structure rather than the source itself.

The evidence supporting the effect of maturity structure on cash holdings is surprisingly weak. A possible explanation of this insignificant result is that the cross-sectional variation of maturity structure is not sufficient in explaining the relationship between debt structure and cash holdings. More fundamentally, these insignificant coefficients suggest that the two effects based on the *Financial Flexibility Hypothesis* and the *Rollover Risk Hypothesis* cancel each other out. We remain this analysis as a future research topic.

We also address various potential caveats of this paper and future research direction in section 5. Although we find that debt structure are significantly related to cash holdings, the regressions in this paper have a limitation to suggest causality because of potential endogeneity issues. Modeling the relationship between debt structure and cash holdings may be problematic if there is an endogenous feedback from cash holdings to debt structure, if say, cash holdings and debt structure are jointly determined. In addition to this

endogeneity issue, other potential future research topics including the extent of discretion in choosing debt structure and the analysis of the omitted variables are also discussed.

Our paper potentially contributes to prior literature in a number of important ways. First, this paper provides a new insight on the understanding of relation between corporate cash holdings and leverage policy. To our knowledge, this is the first paper to suggest that corporate cash holding behavior over leverage varies depending on the type of debt. Second, this empirical paper has the potential to contribute to the growing cash literature (*Opler et al. (1999), Faulkender and Wang (2006), Dittmar and Mahrt-Smith (2007), Foley et al. (2007), Pinkowitz, Stulz, and Williamson (2006), Bates, Kahle, and Stulz (2009), Dittmar, Mahrt-Smith, and Servaes (2009), Acharya, Davydenko, and Strebulaev (2010), Nikolov (2010)*). A large literature examines the cross-sectional determinants of cash. Extant literature finds that small, nonrated firms, firms with strong investment opportunities, firms facing riskier cash flows, firms with more limited access to capital market due to a high degree of information asymmetry, firms in more competitive industries and firms with higher credit risk hold more cash. This paper suggests that corporate debt structure also plays an important role in determining corporate cash holdings. More generally, this paper empirically shows the importance of debt structure heterogeneity in study of corporate finance by examining a strong impact on other corporate decisions, in particular, corporate cash holdings. The findings in this paper provide empirical evidence of many theoretical papers in debt heterogeneity (*Kim, Mauer, and Sherman (1998), Johnson (2003), Almeida, Campello, and Weisbach (2004), H. DeAngelo and L. DeAngelo (2006), Han and Qiu (2007), Gamba and Triantis (2008), Kahl, Shivdasani, and Y. Wang (2008), Almeida, Campello, and Hackbarth (2009), Moyen and Boileau (2010), Denis and McKeon (2010)*) and strengthen the argument in Rauh and Sufi (2010) that debt heterogeneity is a first order aspect of firm capital structure. Finally, this paper provides an insight into financial flexibility and corporate liquidity literature (*Kim et al. (1998), Baum et al. (2006), Officer (2007), Berger and Bouwman (2008), Gamba and Triantis (2008), Kahl et al. (2008), Almeida et al. (2009), Denis and McKeon (2010)*).

The remainder of this paper is organized as follows. Section 2 presents hypotheses with literature review of corporate debt structure and cash holdings. Section 3 describes the data and summary statistics. Section 4 examines the empirical relationship between debt structure and corporate cash holdings. Section 5 presents future research assignments including potential endogeneity issues. Section 5 concludes the paper.

## **2. Debt structure, cash holdings and hypotheses about their relation**

Corporate debt structure is characterized by priority, source, and maturity. The central argument of this section is that different debt structures that produce the same net debt level may lead to significant difference in corporate cash holdings. We build hypotheses based on our understanding of the distinct characteristics of the debt structure, and link how it affects the demand of corporate liquidity and the corresponding corporate cash holdings.

### **2.1. Components of corporate debt structure**

The study of debt priority (or seniority) has become an important aspect of debt structure (*Diamond (1993), Barclay and Smith (1995), Welch (1997), Hackbarth and Mauer (2010)*). The debt priority refers to the order in which claims are to be paid in the event of bankruptcy. Debts are placed into three priority categories: secured, unsecured senior and subordinated. Senior debt has a prior claim over subordinated debt with respect to collateral value and cash flow. Senior debt must be repaid before subordinated debt is repaid and no other claims can be paid unless all senior claims are fully paid. Secured debt is senior and collateralized with certain, specific assets of the corporation. They reduce the risk associated with lending by claiming collateral if default occurs. Unsecured debt is backed by the general assets of the corporation and divided into senior and subordinated debt. Senior unsecured debt is junior to the secured debt but prior to the subordinated debt. Therefore, subordinated debt is substantially riskier than senior debt since the lender generally has less right over collateral and cash flow than the senior lender.

Another crucial component of debt structure is the source of debt. Broadly, a firm can finance using the public debt market, bank loan, or private placement. Bank loan and private placement are classified as private debt because a firm only needs to convince a limited number of investors privately to obtain a debt financing. Accordingly, private debtholders are mainly held by a small number of banks, private equities and venture capitals, while public debtholders consist of numerous and anonymous public investors. The distinguishable characteristics of public and private debt which stem from the different composition of investors have been investigated by many researchers and provide an underlying rationale for the hypotheses in this section.

The maturity allocation of debt is another important factor of corporate debt structure. *Diamond (1991a)* defines short-term debt as debt that matures before the cash flows arrive from a firm's investments

and must be refinanced at terms that depend on its future credit rating. Long-term debt, in contrast, has maturity matching the timing of the cash flows in his model. More conventionally, short-term debt is defined as debt with one year or less maturity and long-term debt is defined as debt with a maturity of longer than one year. Many theoretical studies have investigated how the properties of maturity structure are different and how this difference affects other corporate decisions (Diamond (1991a, 1993), Mitchell (1991), Morris (1992), Barclay and Smith (1995), Stohs and Mauer (1996), Guedes and Opler (1996), S. A Johnson (2003)). They suggest that firms should choose their own optimal maturity structures, taking into account their firm-specific characteristics such as growth options, fundamental profitability or future credit prediction taking into account the trade-offs between short-term and long-term debt.

## **2.2. Corporate cash holdings**

There is growing interest in corporate cash holdings. In contrast to the traditional view that cash is exogenous and nothing but negative debt, many researchers have recognized independent roles of cash holdings in the presence of debt obligations (Acharya, Almeida, and Campello (2007)). The independent roles and the derived level of cash holdings are expected to show considerable cross-sectional variation depending on the corporate debt structure. Furthermore, the astounding increase in cash holdings over the last few decades has invoked academic interests on cash-holding behavior (Bates, Kahle, and Stulz 2009). However, carrying cash is costly because interest earned on corporate cash holdings is taxed at a higher rate than interest earned by individuals. Furthermore, since cash is easily dissipated quickly by agency problem, holding excess cash can be destructive to firm value.

Then, why do firms accumulate cash in excess of transactions needs? Recently, the motives for holding cash have been widely investigated. The prevailing argument for corporate cash holdings is the precautionary motive (Kim, Mauer, and Sherman (1998), Han and Qiu (2007), Bates, Kahle, and Stulz (2009), Moyon and Boileau (2010)). In a perfect capital market, firms have few reasons to preserve cash as opposed to repaying the existing debt or paying out as dividend since external financing can always be obtained at a fair price. In the presence of imperfections, however, the precautionary motive argues that firms maintain excess cash as a precaution against the possibility of future negative shocks or liquidity constraints. Since cash holdings enable firms to minimize the need to seek costly external financing, the existence of capital market imperfections provides a rationale for significant and predictable amounts of cash holdings for this precautionary motive.

## **2.3. Hypotheses development**

Debt structure will affect corporate cash holdings through two primary channels: financial flexibility and bankruptcy risk.

First, the financial flexibility derived from the existing debt structure is expected to affect optimal level of cash holding. Financial flexibility represents the ability of a firm to access a large amount of capital in the face of unexpected events. Financially flexible firms are able to avoid financial distress in the event of liquidity shocks, and to readily fund investment when profitable investment opportunities arise (Gamba and Triantis (2008)).

Recently, the study of financial flexibility has become an important aspect of capital structure (Kahl et al. (2008), H. DeAngelo and L. DeAngelo (2006), Gamba and Triantis (2008), Denis and Mckeeon (2010)). It has been argued that the ex-ante incentive to preserve financial flexibility against the event of unexpected earnings shortfalls or investment opportunities explains firms' optimal financial policy. A recent paper by Denis and Mckeeon (2010) provides evidence of pro-active leverage increase which is consistent with the flexibility hypothesis that unexpected capital needs will often lead to debt or equity issues that intentionally move the issuing company away from its long-run target debt ratio. In this paper, we investigate the financial flexibility emphasizing the structural characteristics of corporate liability in addition to the amount of debt.

The precautionary motive of corporate cash holdings suggests a negative relationship between financial flexibility and corporate cash holdings. A firm with a debt structure which mostly consists of particular type of debts limiting its borrowing capability has a strong incentive to hold more cash against negative liquidity shocks. On the other hand, a firm preserving financial flexibility with the debt structure has less incentive to hold large precautionary cash reserves.

Corporate debt structure and financial flexibility are related through the presence of covenants. Corporate financial flexibility or debt capacity is determined depending on debt structure and corresponding presence of covenants. The limit on new debt is an important part of the debt contract structure. Some debt contracts prohibit or sometimes limit the amount of new debt which potentially dilutes the claim of existing

debtholders. In particular, if the new debt is senior or same priority as the old debt, the intensity of restrictive covenants tends to increase since it dilutes the value of the old debt (Leland (1994)).

Therefore, priority components of debt structure are expected to have a significant impact on firms' financial flexibility. As Diamond (1993) suggests, debt with different maturity also presents relative seniorities due to the inherent payment order. We develop hypotheses regarding financial flexibility and debt structure focusing on the presence of covenants which limits the issuer's future financing decision.

Second, corporate cash holdings show cross-sectional variation depending on how much their debt structures are exposed to bankruptcy risk. Firms will hold more internal liquidity if their debt structures are exposed to more risk. A recent study by Acharya et al. (2010) finds that corporate cash holdings are positively related to firm's credit risk. They argue that firms with lower credit ratings preserve more precautionary cash against the possibility of a liquidity shortage, which can trigger costly default in the presence of restrictions on external financing. Another paper by Acharya et al. (2007) also identifies a hedging motive behind financially constrained firms' cash and debt management and argues that the propensity to accumulate cash out of cash flow is strongest for constrained firms. These papers suggest that the different debt structures that produce the same net debt level may lead to significantly different bankruptcy risk and corresponding cash holdings. In particular, we expect that there are significant differences in likelihood of renegotiation and level of rollover risk, depending on corporate debt structure.

With respect to the renegotiation and bankruptcy risk, we expect that debt structure has significant impact on the ex-ante corporate cash holdings by altering the anticipated result of restructuring process (*to our knowledge, there is no study explaining the relationship between restructuring process and cash holdings*). When a firm experience distress, it is compelled to choose to merge into another firm, undergo an out-of-court workout procedure, or go through a formal legal proceeding such as Chapter 11. Shareholders of a distressed firm always prefer to renegotiate with the existing creditors out of court before filing for bankruptcy since the shareholders' claims of payoff are mostly wiped out in the event of bankruptcy. Debt structure has significant impact on the likelihood of renegotiation with existing debtholders. Therefore, if the firm has a debt structure with higher likelihood of renegotiation, they have less pressure to preserve cash holdings. Furthermore, since their cash holdings are accrued to debtholders once they are forced to go through a formal bankruptcy procedure, the anticipated result of restructuring process may significantly affect the cash holdings.

The principal question we aim to address in this section is how debt structure is related to precautionary cash holdings. To structure our tests, we group existing theories regarding the relationship between debt structure and cash holdings into non-mutually exclusive testable hypotheses which are summarized in Table 1. As illustrated in Table 1, each of these hypotheses represents a possible mechanism of how the debt structure affects corporate cash holdings.

### 2.3.1. Priority Structure

- *Firms with a larger proportion of subordinated debt have less financial flexibility and thus hold more precautionary cash.*
- *Firms with a larger proportion of secured debt have more financial flexibility and thus hold less precautionary cash.*

**Financial flexibility hypothesis:** The debt priority structure has the solid underlying rationale for how debt structure affects corporate financial flexibility and corresponding cash holdings. Considerable theoretical research provides predictions about how existing debt priority affects future financing decision with investment policy (Myers (1977), Smith and Warner (1979), Stulz and H. Johnson (1985), Diamond (1993), Barclay and Smith Jr (1995)). A recent theory paper by Hackbarth and Mauer (2010) also examines how capital structure and debt priority structure interact with corporate investment policy in a dynamic model where self-interested equityholders choose a growth option exercise strategy. The conclusions of the early research are less clear since the problem around the priority choice and investment becomes complicated after taking into account underinvestment problems and asset-substitution problems. However, the key empirical implication of Hackbarth and Mauer (2010) and other previous studies about debt priority structure is that debt priority structure has an important impact on corporate financial flexibility and that a firm with more growth options should adjust their debt structure to preserve the right to finance new investment.

The borrower's incentive to preserve financial flexibility is restricted by the presence of covenants. The value of existing debtholder claims can be diluted if the borrowing firms issue additional debt with the same or senior priority. Therefore, the existing debtholders prevent this value destruction using the restrictive covenants regarding additional external financing provision. Some debt contracts prohibit or limit the

amount of new debt which potentially dilutes the claim of existing debtholders. Since subordinated debtholders are the most junior claimholders among debtholders, they are more sensitive to new debt issue which potentially dilutes their claims. Subordinated debt investors may strongly want to include the restrictive covenants unless the borrowers compensate the potential dilution with higher interest rate. On the other hand, firms with mostly secured debt still preserve financial flexibility to issue additional subordinated debt which is junior to their claim.

In sum, if a firm has a debt structure that mainly consists of subordinated debt, the firm retains less financial flexibility than firms with a large portion of senior debts. The firm precludes the issuance of senior debt to finance. The firm preserves financial flexibility with the debt structure where existing bonds' indentures retain the option to finance future investments with new debt issues against a liquidity shock. Therefore, the firm has less incentive to hold large precautionary cash reserve. On the other hand, a firm with a debt structure which mostly consists of subordinated debt limits borrowing capability and thus has a strong incentive to hold more cash against negative liquidity shocks. Therefore, we hypothesize that the firms with more proportion of subordinated debt will hold more cash.

### 2.3.2 Sources of debt

- *Firms with a larger proportion of public debt have more financial flexibility and thus hold less precautionary cash.*
- *Firms with a larger proportion of private debt have less financial flexibility and thus hold more precautionary cash.*
- *Firms with a larger proportion of public debt are harder to renegotiate and thus hold more precautionary cash.*
- *Firms with a larger proportion of private debt are easier to renegotiate and thus hold less precautionary cash.*

**Financial Flexibility Hypothesis:** Financial flexibility hypothesis predicts that firms with a larger proportion of private debt have less financial flexibility and thus hold more precautionary cash while firms with a larger proportion of public debt have more financial flexibility and thus hold less precautionary cash. Bradley and Roberts (2004) compare private debt and public debt with regards to the frequency of using covenants. Using a large sample of privately placed corporate debt, they find that private debt contains much more covenants than public debt. They find that more than 70% of private debt samples in 2001 include covenant in every major category whereas only 25% of public debt samples in same year contain each type of covenant. The frequent use of covenants in private debt has increased dramatically over time, whereas the use of covenants in public debt has decreased over time. This result is consistent with the notion that debt covenants are more effective and hence more valuable in private debt contracts (Berlin and Mester (1992)).

This different frequency of covenant usage suggests that firms with private debt are more likely to be restricted by stringent covenants. In particular, Bradley and Roberts (2004) present that 75% of private debt contains a restrictive covenant for additional debt issue whereas only 24% of public debt contains restrictive covenants for additional debt issue. This data suggests that firms with private debt have less financial flexibility due to tighter covenants and thus hold more precautionary cash. In contrast, firms with a larger proportion of public debt are expected to hold less precautionary cash compared to firms with large portion of private debt.

**Easy Renegotiation Hypothesis:** Another crucial component of debt structure is the source of a firm's debt. Broadly, a firm can finance using public debt market, bank loan, or private placement. Bank loans and private placements are classified as private debts because a firm only needs to convince a limited number of investors to obtain debt financing. The distinguishable characteristics of public and private debt which stem from the different composition of investors have been investigated by many researchers. Public debtholders consist of numerous and anonymous public investors whereas private debtholders are mainly a small number of banks, private equities and venture capitals. This difference results in substantial distinctions regarding efficiency of renegotiation in workout process and monitoring incentives. Consequently, firms will choose different levels of cash holdings depending on their existing debt structures and the derived demand for liquidity.

Shareholders of a distressed firm always prefer to renegotiate with the existing creditors out of court before filing for bankruptcy since the shareholders' claims of payoff are mostly wiped out in the event of bankruptcy. When the firm attempts to restructure its debt contracts by renegotiating with its creditors privately in a workout process, private debt financing has a significant advantage over public debt (Gilson, John, and Lang (1990), Gertner and Scharfstein (1991) Berlin and Mester (1992) and Chemmanur and Fulghieri (1994)). The Trust Indenture Act of 1939 requires that firms have to get unanimous approval of

public debtholders to change any core terms of the bond indenture such as the principal amount, interest rate, or stated maturity. Since public debts tend to be held by many investors, firms are more likely to suffer from a severe holdout problem when they try to renegotiate with existing public debtholders. In addition, the private debtholders tend to be relatively well informed, which avoids the well-known problems of bargaining when information is asymmetric. This ease of renegotiation with private debtholders is expected to reduce the demand for precautionary cash holdings. Therefore, firms with more private debt will hold less cash and this tendency will be stronger as the firms get more distressed.

### 2.3.3. Maturity structure

- *Firms with a larger proportion of long-term debt have less financial flexibility and thus hold more precautionary cash.*
- *Firms with a larger proportion of short-term debt have more financial flexibility and thus hold less precautionary cash.*
- *Firms with a larger proportion of short-term debt have higher rollover risk and thus hold more precautionary cash.*
- *Firms with a larger proportion of long-term debt have lower rollover risk and thus hold less precautionary cash.*

**Financial flexibility hypothesis:** Maturity allocation is closely related to priority structure because if the borrower can repay the short-term debt, liquidation will be avoided. Diamond (1993) provides theoretical background for why short-term debt is senior to long-term debt. This relation between maturity allocation and priority structure suggests that the existing maturity structure of debt will affect the financial flexibility of firms. When firms refinance with new lenders, the value of existing long-term claims can be diluted. To prevent this, the long-term debtholders may require a restrictive covenant prohibiting an additional issue of short-term debt. Even though Diamond (1993) argues that the long-term debtholders will allow the issue of additional future debt even if it dilutes the value of their long-term debt in his model, the empirical implication is unclear due to the simplicity of the model.

The financial flexibility hypothesis predicts that firms with more long-term debt have less financial flexibility and thus hold more precautionary cash. On the other hand, firms with more short-term debt have more financial flexibility and thus hold less precautionary cash.

**Rollover risk hypothesis:** Diamond (1991a) describes that short-term debt matures before the cash flows arrive from a firm's investments and must be refinanced at terms that depend on its future credit rating. Long-term debt, in contrast, has maturity matching the timing of the cash flows in his model. He argues that debt maturity choice should be analyzed as a trade-off between a borrower's preference for short-term debt due to private information about the future credit ratings, and liquidity risk which denotes the likelihood that a solvent but illiquid borrower is unable to obtain refinancing. His model predicts that borrowers with high credit ratings prefer short-term debt, while those with somewhat lower ratings prefer long-term debt and much lower rated borrowers can issue only short-term debt.

A recent paper by He and Xiong (2010) also suggests a theoretical model about a firm's rollover risk and shows that there are two opposing forces in determining a firm's optimal maturity structure. On one hand, more short-term debt leads to a higher expected bankruptcy cost because of increased rollover risk and higher future bankruptcy probability. On the other hand, short-term debt has a lower financing cost, which is consistent both with the empirical finding that short-term bonds tend to be more liquid and with the theoretical argument that short-term debt is less information sensitive and thus suffers less from adverse selection problems.

As the above theoretical papers suggest, the firms which rely heavily on short-term debt to finance their illiquid long-term investment positions face the risk that they might not be able to roll over maturing debt when market conditions deteriorate, either for fundamental or liquidity reasons. Despite its higher cost, in contrast, long-term debt gives the firm the flexibility to delay realizing financial losses in adverse states in which either market liquidity or the firm's fundamental deteriorates. Therefore, debt maturity structure should be used as part of a firm's liquidity management strategy.

In addition, short-term and long-term debts are different in terms of the risk perceived by debtholders. Since long-term debtholders, compared to short-term debtholders, are more exposed to firms' bankruptcy risk, as the firm shortens its debt maturity structure without changing the total debt ratio, firms' financial flexibility will decrease. A potential long-term debtholder will not lend money to the firms with large short-term liabilities due to the anticipated risk transfer. In contrast, if firms hold mainly long-term debt, they will be less restricted to the additional issuance of short-term debt to finance than firms holding massive short-term debt.

Based on these arguments, we hypothesize that firms' maturity structure will have significant impact on the demand of liquidity and cash holdings. In particular, this hypothesis predicts that firms with shorter-term debt structure are likely to hold more cash for liquidity motives due to the higher rollover risk.

### 3. Data

#### 3.1. Data Selection

To ascertain the relationship between debt structure and corporate cash holdings, we utilize non-financial firms in Compustat with long term issuer credit rating between 1996 and 2006. We mostly follow the data collection process of Rauh and Sufi (2010) (*For the preliminary result, we use sample data set from Joshua Rauh and Amir Sufi's debt structure data. <http://faculty.chicagobooth.edu/amir.sufi/data.htm>*). We collect the debt structure data directly from financial footnotes in firms' annual 10-K filings and supplement with information on pricing and covenants from three origination-based datasets: Reuters LPC's Dealscan, Mergent's Fixed income Securities Database, and Thomson's SDC Platinum. Following Rauh and Sufi (2010), we restrict the samples to firms with an issuer credit rating from 1996 considering that the firms are required to electronically submit their SEC filings from this year. We also exclude financial firms and utilities, defined as firms with SIC codes between 6000-6999 and 4900-4949, respectively.

One concern with this sample selection criterion is that some financing events could be excluded from the dataset because they do not trigger the SEC requirement for disclosure. Another debt structure research by Denis and Mihov (2003) does not restrict the sample to firms that have long term issuer credit rating since the accessibility to debt market is one of important factors for the corporate liquidity management. In order to check the robustness, we examine the hypotheses with unrestricted sample firms that do not have issuer credit rating (*This robustness test will be updated in the next version of paper*).

#### 3.2. Data Description

Table 2 contains the basic statistics on debt structure for the 303 firms (2371 firm-year observations) in the random sample. We report the statistics in three different ways according to the definitive factors of debt structure: priority structure, sources and maturity structure.

Panel A provides summary statistics for the priority structure of debt. Almost half of the debt consists of senior unsecured debt. Secured debt and subordinated debt make up 30% and 19% of the debt structure, respectively. However, this ratio is highly skewed, with the median firm holdings 13% of secured debt and no subordinated debt.

Panel B shows the major types of debt, scaled by total debt. Commercial paper and ordinary public bonds are classified as public source debt, while bank debt, private placements and convertible bonds are classified as private source debt. Debts with mixed sources are omitted. Commercial paper and private placements are issued by only a limited portion of the sampled firms. Public bonds make up 15% of the debt structure and bank debts make up 27% of the debt structure. Noticeably, all types of debt are highly skewed. This result suggests that firms using different types of debt are significantly clustered.

Panel C presents maturity allocation of debt for the sampled observations. Short-term debt is defined as debt with one year or less maturity and long-term debt is defined as debt with a maturity of longer than one year. Firms tend to issue more long-term debt, which consists of 85% of the debt structure on average. The median firm holds more proportion of long-term debt (94%).

Panel D provides descriptive statistics for general firm characteristics using Compustat data. *Leverage* is the book value of total debt divided by total asset. Cash is scaled by total asset and net asset (total asset – cash). Operating income after depreciation is scaled by total assets (*Profitability*). PP&E scaled by total assets (*Tangibility*), market to book ratio (*M/B*) and the natural log of sales (*Firm size*) are also included.

Table 3 presents the correlation between each debt structure component and cash holdings. In terms of priority structure, senior unsecured debt shows strongly negative correlation with secured debt ( $\rho = -0.68$ ) and subordinated debt ( $\rho = -0.58$ ), which confirms the fact that firms replace senior unsecured debt with secured debt and subordinated debt as their credit quality is deteriorated (Rauh and Sufi (2010)). There are noteworthy positive correlations between bank debt and secured debt ( $\rho = 0.54$ ), public bond and senior unsecured debt ( $\rho = 0.41$ ), and convertible bonds and subordinated debt ( $\rho = 0.54$ ). The maturity structure does not show any strong correlation with other debt structure factors. Cash holdings show significant positive correlations with subordinated debt, convertible bonds and short-term debt. In contrast, cash holdings show significant negative correlations with other sources of debt and long-term debt.

### 4. Empirical Results

We examine the relation between debt structure and cash holdings in a multivariate setting using cross-sectional time-series models. For estimation methods, we follow Petersen (2009) and report standard

errors corrected for clustering at the firm level. The dependent variable is corporate cash holdings scaled by net asset (asset – cash). The independent variables are debt structure variables and firm-specific factors affecting cash holdings. The variables of interest in this paper are the debt structure components discussed above, which are scaled by total debt. The coefficients on the debt structure variables directly address the predictions of my hypotheses relating debt structure to cash holdings.

We also include a set of firm characteristics to determine whether the difference in observed cash holdings across different debt structure arose because of fundamental difference in the firms, and thus in their demand for liquidity. The firm characteristics are intended to control for determinants of corporate cash holdings suggested in the literature. The variables we include measure the profitability, tangibility, growth option or intangible asset portion, and the size of the firm. We follow the existing literature in our choice of control variables. Firms that have more tangible assets are expected to have lower costs of financial distress (Pulvino (1998)). We use the ratio of the firm's property, plant, and equipment to total assets as a measure of the firm's asset tangibility (Rajan and Zingales (1995), Titman and Wessels (1988)). We also include the firm's market-to-book ratio as an additional control for firms' intangible assets or growth option (Rajan and Zingales (1995)).

#### 4.1. Priority structure of debt and Cash holdings

Table 4 presents the regression of corporate cash holdings on priority structure of debt and control variables. Since this paper focuses on the structural features of debt, all variables are scaled by total book value debt. We classify the priority of each issue into one of three categories: *secured*, *senior unsecured*, and *subordinated*. We find that corporate cash holdings are negatively correlated with the proportion of secured debt, whereas the proportion of subordinated debt is positively correlated with cash holdings. These results are consistently significant after including multiple priority structure variables in the regression.

This result is consistent with the *Financial Flexibility Hypothesis* that firms with more secured debt hold lower levels of cash because they preserve more financial flexibility which does not exclude the additional issue of debt. On the contrary, firms with more subordinated debt hold higher levels of cash because they preserve less financial flexibility as predicted in the hypothesis. The proportion of senior unsecured debt shows an insignificant coefficient. One interpretation of the result is that firms using senior unsecured debt which are highly correlated with commercial paper and public bond are more likely to have very high credit ratings and better market accessibility. Therefore, firms holding a higher proportion of senior unsecured debt have little incentive to hold precautionary cash against negative shocks.

The regression confirms the previous work on corporate cash holdings as well. Increases in the tangibility of assets lower the firm's cash holdings. Increases in the firm's growth option raise the cash holdings. The economic significance of leverage is marginal. Part of the reason this ratio has less impact is that some of the effect is picked up by other control variables including profitability, tangibility and market-to-book ratio.

#### 4.2. Sources of Debt and Cash holdings

Table 5 presents the analysis of the relation between corporate cash holdings and sources of debt. The overall regression results in table 5 provide little evidence to draw a clear conclusion about the relationship between the source of debt and cash holdings. The proportion of commercial paper is negatively associated with corporate cash holdings at the 1% significance level whereas the other public source of debt shows an insignificant coefficient. The coefficients of private sources of debt also present different signs. The proportion of bank debt is negatively related with cash holdings while the proportion of convertible bonds is positively related with cash level. Both coefficients are economically large and statistically significant at the 1% significance level.

The strong negative coefficient of the proportion of commercial paper provides support for the *Financial Flexibility Hypothesis*. Since firms issuing public-source debt tend to have high-quality credit and have better accessibility to external funds, they may have better financial flexibility and less incentive to hold internal cash reserve. Public debt investors also have less need to include restrictive covenants in their debt indenture regarding additional debt issue. Furthermore, the easy renegotiation hypothesis is not a dominant explanation for high-quality credit firms which have very low bankruptcy risk.

Model 3 in table 5 shows that firms hold less cash when they issue a larger proportion of bank debt. This effect is economically large and statistically significant at the 1% significance level. Taking into account the fact that the more credit constrained firm tend to use bank debt, this negative relation supports the *Easy Renegotiation Hypothesis*.

On the other hand, convertible bonds show positive relation with corporate cash holdings. Overall, it is somewhat difficult to use this evidence to support any direction of correlation between source of debt and

corporate cash holdings. These results are likely to come from other complex characteristics of each source of debt. As we showed in table 3 including correlation between the debt structure, source of debt is highly correlated with priority structure and maturity structure. Therefore, the source of debt has little power to explain consistent direction of cash holdings.

One interpretation of the results is that the source of debt has a significant impact on corporate cash holdings through the priority structure rather than the source itself does. The source of debt is highly correlated with priority structure. Commercial paper ( $\rho = 0.28$ ) and public bond ( $\rho = 0.41$ ) are positively correlated with senior unsecured debt. On the other hand, bank debt is highly correlated with secured debt ( $\rho = 0.54$ ) whereas convertible bonds are highly correlated with subordinated debt ( $\rho = 0.54$ ). Consistent with the results from table 4, bank debt and secured debt show negative coefficients whereas convertible bonds and subordinated debt show positive coefficients.

### **4.3. Maturity allocation of debt and Cash holdings**

Table 6 presents the regression of corporate cash holdings on maturity structure of debt and control variables. The first regression uses the proportion of short-term debt over the total debt amount as the independent variable and the second regression is using the ratio of short-term debt and long-term debt as the independent variable. Both regressions show insignificant coefficients and provide little evidence to draw any conclusion.

One interpretation of the insignificant results is that the maturity structure does not have sufficient cross-sectional variation to explain the relationship between debt structure and cash holdings. Another potential interpretation of the insignificant coefficients is that the two effects based on the financial flexibility hypothesis and the rollover risk, are canceled out. Firms with a higher proportion of short-term debt have more financial flexibility since existing debtholders do not exclude the additional long-term debt issue. Therefore, they have lower incentives for more cash holdings. However, at the same time, they have higher potential rollover risk which provides incentives to preserve more cash. The insignificant coefficient may come from these two offsetting effects.

### **4.4. Adjustment of cash holdings**

To extend the investigation between debt structure and corporate liquidity, we also explore how firms dynamically adjust their cash holdings in response to the change in their debt structure. Table 7 presents the average changes of cash holdings when the each proportion of debt structure components increases. We report the statistics for each credit rating following the extant theoretical studies pointing out that credit quality is the primary source of variation driving a firm's optimal debt structure (Diamond (1991), Bolton and Freixas (2000)).

Panel A presents how firms change their cash holdings when each proportion of priority structure increase. We find that when firms increase the proportion of subordinated debt, they increase the cash holdings as well. In contrast, firms reduce the cash holding level when the proportion of secured debt increases. These results are consistent with the findings in prior multivariate analyses, which suggest that firms not only preserve higher level of cash holdings with more proportion of subordinated debt but also positively adjust their cash level in response to the increase of the proportion of subordinated debt.

Panel B contains the average changes of cash holdings when the each proportion of source of debt increases. We find that firms increase their cash holding levels when the proportion of convertible bonds increases whereas they reduce their cash holding levels when the proportion of debt from other sources increases.

Panel C presents the adjustment of cash holdings in response to the change in maturity structure. However, firms show little adjustment of cash reserve when their maturity structure is changed.

## **5. Potential issues and future research**

### **5.1. Endogeneity issue**

Although we find that debt structures are significantly related to cash holdings, the regressions in this paper may not fully account for potential endogeneity issues. Modeling the relation between debt structure and cash holdings may be problematic if there is an endogenous feedback from cash holdings to debt structure because cash holdings and debt structure are jointly determined. Prior theory suggests that the causality between debt structure and cash holdings is more likely to be influenced by the firm's debt structure than vice versa. Nevertheless, estimation employing alternative methodology bolsters the integrity of the analysis. One common approach to controlling for endogeneity is two-stage least squares using an instrument variable. However, the validity and sensitivity of the 2SLS estimation is related to the second-stage dependent variable. Unfortunately, prior empirical and theoretical work on debt structure and cash holdings use similar control variables, which leaves us with little insight in determining reasonable

instrument variables. Without valid instrumental variables or a reasonable exogenous shock, the potential endogeneity problem may remain as a caveat of this paper.

### 5.2. The extent of discretion

Another potential caveat with respect to the causality between debt structure and cash holdings is the issue of how discretionary firms can choose their debt structure. The implicit assumption of this paper is that firms are able to choose their debt structure. Traditional discussions of optimal capital structure also usually assume that firms can issue whatever form of securities they wish, with the pricing conditioned on the risk of the security. However, not all firms may be able to choose their debt structure with discretion.

Extant theoretical studies point out that credit quality is the primary source of variation driving a firm's optimal debt structure (Diamond (1991), Bolton and Freixas (2000)). If firms' debt structure is determined mainly by their credit ratings and little discretion, corporate debt structure may have an insignificant impact on the derived demand of liquidity and cash holdings. Furthermore, the propensity to accumulate cash out of cash flow is strongest for constrained firms whereas the discretion on debt structure choice is largest for non-constrained firms. These conflicting directions may weaken the correlation between debt structure and cash holdings.

### 5.3. Omitted variables

The potential existence of omitted variables also remains as a future assignment of this paper. Previous literature on debt structure and corporate liquidity suggests other potential factors such as cash flow volatility, investment related variables, or governance related variables. In the next version of this paper, we will include those potential omitted variables in our analysis.

### 6. Contribution

Surprisingly, most empirical papers in capital structure have ignored the heterogeneity of debt and the corresponding significance of debt structure, and only focused on leverage ratio despite the fact that the heterogeneity is well-known in theoretical research and the real world. In this paper, we investigate the puzzling relationship between cash holdings and leverage by emphasizing corporate debt structure.

In contrast to the traditional literature, we find that the relationship between cash and leverage can be varying according to the structure of debt. We find that firms not only preserve more cash as they have a larger proportion of subordinated debt or convertible bonds but also they actively increase their cash holdings in response to the positive change of debt structure. On the other hand, we find that firms show the opposite direction of cash holding behavior as they have a larger proportion of secured debt, commercial paper or bank debt.

Despite the potential caveats regarding endogeneity, we believe that this paper provides compelling hypotheses and evidence suggesting a new insight in the relation between debt structure and corporate cash holdings.

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#### **Acknowledgements:**

*I thank Amy Dittmar and Ran Duchin for helpful discussions and comments.*

**Table 1: Predictions of the economic hypotheses**

This table summarizes the empirical predictions of the alternative hypotheses tested in this paper with regard to how the debt structure affects corporate cash holdings. The “*Financial Flexibility Hypothesis*” argues that firms with a debt structure prohibiting additional borrowing have a strong incentive to hold more cash against a negative liquidity shock. On the other hand, firms preserving financial flexibility with the debt structure where existing bonds’ indentures retain the option to issue additional debt have less incentive to hold large precautionary cash reserve. The “*Easy Renegotiation Hypothesis*” argues that if firms have a debt structure with the higher likelihood of renegotiation, they have less incentive to preserve cash holdings. In particular, previous literature that private debt financing has a significant advantage over public debt when the firm attempts to restructure its debt contracts by renegotiating with its creditors privately in a workout process. The “*Rollover Risk Hypothesis*” argues that firms which rely heavily on short-term debt to finance their illiquid long-term investment positions face the risk that they might not be able to roll over maturing debt when market conditions deteriorate, either for fundamental or liquidity reasons. Therefore, hypothesis predicts that firms with shorter-term debt structure are likely to hold more cash for liquidity motives due to the higher rollover risk.

<b>Panel A: Relationship between Priority Structure and Cash Holdings</b>			
		Proportion of Secured debt	Proportion of Subordinated debt
<i>Financial Hypothesis</i>	<i>Flexibility</i>	–	+
<b>Panel B: Relationship between Sources of Debt and Cash Holdings</b>			
		Proportion of Public Source debt	Proportion of Private Source debt
<i>Financial Hypothesis</i>	<i>Flexibility</i>	–	+
<i>Easy Hypothesis</i>	<i>Renegotiation</i>	+	–
<b>Panel C: Relationship between Maturity Structure and Cash Holdings</b>			
		Proportion of Short-term debt	Proportion of Long-term debt
<i>Financial Hypothesis</i>	<i>Flexibility</i>	–	+
<i>Rollover Risk Hypothesis</i>		+	–

**Table 2: Summary Statistics on Debt Structure**

This table presents summary statistics on debt structure for a random sample of 303 rated firms from 1996-2006. Debt structure data were collected from the debt financial footnotes contained in the annual report of the 10-K filings. Since this paper focuses on the structural features of debt, all variables are scaled by total book value debt. Panel A contains summary statistics on debt priority structure. Panel B shows summary statistics on debt composition classified by source. *Commercial Paper* and ordinary *Public bond* are classified as public source debt. *Bank debt* consists of revolving bank debt (lines of credit) and term bank debt. *Bank debt*, *Private Placements* and *Convertible Bonds* are classified as private source debt. Panel C contains maturity structure statistics. *Short-term debt* is defined as debt with one year or less maturity and *Long-term debt* is defined as debt with a maturity of longer than one year. Panel D provides descriptive statistics for general firm characteristics using Compustat data. *Leverage* is the book value of total debt divided by total asset. Cash is scaled by total asset and net asset (total asset – cash). Operating income after depreciation is scaled by total assets (*Profitability*). PP&E scaled by total assets (*Tangibility*), market to book ratio (*M/B*) and the natural log of sales (*Firm size*) are reported as well.

	Mean	Median	Standard Deviation	Number of Firm	Obs.
<b>Panel A: Debt Structure by Priority</b>					
Secured Debt	0.30	0.13	0.35	303	2371
Subordinated Debt	0.19	0.00	0.32	303	2371
Senior Unsecured Debt	0.51	0.58	0.42	303	2371
<b>Panel B: Debt Structure by Source</b>					
<i>Public Source</i>					
Commercial Paper	0.04	0.00	0.11	303	2371
Public bond	0.15	0.00	0.26	303	2371
<i>Private Source</i>					
Bank debt	0.27	0.12	0.33	303	2371
Private Placements	0.05	0.00	0.16	303	2371
Convertible Bonds	0.11	0.00	0.26	303	2371
<b>Panel C: Debt Structure by Maturity</b>					
Short-term Debt	0.15	0.06	0.22	303	2371
Long-term Debt	0.85	0.94	0.22	303	2371
<b>Panel D: Firm Characteristics</b>					
Leverage	0.36	0.34	0.24	303	2371
Cash/Asset	0.07	0.03	0.10	303	2371
Cash/Net asset	0.08	0.03	0.13	303	2371
Profitability	0.07	0.08	0.10	303	2371
Tangibility	0.37	0.33	0.24	303	2371
M/B	1.85	1.42	1.36	303	2371
ln(Sale)	7.04	7.09	1.77	303	2371

**Table 3: Correlation**

This table contains correlation among debt structure variables and cash. Since this paper focuses on the structural features of debt, all variables are scaled by total book value debt. *Bank debt* consists of revolving bank debt (lines of credit) and term bank debt. *Program debt* includes commercial paper, shelf registration debt, and medium term notes. *Bonds* consist of public debt issues, industrial revenue bonds, and Rule 144A private placements. *Short-term debt* is defined as debt with one year or less maturity and *Long-term debt* is defined as debt with a maturity of longer than one year. *Cash/Assets* is cash divided by total book assets and *Cash/Net assets* is cash divided by total book assets minus cash. *Debt/Assets* is leverage ratio and all debt structure variables are scaled by total book value debt.

	Cash /Assets	Debt/Assets	Secured	Subordinated	Senior Unsecured	CP	Public bond	Bank Debt	PPs	CB	Short-term	Long-term
Cash/Assets	1.00											
Debt/Assets	-0.12	1.00										
Secured Debt	-0.02	0.06	1.00									
Subordinated Debt	0.18	0.21	-0.19	1.00								
Senior Unsecured Debt	-0.11	-0.20	-0.68	-0.58	1.00							
Commercial Paper	-0.08	-0.12	-0.19	-0.17	0.28	1.00						
Public bond	-0.10	-0.07	-0.34	-0.17	0.41	0.04	1.00					
Bank Debt	-0.16	0.01	0.54	-0.19	-0.30	-0.19	-0.31	1.00				
Private Placements	0.00	0.15	-0.04	0.01	0.02	-0.02	-0.12	-0.11	1.00			
Convertible Bonds	0.32	-0.03	-0.21	0.54	-0.23	-0.12	-0.18	-0.24	-0.10	1.00		
Short-term Debt	0.09	-0.22	0.07	-0.18	0.07	0.27	-0.11	0.07	0.05	0.13	1.00	
Long-term Debt	-0.09	0.22	-0.07	0.18	-0.07	-0.27	0.11	-0.07	0.05	0.13	-1.00	1.00

**Table 4: Multivariate analysis of cash holdings and priority structure of debt**

This table presents regression of corporate cash holdings on priority structure of debt and control variables. The data includes all samples from Table1 from 1996-2006. The dependent variable is corporate cash holdings scaled by net asset. The independent variables include debt with three types of seniority and control variables. Since this paper focuses on the structural features of debt, all variables are scaled by total book value debt. I classify the priority of each issue into one of three categories: *secured*, *senior unsecured*, and *subordinated*. An issue is classified as *secured* if the firm states that the issue is collateralized by any of the firm's assets, or if the issue is a mortgage bond or equipment loan. An issue is considered *subordinated* if the issue description includes the word "subordinated". Any issues labeled senior subordinated, subordinated, and junior subordinated are included in the subordinated category. I classify the issue as *senior unsecured* if the issue description either states the issue is senior unsecured or if the issue does not fall into the secured or subordinated categories. Additional firm-specific control include: operating income after depreciation scaled by total assets (*Profitability*), PP&E scaled by total assets (*Tangibility*), market to book ratio (*M/B*) and the natural log of sales (*Firm size*). Leverage is the book value of total debt divided by total asset. Standard errors clustered by firms are in parentheses. \*\*\*, \*\*, \* indicate significance at the 1%, 5%, or 10% level, respectively. All models include year indicators as well as an intercept term.

Independent Variable	(1)	(2)	(3)	(4)
<b>Priority</b>				
Secured Debt	-0.03*** (0.01)			-0.02* (0.01)
Senior Unsecured Debt		0.00 (0.01)		
Subordinated Debt			0.04*** (0.01)	0.03** (0.02)
<b>Control variables</b>				
Profitability	0.09* (0.06)	0.09 (0.06)	0.09* (0.06)	0.09* (0.06)
Tangibility	-0.26*** (0.05)	-0.26*** (0.05)	-0.26*** (0.05)	-0.26*** (0.05)
M/B	0.01** (0.00)	0.01** (0.00)	0.01** (0.00)	0.01** (0.00)
ln(Sale)	-0.02** (0.01)	-0.02** (0.01)	-0.02** (0.01)	-0.02** (0.01)
Leverage	-0.06*** (0.02)	-0.05** (0.02)	-0.06*** (0.02)	-0.06*** (0.02)
R-square	0.15	0.14	0.15	0.16
Number of Group	303	303	303	303
Obs.	2311	2311	2311	2311

**Table 5: Multivariate analysis of cash holdings and source of debt**

This table presents regression of corporate cash holdings on sources of debt and control variables. The data includes all samples from Table1 from 1996-2006. The dependent variable is corporate cash holdings scaled by net asset. The independent variables include proportion of each source of debt and control variables. Since this paper focuses on the structural features of debt, all variables are scaled by total book value debt. *Bank debt* consists of revolving bank debt (lines of credit) and term bank debt. *Program debt* includes commercial paper, shelf registration debt, and medium term notes. *Bonds* consist of public debt issues, industrial revenue bonds, and Rule 144A private placements. Additional firm-specific control include: operating income after depreciation scaled by total assets (*Profitability*), PP&E scaled by total assets (*Tangibility*), market to book ratio (*M/B*) and the natural log of sales (*Firm size*). Leverage is the book value of total debt divided by total asset. Standard errors clustered by firms are in parentheses. \*\*\*, \*\*, \* indicate significance at the 1%, 5%, or 10% level, respectively. All models include industry and year indicators as well as an intercept term.

Independent Variable	(1)	(2)	(3)	(4)	(5)	(6)
<b>Public</b>						
Commercial Paper	-0.09*** (0.02)					-0.09*** (0.02)
Public bond		0.01 (0.02)				0.00 (0.02)
<b>Private</b>						
Bank debt			-0.04*** (0.01)			-0.04** (0.01)
Private Placements				0.00 (0.02)		0.00 (0.02)
Convertibles bonds					0.06*** (0.02)	0.05** (0.02)
<b>Control variables</b>						
Profitability	0.09 (0.06)	0.09* (0.06)	0.10* (0.06)	0.09 (0.06)	0.09* (0.05)	0.10* (0.05)
Tangibility	-0.26*** (0.05)	-0.26*** (0.05)	-0.26*** (0.05)	-0.26*** (0.05)	-0.25*** (0.05)	-0.24*** (0.05)
M/B	0.01** (0.00)	0.01** (0.00)	0.01* (0.00)	0.01** (0.00)	0.01** (0.00)	0.01** (0.00)
ln(Sale)	-0.02** (0.01)	-0.02** (0.01)	-0.02** (0.01)	-0.02** (0.01)	-0.02** (0.01)	-0.02** (0.01)
Leverage	-0.05** (0.02)	-0.05** (0.02)	-0.05** (0.02)	-0.05** (0.02)	-0.06*** (0.02)	-0.06*** (0.02)
R-square	0.14	0.14	0.16	0.14	0.17	0.19
Number of Group	303	303	303	303	303	303
Obs.	2311	2311	2311	2311	2311	2311

**Table 6: Multivariate analysis of cash holdings and maturity structure of debt**

This table presents regression of corporate cash holdings on maturity structure of debt and control variables. The data includes all samples from Table1 from 1996-2006. The dependent variable is corporate cash holdings scaled by net asset. The independent variables include maturity classification of debt and control variables. Since this paper focuses on the structural features of debt, all variables are scaled by total book value debt. *Short-term debt* is defined as debt with one year or less maturity and *Long-term debt* is defined as debt with a maturity of longer than one year. Additional firm-specific control include: operating income after depreciation scaled by total assets (*Profitability*), PP&E scaled by total assets (*Tangibility*), market to book ratio (*M/B*) and the natural log of sales (*Firm size*). Leverage is the book value of total debt divided by total asset. Standard errors clustered by firms are in parentheses. \*\*\*, \*\*, \* indicate significance at the 1%, 5%, or 10% level, respectively. All models include industry and year indicators as well as an intercept term.

Independent Variable	(1)	(2)
<b><i>Maturity</i></b>		
Short-term Debt	0.00 (0.02)	
Short/Long		0.00 (0.00)
<b><i>Control variables</i></b>		
Profitability	0.09 (0.06)	0.07 (0.06)
Tangibility	-0.26*** (0.05)	-0.26*** (0.05)
M/B	0.01** (0.01)	0.01** (0.01)
ln(Sale)	-0.02** (0.01)	-0.02** (0.01)
Leverage	-0.05** (0.02)	-0.06** (0.03)
R-square	0.14	0.14
Number of Group	2311	2330
Obs.	303	303

**Table 7: Adjustment of cash holdings in response to the change of debt structure**

This table presents the average changes of cash holdings in response to the change of debt structure at the same year. All debt structure components are scaled by total debt. Panel A includes the average changes of cash holdings when the each proportion of priority structure increases. Panel B contains the average changes of cash holdings when the each proportion of source of debt increases. Panel C presents the average changes of cash holdings when the each proportion of maturity structure increases. Considering the different extent of financial constraint, we report the statistics for each credit rating.

	A or above	BBB	BB	B	Below B	Total Mean	Total Obs.
<b>Panel A: Debt Structure by Priority</b>							
$\Delta$ Secured Debt > 0	0.00	-0.01	-0.01	-0.01	0.00	-0.01	395
$\Delta$ Subordinated Debt > 0	0.00	0.00	0.02	0.02	0.05	0.01	569
$\Delta$ Senior Unsecured Debt > 0	0.00	0.00	-0.01	0.02	-0.06	0.00	680
<b>Panel B: Debt Structure by Source</b>							
<i>Public Source</i>							
$\Delta$ Commercial Paper > 0	-0.01	-0.02	-0.03	0.00	no obs.	-0.01	190
$\Delta$ Public bond > 0	0.00	0.00	0.01	0.00	no obs.	0.00	403
<i>Private Source</i>							
$\Delta$ Bank debt > 0	-0.01	-0.01	-0.02	-0.01	0.02	-0.01	581
$\Delta$ Private Placements > 0	0.00	-0.01	-0.01	0.01	-0.12	0.00	283
$\Delta$ Convertible Bonds > 0	0.00	0.01	0.02	0.03	0.08	0.02	288
<b>Panel C: Debt Structure by Maturity</b>							
$\Delta$ Short-term Debt > 0	0.00	0.00	0.00	-0.01	-0.01	0.00	743
$\Delta$ Long-term Debt > 0	0.00	0.00	0.01	0.02	0.04	0.01	794

## INNOVATIVE STRATEGIC MANAGEMENT – COORDINATES FOR NEW (AFTER) CRISIS CHALLENGES

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**Abstract:** *In our research we assume that enterprise policy and strategic management planning (process) differ in different organizations and organization (configuration) forms. After investigating in the field of enterprise policy and strategic management planning we will combine this process within the planning school with the configuration school's point of view. Reasons for this are in our starting point hypothesis that innovative organizations (that by definition stand on their innovation legs and continuously care for beneficial changes) are the organizations, which will probably be more favourably disposed also to the changes in the enterprise policy and strategic management planning. We derive from persuasion that innovative configuration of the organizations encourages the process of enterprise policy and strategic management planning (innovation) additionally.*

**Keywords:** enterprise policy, strategic management, innovation

**JEL classification:** L10, L21, M14, M21

### 1 Introduction

As more industries become global, strategic management is becoming an increasingly important way to keep track of international developments and positioning of the company for long-term competitive advantage (Wheelen, Hunger, 2010). The financial, economic, environmental, and social crisis which emerged in 2008 in the most innovative countries of the world shows that the neo-liberal economy does not lead toward success, because the behaviour of its stakeholders is over-simplified, therefore one-sided and hence full of oversights leading to unpleasant surprises (see Mulej et al., 2009a). Economy creates only a part of preconditions for well-being and happiness of people. The innovation of planning and management criteria must therefore be oriented toward greater social responsibility and requisite holism (Mulej et al., 2009b). A new benefit for the current and coming generations should be provided through innovations (see Mulej et al., 2009c). Our economies need radical changes to get out of the current 2008- (value) crisis, also through the governance and management process innovation (see Štrukelj, Mulej, 2009) and requisitely holistic ethics planning as pre-condition for enterprise ethical behaviour (Belak Je. et al., 2010). The process must lead toward socially responsible enterprise, as well, and take into consideration the hot problem of the humankind's natural environment / sustainable future as the central preconditions and a global need for human kind to survive (Ećimović et al., 2007; Božičnik et al., 2008; and references in them). About social responsibility as a way of systemic behaviour and innovation leading out of the current socio-economic crisis read Mulej et al. (2009d).

Strategic management looks like a crucial theme in the contemporary turbulent markets. So does innovation: the most innovative companies are the most successful ones (McGregor et al., 2006, p. 63–74, David, 2006, p. 76). Every organization defines its basis, general and long-term characteristics in its enterprise policy that presents important management instrument influencing development and operation of that enterprise (as institution of interest link-up people and property) (Belak, 2010; Štrukelj, Mulej, 2010, p. 1). Not only but also because of current 2008- crisis we believe that enterprise policy must be oriented towards enterprise's responsible behaviour. The lack of ethics, social responsibility, systemic behaviour and sustainable future seemed to be one of important (economic) factors that caused the global crises 2008-. And just now, if not earlier, the necessity of enterprise's social responsibility is hence more urgent and needed than otherwise. This need has to be included into the enterprise vision, enterprise policy and its strategies. Responsible enterprise policy should be regular innovating. Stake-holders should once again rethink their long-term interests (benefits), their consequences and willingness/ability to innovate them toward their responsible, neutral behaviour concerning all other humans (families, co-workers, other citizens and planet Earth residents – with predominating of long-term interests concerning all of them). Enterprise's developmental orientation (e.g. exploitation of opportunities of its environment development), economic orientation (with striving for politics of economic responsibility toward all inhabitants of the world), and

social orientation (toward ecological and socially responsible goals and social desire consideration) should also be innovating all the time (see Bleicher, 2004; Štrukelj, 2011a).

We consider the requirements of an enterprise policy fulfilled (see Belak, 2010; Štrukelj et al., 2010, p. 2) when they are realised at the level of strategic management as well. Strategies and related structures are crucial instruments for enterprise policy implementation. In this way the modes of enterprise policy realisation are determined. This is why the enterprise policy implementation is the central task of top management and that's why it directly belongs into the process of strategic and indirectly into the process of operational management. For this to achieve enterprise policy and strategic management (formation process) must be innovative; thus an organization must be innovative; and this is the main research topic of the present research, stimulating also with the IBM research made back in 2006 (IBM, 2006). The report shows that innovations within the basic-realization process of an enterprise influence its performance. This also proved that an enterprise needs innovations within its governance and management process, which is superior to the basic-realization process (Belak, 2010), and opens the question how should be enterprise policy and strategic management planned in the innovative organization. Thus we would like to show whether the strategic management is able to show the way out from the current crisis.

## **2 Last decades of strategic management**

The field of enterprise policy / strategic management has offered a variety of frameworks and concepts during the last decades. Strategic management has produced an amazing number of theories and models. If we looked at the different schools of strategic management, we could examine the design school, the planning school, the positioning school, the entrepreneurial school, the cognitive school, the learning school, the power school, the cultural school, the environmental school, and the configuration school (for brief introductions to schools of strategic thought see for example Grant, 2007, p. 14–22). Criado, Galván-Sánchez and Suárez-Ortega (2010, p. 109–112) briefly explained theoretical approaches to strategy-making process: schools of thought in strategic management (from the integrated strategic management perspective).

This paper discusses the enterprise policy and strategic management formation in the selected type of organization configuration. In our text we assume that enterprise policy and strategic management planning (process) differ in different organizations and organization (configuration) forms. After research in the field of enterprise policy and strategic management planning we will combine this process within the planning school with the configuration school's point of view. Reasons for this are in our starting point hypothesis that innovative organizations (that by definition stand on their innovation legs and continuously care for beneficial changes) are the organizations, which will probably be more favourably disposed also to the changes in the enterprise policy and strategic management planning. We derive from persuasion that innovative configuration of the organizations encourages the process of enterprise policy and strategic management planning (innovation) additionally.

This study examines how an organization configuration impacts the enterprise policy and strategic management: the study explores the enterprise policy and strategic management planning in the innovative organizations (with various strategic orientations because of their innovative practice). The article proceeds as follows: We first aim to identify the important terms – to establish a foundation for the enterprise policy and strategic management planning by examining the relevant literature on enterprise policy and strategic management (also: strategy). Then we explore the innovative organization (configuration). The paper also identifies the enterprise policy and strategic management planning in the innovative organization; concentrating on the Mintzberg's typology. A discussion of the process researched before, opened questions, conclusions drawn from the article, and directions for the further research close the article.

## **3 Enterprise policy and strategic management**

With the process of enterprise policy and strategic management we are making today's decisions for tomorrow's results, because success today is no guarantee for success tomorrow. Many authors use term "strategy" and "strategic management" for different purposes (including also enterprise policy). Enterprise policy and strategic management (planning) has an important role to play in improvement of the organizational performance. To engage in research in this field we shall explore the terms used in this field, first of all.

Although many researchers also recently did an extensive literature review on the theme "strategy" (see for example Blumentritt and Danis, 2006) and an excellent review over development of this field (see for example Stewart and Fenn, 2006; Češnovar, 2006), although many schools of strategic thoughts were introduced, still many authors look at this theme from different viewpoints (because of heterogeneous

subjective starting points). This is why we will in the first place introduce our notion on the research field of enterprise policy and strategic management theory.

At the entrepreneurial research level several models of the enterprise development have been created and proposed. These models can be placed into several groups, such as metamorphic models, models of crises, models of markets development, and models of structural and behavioural changes (Belak, Duh, Belak, 2006, p. 20). On the other hand from the needfulness of praxis also management models have been created and developed. According to different views on administration/governance and/or management in American and European literature we can distinguish management models into two groups: European management models, for example Concept of integrate management from University of St. Gallen (Bleicher, 2004), Hinterhuber’s Model of strategic management (2004) or Slovene MER model Kajzer, Duh, Belak (2008), and American management models, for example Wheelen’s and Hunger’s Strategic management model (2010) or David’s Comprehensive model of strategic management process (2005, 2008).

**Table 1: Stages of enterprise policy and strategic management planning process**

Stage	Definition
<b>Enterprise policy formulation</b>	It includes developing a vision, identifying an organization’s external opportunities and threats, determining internal strengths and weaknesses, to examine closely the values of (meaningful) stakeholders, and developing enterprise policy: mission and purpose, establishing long-term objectives.
<b>Strategic management formulation</b>	As a result of enterprise policy it includes generating general and corporate alternative strategies, and choosing particular business strategies to pursue. Strategy-formulation decisions commit an organization to specific products, markets, resources, and technologies over an extended period of time.
<b>(Enterprise policy and) strategic management implementation</b>	It requires a firm to establish annual objectives, devise policies, motivate employees, and allocate resources so that formulated strategies can be executed. It is often called the action stage of strategic management.
<b>(Enterprise policy and) strategic management evaluation</b>	It is the primary means for obtaining the information when particular strategies are not working well. Three fundamental strategy-evaluation activities are (1) reviewing enterprise policy, (2) measuring performance, and (3) taking corrective actions.

Source: Leaned and excerpted from David, 2005, p. 5–6, completed up with our own point of view.

**Table 2: The broad criteria of enterprise policy and strategic management formulation process evaluation**

Criteria	What must (not) the enterprise policy and strategic management formulation process do?
<b>Consistency</b>	The enterprise policy and strategic management formulation process must not present mutually inconsistent goals and policies.
<b>Consonance</b>	The enterprise policy and strategic management formulation process must represent an adaptive response to external and internal environment (including governance / top management individual values – with all the influences on them – examination) and to the critical changes occurring within it.
<b>Advantage</b>	The enterprise policy and strategic management formulation process must provide for the creation and/or maintenance of a competitive advantage in the selected area of activity.
<b>Feasibility</b>	The enterprise policy and strategic management formulation process must neither overtax available resources nor create sub – problems that cannot be solved.

Source: Compare with Rumelt, 2005, p. 81.

An enterprise policy and strategic management formulation process that fails to meet one or more of these criteria fails to perform at least one of the key functions that are necessary for the survival of the business (compare with Rumelt, 2005, p. 81).

Porter distinguishes corporate and business strategies and he uses them the same as we do (on the strategic management level of the governance / management process). As Witzel sees it (2003a, p. 11 in Burnes, 2004, p. 204), Porter views strategy from the standpoint of economics, and his ideas on how strategy should be implemented are based on the understanding of competition and other economic forces. Strategy is not devised in isolation; a company’s options will always be limited by what is going on around it. His famous “five forces” model shows the constraining impact that competition and environment have on strategy... From the external environment, he turns to the company itself. Companies make products and

deliver them to consumers, but they can also add value to the basic product in a variety of ways and through different functions... The value chain is crucial, he says, because it demonstrates that the company is more than just the sum of its parts and activities: all activities are connected, and what is done at one stage affects work at other stages. The company needs to examine its value chain and decide where it can add value most effectively to meet competitive pressures in the industry.

Strategy (Porter, 2005, p. 22) is creating fit among the company’s activities. The success of the strategy depends on doing many things well – not just a few – and integrating them. If there is no fit among activities, there is no distinctive strategy and little sustainability. Management reverts to the simpler task of overseeing independent functions, and operational effectiveness determines an organization’s relative performance. Competitive strategy (Porter, 2005, p. 18) is about being different. It means deliberately choosing a different set of activities to deliver a unique value mix.

Table 3 provides Mintzberg’s point of view on the five Ps for strategy. These descriptions indicate his typical strategic thought. With “strategy” he actually describes enterprise policy and strategic management formation process although he doesn’t believe in strategic planning.

**Table 3: Five Ps for strategy**

Five Ps for strategy	Description
<b>Strategy as Plan</b>	Some sort of <i>consciously intended</i> course of action, set of guidelines to deal with a situation. Strategies are (a) made in advance of the actions to which they apply, and they are (b) developed consciously and purposefully. They may be general or they can be specific.
<b>Strategy as Ploy</b>	A strategy can be really just a specific “manoeuvre” intended to outwit an opponent or competitor.
<b>Strategy as Pattern</b>	Strategy is <i>consistency</i> in behaviour, <i>whether or not</i> intended. It encompasses the resulting behaviour. While hardly anyone defines strategy in this way, many people seem at one time or another to so use it.
<b>Strategy as Position</b>	It locates an organization in an “environment”. Strategy becomes the mediating force between organization and environment, that is, between its internal and the external context.
<b>Strategy as Perspective</b>	It looks inside the heads of the collective strategist, but up to a broader view (to see their ingrained way of perceiving the world). It suggests that the strategy is a <i>concept</i> : all strategies are abstractions, which exist only in the minds of interested parties; they are inventions, fragments of someone’s imagination. What is of key importance is that the perspective is <i>shared</i> by the members of an organization, through their intentions and/or by their actions. In this context we are entering the realm of the <i>collective mind</i> – individuals united by common thinking and/or behaviour.

Source: Leaned and excerpted from Mintzberg, 2005, p. 4–8.

Mintzberg says that managers are constantly “fire-fighting”, dealing with problems under pressure. Rather than the best possible solution, they seek the best solution that can be implemented given the resources available. And because each organization has its own culture and needs, managers’ responses to problems vary. There may be no “right” way to manage a business. These affect strategy... In the real world, Mintzberg says, strategy making is ad hoc and instinctive, not structured and planned. The concept of “strategic planning” becomes an oxymoron... “Emergent strategy”, as he calls it, is strategy that evolves according to need, constantly adjusted and adapted. He also speaks of “crafting strategy”, a process by which managers develop strategy according to the needs of their organization and environment. Here, strategy creation and implementation are interdependent (Witzel, 2003b, p. 11 in Burnes, 2004, p. 20).

From the brief literature review we can conclude that the researchers don’t use the terms of enterprise policy and strategic management (formulation process) consistently. Although from the article we can have a premonition about the type of an author: is he / she an entrepreneur? Is he / she innovator? Do he / she feel inclined to exact and analytical accession to management? As the people as individuals (and physical persons) are different, also companies as legal persons differ. Mintzberg (1998 in Češovar, 2006, p. 229–230) divided strategic management into ten distinct models or “schools” which have been emerging over time. The differences between them lie in the “strategy” formation process [what we call “enterprise policy and strategic management” formulation process; author’s remark] and management’s role in the process. The first three models drive from perspective schools and are concerned with how “strategies” should be formulated. The next six models reflect descriptive schools which consider specific aspects of the “strategy” formation process and have less to do with prescribing ideal “strategy” behaviour than with

describing how “strategies” are made. The last model arises from configuration schools and combines the first nine.

Because we proceed from the hypothesis that the changes in enterprise policy and strategic management formation process in innovative atmosphere frequently occur, we will proceed with examination of the organization type (configuration) which extra stimulate the innovativeness – the innovative organization.

### 3 Innovative organization

Miles, Snow, Mathews, Miles and Coleman Jr. (2005, p. 423) comment that in tomorrow’s business world some markets will still be supplied with standard products and services, while other markets will demand large amounts of customization. However, the continued pull of market forces, and the push of ever-increasing know-how honed through network partnering, is already moving some industries and companies toward what amounts to a continuous process of innovation.

Innovation is the ability to apply creative solutions to those problems and opportunities to enhance or to enrich people’s lives. Harvard’s Theodore Levitt says that creativity is *thinking* new things, and innovation is *doing* new things. An organization can succeed by *thinking and doing* new things or old things in new ways... Innovation must be a constant process because most ideas don’t work and most innovations fail (adopted from Zimmerer, Scarborough, 2005, p. 35–36). Innovation as its outcome must be accepted by customers to deserve the term innovation (EU, 1995; OECD, 1971). Value of innovation compounded product/service, process and social innovations.

According to Mintzberg the configurations are forms. He distinguishes five different organization forms. Except the innovative organization none of them is capable of sophisticated innovation. The entrepreneurial organization (Mintzberg, 2005a, p. 405) can certainly innovate, but only in the simple ways. The machine and professional organizations are performance, not problem-solving types, designed to perfect standardized programs, not to invent new ones. And although the diversified organization resolves some problems of strategic inflexibility found in the machine organization, it too is not a true innovator. A focus on control by standardizing outputs does not encourage innovation. Mintzberg calls the innovative organization also “adhocracy,” dominated by the experts’ pull to collaborate.

**Table 4: Two types of innovative organization – adhocracy**

	<b>The administrative adhocracy</b>	<b>The operating adhocracy</b>
<b>Production</b>	Complex production system that is sometimes automated.	With no standard products or services (because of that many tend to fail while other escape their vulnerability by standardizing some products or services and so converting themselves to a form of bureaucracy).
<b>Staff</b>	Highly skilled and influential support staff (to design and maintain the technical system of the operating core).	The operators take part in the projects, bringing their expertise to bear on them. Multidisciplinary teams of experts.
<b>The operating core</b>	The operating core is separated (cut off) from the adhocratic administrative structure.	The operating core blends into the adhocratic administrative structure (to blend into a single effort).
<b>projects</b>	Projects take place in the administration to bring new operating facilities on line (e.g. a new complex, designed in a petrochemicals firm). Undertakes projects to serve it-self.	Produces its projects (innovates and solves problems) directly for its clients (e.g. as in the consulting firm). Undertakes projects to serve its clients.

Source: Leaned and excerpted from Mintzberg, 2005b, p. 223–224; also 2005a, p. 407.

The course of events of the enterprise policy and strategic management formation process in different organization configurations differ. This process extra motivates and helps to achieve heart storming for the organization in the configuration that takes care of invention – innovation process. We examined the innovative organizations because this are the organizations, which encourage changes and will probably also encourage changes in enterprise policy and strategic management formation process most likely. Because this process differ in innovative organizations from not innovative ones we continue our research with the enterprise policy and strategic management formation process in the innovative organization.

#### 4 Innovative organization and enterprise policy and strategic management formation process

Stewart and Fenn (2006, p. 173) discuss about the enterprise policy and strategic management formation process as the motivation for innovation. They proposed that “strategy” activity is the most necessary form of and the foundation for the innovation... Innovation is the profitable exploitation of ideas. Clearly, this requires two things – a source of ideas that can lend themselves to profitable exploitation and a goal in pursuit of which to exploit the ideas. These goals are established and met by “strategic” innovation. The right “strategy” tools can motivate ideas and insight.

In this part of the article we will explore what pattern the enterprise policy and strategic management formation process contain in the selected configuration form – in the innovative organization. At our examination we will lean on Mintzberg’s research. It is important to know that Mintzberg write about “strategy and strategies”, and that this is what we understand as enterprise policy and strategic management formation process. Because the innovative organization must respond continuously to a complex, unpredictable environment (Mintzberg, 2005a, p. 413), it cannot rely on deliberate strategy. In other words, it cannot predetermine precise patterns in its activities and then impose them on its work through some kind of formal planning process. Rather, many of its actions must be decided upon individually, according to the needs of the moment. It proceeds incrementally... Here, then, the process is best thought of as strategy *formation*, because strategy is not formulated consciously in one place so much as formed implicitly by the specific actions taken in many places... Any process that separates thinking from action... would impede the flexibility of the organization to respond creatively to its dynamic environment.

Mintzberg (2005a, p. 415–416) developed a “grass-roots” model of enterprise policy and strategic management formation process (“grass-roots” because the strategies grow up from the base of the organization, rooted in the solid earth of its operations rather than the ethereal abstractions of its administration). He writes about “strategy” although describes the enterprise policy and strategic management formation process. He looks on this formation process from the viewpoint of configuration school and does not distinguish different models of enterprise policy and strategic management that an organization can follow. He summarized his “grass-roots” model in comprising six points (abridged):

1. Strategies grow initially like weeds in a garden; they are not cultivated like tomatoes in a hothouse.
2. These strategies can take root in all kinds of places, virtually anywhere, if people have the capacity.
3. Such strategies become organizational when they become collective, that is, when the patterns proliferate to pervade the behaviour of the organization at large.
4. The processes of proliferation may be conscious but need not to be; likewise they may be managed but need not to be.
5. Periods of convergence, during which the organization exploits its prevalent, established strategies, tend to be interrupted periodically by periods of divergence, during which the organization experiments with and subsequently accepts new strategies themes.
6. To manage this process is not to preconceive strategies, but to recognize their emergence and intervene when appropriate.

From the describing “grass-roots” model of enterprise policy and strategic management formation process it is clear that the course of this process in innovative organizations is indeed something special. This is a creative process, motivational to those involved, which lay great stress on right time termination and stimulation. Its culture creates heart storming for the organization and helps the organization to reach (and to preserve) long term sustainability.

In the innovative configuration (Mintzberg, 2005a, p. 417) it is the environment that takes precedence. It drives the organization, which responds continuously and eclectically, but does nevertheless achieve convergence during certain periods... The strategist of the innovative organization is largely a pattern recognizer, seeking to detect emerging patterns within and outside the strategic umbrella (broad general guidelines of the organization). Then strategies deemed unsuitable can be discouraged while those that seem appropriate can be encouraged, even if that means moving the umbrella.

Effectiveness and efficiency of an organization are usually two sides of the same medal. The organization that is not efficient is on the market expensive; therefore not rentable and not effective. But although the organization is efficient and does not satisfy the needs of the market (of an environment), it will not be effective. Hence it follows that is the environment of an organization one the most important factor of its development. Mintzberg fine describe the environment which takes the lead in the innovative organization, but not also which are this environments of an organization. He also doesn’t closely examine their impact on the researched type of an organization. He also does research the enterprise policy and strategic management formation process in the innovative organization but not also the impact of other

important factors that results from an organization itself (e.g. sphere of an organizations activity). We also miss the survey of values of (meaningful) stakeholders and their interests; of an organizations ethics that is connected with that: because this is one of the most important impact factors on the organizations development nowadays... But on the other hand – is all that possible simultaneously at all? Is it possible that one person (although acknowledged and world renowned) takes into consideration all the factors that impact an organization development (although “only” from the selected point of view)?

## 5 Some conclusions

To compete in today’s rapidly changing competitive environment, new strategic responses are required – businesses need new bases and methods (Mulej et al., 2009f, p. 235) taking in account new values, culture, ethics, and norms (VCEN) of humans, including their personal and personality's development, leading both humans and businesses to their own requisite holism. The often one-sided and opportunistic enterprise policy of so far has aimed to satisfy only the short-term and narrow-minded financial interest of enterprise owners; it is obsolete now due to change of VCEN of other humans. This is proved by the 2008-crisis as its consequence. The social responsibility of enterprises, governments, and humans as persons is therefore ever more important. This causes the enterprise policy to have to become more holistic and focused on meeting (requisitely holistic!) interests of all stakeholders, not only of enterprise owners. Enterprises with such a responsible policy take a long-term development attitude. It requires enterprises to search for new opportunities and to meet new VCEN, too, as a part of meeting interests of all enterprise stakeholders; they strive on this approach (Esposito, 2009; cases in Hrast et al., 2010, 2011; etc.). Hence, we are entering the phase of innovation of enterprise policy focusing on a more socially responsible enterprise policy (Štrukelj, Mulej, 2011a).

This paper has presented a research study of the enterprise policy and strategic management formulation process in the innovative organizational configuration form. We demonstrated the elements of the enterprise policy and strategic management (developmental) planning, analyzed the innovative organization and in this type of organization explored the course of developmental planning itself. Innovative (or adhocracy) organizations need to be able to learn, to discover new things for their customers and themselves – to adapt and to innovate (Mintzberg, 2005c, p. 462).

In his article Mintzberg (2005c) discussed different models under different configurations. But in truth, all organizations need to mix these approaches in various ways at different times in their development (ibid, p. 461). All researched considerations don’t tell us enough about the effectiveness of enterprise policy and strategic management formation process or about the effectiveness of this process in a specific – innovative (or other kind of) organization. We also believe there is an opened question whether the process of enterprise policy and strategic management formation influences the organization performance at all; especially if this is an innovative organization which is “by definition” disposed to spontaneity, likes changes and stimulate differentiation. Is this process of enterprise policy and strategic management formation in “classic signification of the word”, like we define it or for example David (2005, 2008) or Wheelen / Hunger (2010), in this type of an organization possible at all?

We left another very interesting question opened: how takes place the process of enterprise policy and strategic management formation process in researched innovative organizations from the viewpoint of the content of the planning itself? Do this sort of organization have only different manner of planning or are this also the organizations that frequently innovate also the contents? We would like the reader refer to research the innovation of the enterprise policy formation process content and also to research the innovation of the strategic management formation process content. This could be investigating on the ground of the questions like: Which influential factors on the enterprise policy (strategic management) did the organization examine closely 10 years ago? Which do they examine closely nowadays? What within these influential factors did the organization examine closely 10 years ago? What do they examine closely nowadays? How (did) this influence(d) the effectiveness of an organization?... So – are the organizations that are well disposed to the enterprise policy and strategic management planning process innovations more successful? These and many other questions will stay open; they are waiting for the answers: in different types of an organization, according to different “schools” of strategic thoughts that have been emerging over time. This article here is only the overture for the needed further examination. We will seek for some of these answers within very extensive research.

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## THE IMPORTANCE OF PROMOTION IN THE CIVIL SERVANTS CAREER DEVELOPMENT

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**Abstract:** *Civil servants are the interface between the citizens and public institutions. They must be continually motivated and able to perform their duties at the highest quality standards. Providing a career is a prime factor which helps maintaining the best employees for a long time within public administration. Since promotion is a key element in ensuring a career, our study focuses on presenting the aspects related to the promotion of civil servants in the Romanian local public administration and the Belgian one. By using the Jaccard's similarity index we have compared the legislation regarding the promotion of civil servants, of two EU member states that use the career system to manage the public service.*

**Key words:** promotion, public servant, career development

**JEL classification:** M12, H83

### Introduction

Both theoretical studies and practical experiences have demonstrated the importance of promoting for the career of employees from any organization type. At public administration level, especially the local one, both in our country and in European Union countries, promotion is considered, along with mobility, as the main way of developing civil servants' career. The promoting effect on the career is all the greater as it is accompanied by an advance in the pay grades.

However the importance of promoting the civil servants varies in the EU Member States, depending on one or the other of the public service management system they use.

The *career system* applied in some countries such as France, Belgium or Spain, implies stability and continuity in the career, either within the same body of officials, or by moving from one body to another. One cannot talk about the concept of career outside the body. Once entered in the specific body of officials, a civil servant is provided with the ability to remain his whole life in that body, while having the right to a career within it. He will fill successive positions in the administrative hierarchy of the public function while its stability is ensured on both the job and the public function.

The second system, *the job system*, is based on a set of positions or jobs. The civil servants are appointed to one of these functions, and afterwards they have the opportunity to be appointed to another position, without being invested with a right to do so (Ioan 2007:320). The main feature of this system is that recruitment and selection of civil servants is the same as in the private sector. Civil servants are recruited for a job or public office, but they may apply for any vacancy in the public sector, if the candidate satisfies the requirements of the available job or function and he or she assumes the responsibility for fulfilling the specific tasks. Among the representative countries that use this system we could mention Great Britain, Denmark, Netherlands or Sweden.

### 1. Paper content

It is important to keep in mind that none of European Union countries applies any of the two systems mentioned above. In fact, most states use a combination of the two systems, focusing on one model but also using some elements from the other one. For example, in Portugal, promotion is based on both the principle of seniority and performance criteria. The promotion is only possible if the public servant is engaged in the public service for three consecutive years and has obtained at the individual job performance evaluation at least a "very good" mark or if he or she has a minimum of five years seniority and has received the "good" mark at its last performance evaluation.

In Greece, every year (in April) a list of public servants is published, including skills, education and specialization, age, length of public service and pay grade. Based on these criteria, the civil servants who

meet the promotion requirements are individualized. Promotion is decided on the basis of seniority in the public service, but also on the individual performance criteria, which has the decisive weight. Also in Italy, civil servants can be promoted only through competition which is held every two years. (Pastor, 2008).

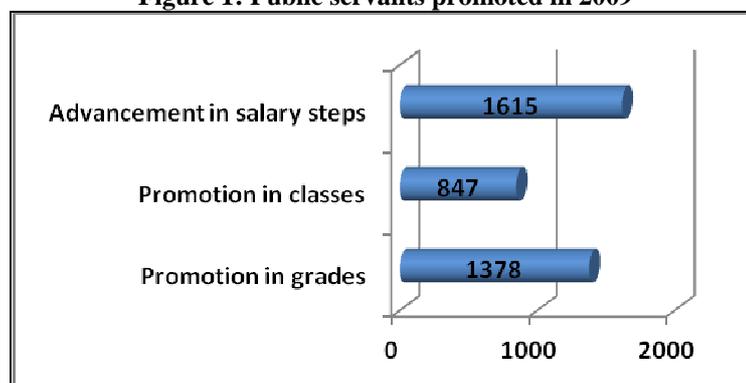
In the Romanian public administration, which applies predominantly the career system, promotion is a career development method which implies the occupation, specified by the law of a:

- public function with a higher professional rank than the previous one;
- public function from a higher class, as a consequence of obtaining a higher degree and passing an exam or competition held in this regard;
- management public function as a consequence of passing the exam or competition held in this regard.

In his career, the civil servant may promote in the public function and can advance in the salary steps, under the law's regulations. Promotion in classes, grades and the advance in the salary steps, are not subject to the existence of a vacancy public function in the Romanian administration. Following the promotion in class and grades, the public servant's job description will be updated with new duties in relation to the civil service.

From the following figure we could observe that in 2009, the lowest number of promotions were the promotion in classes, one of the explanations for this, in our point of view could be the failure of the promotion examination.

**Figure 1: Public servants promoted in 2009**



(Source: The National Public Servants Agency 2009 Report , [www.anfp.ro](http://www.anfp.ro), 2010)

As mentioned before, Belgium is one of the states that apply mainly the career system in terms of its civil servants career. Since in our country is applied the same system and one of the aims of the reform of the Romanian government was to develop a civil servant career system like the ones applied by EU Member States, in the followings we analyze how the aspects related to promotion of civil servants are specified by the Belgian administration. We have chosen Belgium because it is one of the countries with tradition in the successful implementation of this system and also due to the possibility that we had to make multiple information visits to a few municipalities from the Brussels-Capital Region.

In terms of administrative organization Belgium consists of three regions: Flanders, Walloons and the Brussels-Capital Region. Ever since Belgium was a unitary state, the territorial decentralization phenomenon was very pronounced. So in addition to the *national public function* has always been a *local public function* belonging to the local government. The ability of regions and municipalities to have a public function is regarded as an essential attribute of local autonomy.

Unlike countries such as Spain, Portugal, France or Romania, Belgium has not adopted a unique status to regulate both the local and central public function. Despite the existence of federal settlements that regulate the general principles, each community and each region shall adopt its *own status* regarding its staff. As a result, *at the local municipal government*, each municipality has the power to adopt *its own* status of staff.

Regarding the Brussels-Capital region, on which our study is based, the regulations on the public servants are made by the Social Charter (under the full name: Harmonization of administrative and general review of the status of personnel of local powers of Brussels-Capital Region).

Since the Brussels-Capital Region is composed of 19 municipalities and each municipality sets its own rules regarding its civil servants, taking into account the provisions of the Charter, in our study we have compared only the aspects related to the promotion of civil servants governed by the Social Charter.

In the Romanian administration, the analyzed legal regulations are the ones made by the Statute of civil servants and by the rest of applicable laws that provide aspects of promoting the civil servants.

**2. Research methodology**

To determine whether the Romanian legislation on the question that interests us-the promotion of civil servants resembles with the one applied in one of the most developed and representative countries of Europe, Belgium, country who also applies the same system of career for its civil servants, in our study we have used the **Jaccard's similarity index**.

**Jaccard's similarity index** (Jaccard, 1912) called by the author also "the floristic community index" shows the degree of similarity between several samples, populations, species, etc. Jaccard's index measures the similarity between two or more samples and is defined as the ratio between the number of common elements from the samples and the total number of elements from at least one of the samples.

In other words, Jaccard's index can also be defined as the size of the intersection divided by the size of the union of the sample sets:

$$J(A,B) = \frac{|A \cap B|}{|A \cup B|}$$

The index may have values between 0 and 1. If the index value approaches 1, the degree of similarity between samples is higher and vice versa for values close to 0.

The **Jaccard distance**, which measures *dissimilarity* between sample sets, is complementary to the Jaccard coefficient and is obtained by subtracting the Jaccard coefficient from 1.

$$Id = 1 - Ic.$$

In other words, Jaccard's distance can be obtained by dividing the difference of the sizes of the union and the intersection of two sets by the size of the union

$$J_{\delta}(A,B) = 1 - J(A,B) = \frac{|A \cup B| - |A \cap B|}{|A \cup B|}$$

To be able to calculate Jaccard's index, we have presented and analyzed the legal framework concerning the promotion of civil servants in the Brussels-Capital Region under the regulations of the Social Charter, in comparison with the Statute of civil servants in Romania. Items that are not found in the same form in the two laws have been marked with "\*".

**Table 1: Promotion Belgian and Romanian law regulations**

<p><b>Belgium</b></p>	<ul style="list-style-type: none"> <li>*-within the same level or by passing to a superior one;</li> <li>*-only if there is a vacant position;</li> <li>- exam for the execution positions;</li> <li>*- by appointment, for the management jobs, decided by each municipality;</li> <li>Conditions:</li> <li>*-to be a statutory agent (appointed);</li> <li>- the last performance evaluation was a positive one;</li> <li>- a certain seniority is required in order to pass to a superior level (seniority made only as a statutory agent of the municipality);</li> <li>*- there is a probationary period prior to the promotion, equal to the appropriate level placement. At its end the agent is promoted or resume to its previous level. The probationary period may not be extended, but it can be suspended.</li> <li>*-for the execution positions, promotion is based on formation courses together with a positive evaluation;</li> <li>*-fast promotion is possible, for all personnel categories, if there are attended complementary formation courses.</li> </ul>
<p><b>Romania</b></p>	<ul style="list-style-type: none"> <li>*it could be made : - in public functions with a superior professional grade than the one had before the promotion;</li> <li>- in public functions from a superior class, as a result of obtaining a superior level diploma and of passing the organized exam or contest for it;</li> <li>-in management public functions as a result of passing the organized exam or contest for it;</li> <li>-through exam , when promoting in grade and class;</li> <li>*-through contest, when occupying a management position</li> <li>Conditions:</li> <li>-for <i>promotion in grade</i>:</li> <li>-seniority in work;</li> </ul>

	<p>- at least „well” at the performance evaluations in the last 2 years; *- no administrative record or disciplinary sanction is allowed.</p> <p>*-for <i>promotion in class</i> : by participating at the promotion exam, for public servants that have public functions with an inferior studies level, that have graduated a superior long or short-term study form in their field of specialization;</p> <p>*-for <i>promotion in management public functions</i>:</p> <ul style="list-style-type: none"> <li>- master or post university studies in the public administration, management or the field required for the specific job;</li> <li>- to be appointed in a public functions from class I;</li> <li>- to comply with all the job requirements;</li> <li>- 2 years of seniority in the field of studies required for the public function, if occupying one of the following management jobs: office chief, department chief and municipality secretary ;</li> <li>- 5 years of seniority in the field of studies required for the public function, when occupying a management public function other than the above mentioned ones;</li> <li>- no administrative record or disciplinary sanction is allowed.</li> </ul> <p>*-fast promotion in the public function may be obtained only by:</p> <ul style="list-style-type: none"> <li>▪ persons who have graduated organized programs, to obtain the public manager position;</li> <li>▪ public servants who have passed the contest for promotion in grade, but who do not have enough seniority to promote in the superior grade. A the promotion contest could participate public servants who meet the following requirements: <ul style="list-style-type: none"> <li>- at least one year on seniority in the professional grade from which they promote;</li> <li>- at the last year performance evaluation the „very well” mark was obtained;</li> <li>- they have no administrative record or disciplinary sanction;</li> <li>- they have followed at least one form of professional course in the last year.</li> </ul> </li> </ul> <p>*-the exam or promotion contest is organized by the public institutions in which the public servant is appointed, but in order for the job to be transformed it is required the National Agency of Public Servants agreement.</p>
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(Source: author's view from Social Charter, Statute of Romanian Public servants)

### 3. Research results

After calculating the Jaccard's index, **I<sub>j</sub>**, one obtained a value of 0.18, out of the presented elements; only three items out of 17 were common in both legislative regulations.

$$I_j = 3/17 = 0.18$$

We have mentioned earlier that as the index value is closer to 1 the greater the degree of similarity between samples. In order for such a value to be representative it should be located between the values 0.5 and 1. As one could see in our case, we have a very low degree of similarity, whereas the value obtained from our study is close to 0, which reveals significant differences between the two legislations. The more obvious this is as the value obtained 0.18 is located in the range of values from 0 to 0.5.

The significant differences existing between the two legislations are confirmed further by Jaccard's distance index, whose obtained value is 0.82. In other words, this index, whereas is ranged between the values 0.5 and 1 shows a fairly high degree of differentiation, given that if it took a value of 1 would be shown a maximum degree of differentiation.

$$I_d = 1 - 0.18 = 0.82$$

In Brussels-Capital region, promotions can be made within the same level or by passing to a higher level, while in the Romania it can be made in the professional grade, class or in a management position, meaning there is a clear presentation of the promotion opportunities. We consider the Belgian law more permissive regarding its civil servants from this point of view. One of the explanations may be the effort to offer all the employees the opportunity to promote.

Opposite to the Romanian law, the fact that promotion according to the Belgian law is conditioned by the vacancy of a job, we believe it is due primarily to the limited number of the existing jobs and believe that to some extent, on the long term, could lead to a decrease of employees' motivation since they are unable to advance in their career due to the lack of vacancies. The Romanian public servants, in our opinion,

are more motivated to promote, because it is not mandatory the existence of a vacancy, but because the job they will obtain after the promotion will just be enriched with more obligations and responsibilities. In other words they do not need to expect for a job to become vacant in order to advance their careers.

The Romanian legislation allows authorities to hold examinations and competitions to promote the civil servants. This reveals a high degree of transparency, if such examinations and competitions are promoted fairly and objectively. With regard to the Belgian law, for the civil servants who wish to advance, in addition to the examination for the appointment in an execution position, for the management positions there is a nomination, which usually is done by the City Council. In this case, the political factor has a great influence in choosing those who will be promoted, whereas in most cases, they will be supporters of one or another political color. In our opinion, the provisions concerning the organization of competition or examination in the Romanian legislation aim in fact to eliminate the influence of the politics in the public management functions.

Another important aspect is given by the necessity of taking special training courses in order to advance, condition that may be also found in the Romanian legislation, depending on the type of promotion. What differs however in the Belgian law is that before being promoted, there is a probationary period, which the civil servant must pass with flying colors otherwise risking obtaining the promotion. So even after passing the exam, the employee's knowledge and skills are tested once again. This is a good aspect, in one's view, since it allows a dual test of the candidates, first through the theoretical knowledge examination and then at the end of the probationary period through the demonstration of their practical skills and competences.

The remaining differences are mainly due to the conditions that public servants seeking promotion must comply with. Broadly these are the same, the level of detail influencing part of the differences. In general, the conditions of seniority or obtaining good grades at the performance evaluation are found in both laws.

#### **4. Conclusions and research perspectives**

Our study has revealed that issues related to the promotion of local public servants in Belgium, the Brussels-Capital Region, namely Romania differ significantly.

The low value obtained for Jaccard's index, meaning the lower degree of similarity of the issues related to the promotion of local public servants in Belgium and Romania, or the low similarity between them, could be caused, in addition to the above aspects mentioned before also by the following elements:

- detail level: one could notice that the general legal provisions are about the same, the differences often being due to their more detailed forms;
- degree of subjectivity in the assessment of the compared criteria, since the difficulty in choosing criteria is even greater as the formulation of legislative issues related to promotion, is different in the two laws, due to administrative and organizational features of the two countries. The degree of subjectivity it is also influenced by the lack of explicit provisions on certain issues in one or other of the legislations. As an example the Belgian law provision that promotion could be obtained within the same grade level or switching to a higher level, but that does not appear explicitly in the Romanian legislation in this form, although its existence is implicit in the provisions of how promotion could be reached such as in public functions with a superior professional grade or class.

Another very important aspect, directly related to explain the value obtained for the Jaccard's index is the local autonomy.

The strong local autonomy of the municipalities in the Brussels-Capital region, allows them to establish their own career issues concerning the local public servants, taking into consideration the regional directives. Local autonomy, however, would not have been possible if previously the administrative decentralization had not had created the favorable conditions for it. In the administrative decentralization local interests could be better solved. Also, local public services can be better managed by local authorities, since they do not have to act accordingly to the instructions received from the central level. The elected or appointed public servants in the administrative decentralization regime, for a limited period, could remove the bureaucratic phenomena in the local activity.

However, one should not minimize the importance of the efforts from Belgian municipalities, efforts to reach uniformity of regulations. The uniformity purpose is:

- the financial recovery of the municipalities who have difficulties;
- to prevent competition between municipalities;

- to simplify the work of municipalities;
- to be able to compare the status of local public servants with the one of the federal ones.

In Romania, on the other hand, the administrative centralization arises from the unitary state organization having as a result the existence of a single statute applicable to all civil servants, whether at central or local level. One positive consequence of a single common legislation is the uniformity in applying the law. On one hand, local authorities are exempted from the difficulty of designing and application of different statutes, which should comply with some provisions, set by the central level. On the other hand, from the civil servants' point of view is more advantageous to them that all local authorities apply the same status. For example if they want to change their address or to transfer to another town, they do not need to comply with other requirements to get a promotion.

Competition between the municipalities is eliminated and the control from the central level is much easier.

However, as in any centralized system, there are also some disadvantages. One of them is a reduced level of efficiency when promoting public servants since there is requested the permission from the central level for most of the operations. In Romania's case, for example, among others, there has to be the permission from the National Agency of Public Servants when organizing competitions and changing the job profile. On the other hand if every local authority would have the autonomy to create their own status regarding its civil servants, the approval time for various operations would be considerably reduced.

It would be interesting to observe how a mixed system would find application in reality. Of course, before anything, discussions would focus on the elements that would define such a mixed system. An alternative would be that each local government authority to be able to establish its own rules, only certain aspects being covered by the central level. Another possibility would be that the main regulations to be given by central level and the local one to decide only the issues of reduced importance. Another issue may be linked to the extent that such a mixed system would be suitable for all or only a few states. We must not forget the importance of the national, cultural or political factors in organizing public institution's activities, whether they are from local or national level.

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*The authors wish to thank for the financial support provided from the program co-financed by THE SECTORAL OPERATIONAL PROGRAM FOR HUMAN RESOURCES DEVELOPMENT, Contract POSDRU 6/1.5/S/3 – "Doctoral studies, a major factor in the development of socio-economic and humanistic studies".*

## THE ROMANIAN CAPITAL MARKET: STOCK EXCHANGE EVOLUTION

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**Abstract:** *According to the adopted regulations, the capital market in Romania is part of financial market which makes it possible to separate the act of saving and investment. The beginning of the capital market in Romania was related to the Mass Privatization Program (MPP). The stock exchange in the Romanian economy has a direct impact on commercial companies. In this paper will be analyzed and presented the contribution and evolution of the Capital Market of the Sibiu Monetary Financial and Commodities Exchange compared with Bucharest Stock Exchange to the derivatives segment as participants of the current economy which is in a crisis period.*

**Key words:** capital market, stock exchange, economic evolution.

**JEL classification:** M11

### 1. Introduction. Overview of the capital market in Romania

According to the Anglo-Saxon concept, the capital market is synonymous to the securities market and together with the monetary market forms the financial market and provides medium and long term capital investment (Anghelache, 2000, p.11-12).

Through it, in the Romania, the financial market comes as a specialised circuit where long term capital transactions take place.

Financial markets operate based on two characteristics (Anghelache, Dardac, Stancu, 1992, p. 6-7):

- The issue and placement of securities, namely the selling for the first time of shares, bonds and other titles to the holder of available capitals;
- The negotiable character of securities, revealed by the fact that they can be sold by the first owners before reaching maturity and turning into cash.

Creators and administrators of markets (technicians) are concerned of aspects less visible to the general public, among which: the trading techniques, the operations' lending, guarantee, compensation, clearing. These are the technique and, at the same time, the existing condition of the market itself.

Capital market can also be defined as the transaction market of securities issued by the state, joint-stock companies and administrative-territorial units (Popescu, Dumitrescu, 1994, p. 68).

If the company resorts to shares and bonds it will gradually enter the capital market area, and the products offered to investors are called securities. *Securities* are defined as negotiable financial instruments transferred by tradition or by entry in the account, which gives equal rights, giving holders the right to a fraction of the share capital of its issuer or a general credit to the issuer's assets and they are likely to be traded on a regulated market. Also, securities include:

- shares;
- securities, bonds issued by the central or local public administration or commercial companies, as well as other debt securities with maturity longer than one year;
- preference rights for the subscription of shares and swap rights of certain debts into shares;
- other financial instruments, except payment instruments, which give the right to acquire the same securities as the ones mentioned above through subscription, change or money compensation;
- any other financial instruments qualified by the NSC (National Securities Commission) as securities.

The beginning of the capital market in Romania was related to the Mass Privatization Program (MPP), which achieved the privatization of over 5000 state-owned companies by freely distributing a part of its capital to all the citizens aged over 18. Besides an increase in quantity, the structure of the listed companies grew rich in quality, too; most of the companies listed after the MPP were companies in the industry field, while the companies listed later belong to the services field – growing areas of activity in the economy.

We may state that, through the current characteristics, the capital market in Romania completely meets the integration requirements (Anghelache, 2006, pp. 56-59).

In 2000 there started the public offers of bonds successfully completed in Romania, and in 2001 the first bond transactions were made at the stock market. In 2005, the first transactions of preference rights regarding some share capital increase were also made.

**Table 1: The evolution of the number of investors on the Stock Exchange**

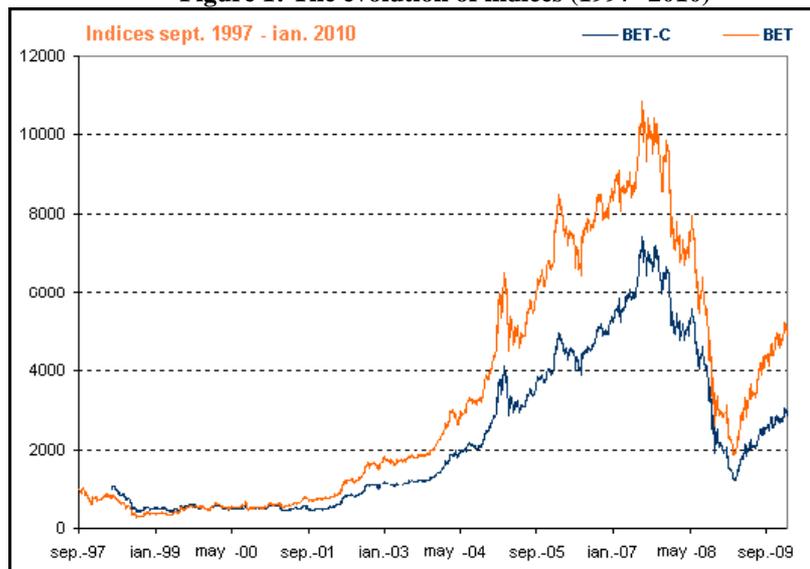
The evolution of the number of investors on the Stock Exchange	
<b>S1 2010</b>	<b>92.838</b>
<b>2009</b>	<b>94.545</b>
<b>2008</b>	<b>92.865</b>
<b>2007</b>	<b>87.664</b>
<b>2006</b>	<b>65.304</b>

Source: FCI

The Romanian stock exchange status shows that functional markets in terms of liquidity are currently: the share market from the Bucharest Stock Exchange, namely the futures market at the Stock Exchange in Sibiu ([http://www.ssif.ro/capital\\_actiuni.php#top](http://www.ssif.ro/capital_actiuni.php#top)).

Recently, in Sibiu, a share market was implemented, which is still at the beginning. The Bucharest Stock Exchange has also implemented derivatives, unsuccessfully though. With a history of almost 10 years and tortuous evolutions, the Romanian stock market seems to have reached a certain maturity that can be the basis for some future increases in quantity, but more especially in quality.

**Figure 1: The evolution of indices (1997- 2010)**



Source: [http://www.ssif.ro/capital\\_actiuni.php#top](http://www.ssif.ro/capital_actiuni.php#top)

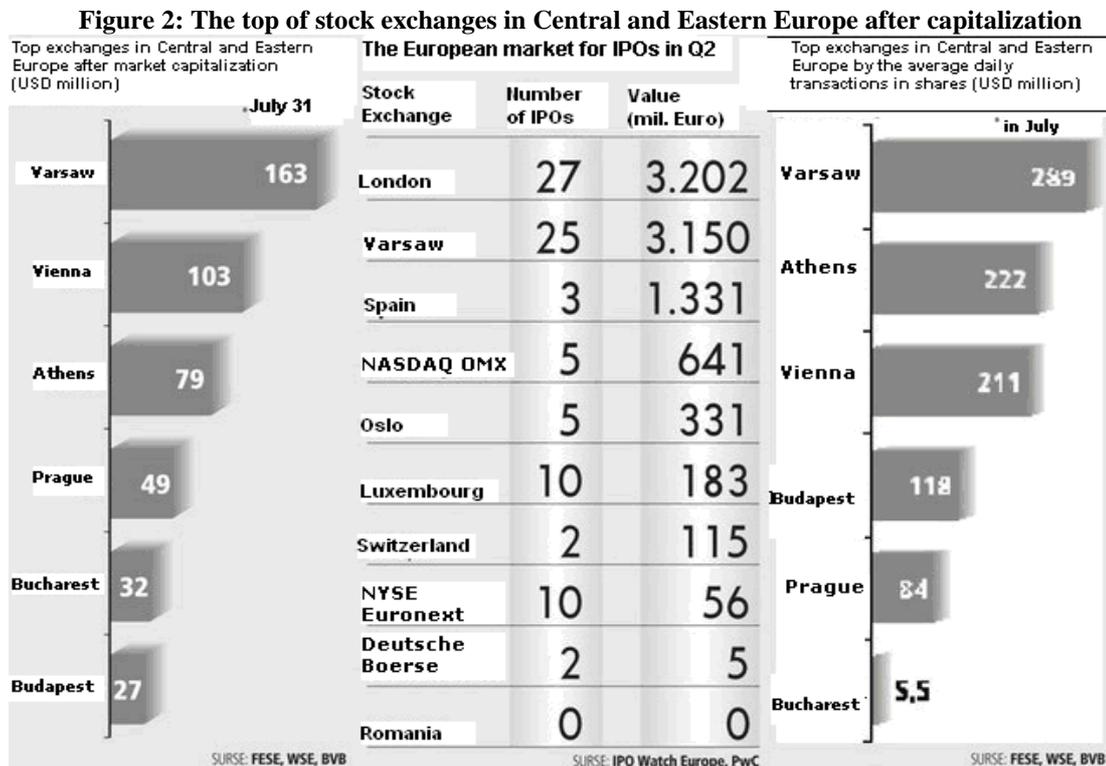
The capital market is currently benefiting from a new regulatory framework, Law no. 297 on the capital market, a law that includes stipulations regarding ([http://www.ssif.ro/capital\\_actiuni.php#top](http://www.ssif.ro/capital_actiuni.php#top)):

- the opening of new opportunities for the market;
- the assessment of higher transparency standards for the issuers;
- providing a higher level of protection of investors;
- establishing the necessary regulatory context for implementing new transaction instruments and methods.

Although the traded values and the market capitalization are noticeably higher than in the previous years, they remain at low levels as compared to the neighbouring countries' markets. From the perspective of a general approach, it can be noticed that emerging markets in Central and Eastern European countries have been generally characterised by similar elements, common to all emerging markets. A punctual analysis reveals that a series of features significantly differentiate their evolution as compared to the Romanian stock market from the perspective of the general context of stock markets (characteristic to the state, rhythm of

economic reforms, etc.). The main elements that made countries like Poland, Hungary, and The Czech Republic clearly more advanced than Romania regarding the development of the stock market are:

- economic start advantages (better economic performances and a certain level of openness of those economies);
- time advantages (the reopening of those stock markets began before the Romanian stock market);
- a sustained rhythm of privatization which provided the premises for the consolidation of an efficient market economy and of a functional stock market ;
- earlier adhesion to the European Union.



Source: <http://www.zf.ro/burse-fonduri-mutuale/cum-a-reusit-ats-ul-bursei-din-varsovia-sa-bata-bursa-de-la-bucuresti-listand-restaurante-de-sushi-7312716/poze/>, from September, 20th, 2010

The comparison with the countries mentioned above is represented as a graph in Table 2 (data from January 2010):

**Table 2: The comparison with the countries**

Country	Traded (million Euro)	Capitalization (million Euro)	Index		Variation 2010	Monthly Variation	Variation 12 months
Romania	108,50	24,00	BET	5.065,43	7,99 %	7,99 %	124,83 %
Czech Republic	1.443,33	51,32	PX	1.176,70	5,32 %	5,32 %	51,99 %
Hungary	1.735,61	21,79	BUX	21.831,46	2,85 %	2,85 %	89,57 %
Bulgaria	9,26	5,73	SOFIX	435,50	1,93 %	1,93 %	51,85 %
Austria	6.371,05	98,58	ATX	2.493,53	-0,08 %	-0,08 %	43,62 %
Poland	7.191,18	174,04	WIG20	2.382,64	-0,25 %	-0,25 %	49,39 %

Source: [http://www.ssif.ro/capital\\_actiuni.php#top](http://www.ssif.ro/capital_actiuni.php#top)

Increasing the capital market’s attractiveness and developing it by listing some important companies is a project that can bring benefits to the entire economy on the long term. Economic recovery requires the coordination of a great number of participants in the economy, including the capital markets, something that should not be ignored. This year, the Government approved the sale on the capital market of some stocks belonging to the state companies, such as Romgaz, Transgaz, Nuclearelectrica, etc., aiming to obtain these IPOs of some big amounts of money to the budget. Better late than never. In the competition for achieving these listings are both authorized market operators, namely BMFM and BVB.

## 2. Specific features of the stock market

The stock exchange is the officially organised market where public negotiations with securities are made, whose listing is provided on a daily basis (*Encyclopedia Universalis*, 1984, p. 739).

The stock market, as a basic element of the Romanian capital market, was re-established in 1995, by a decision of the Romanian Government and was financed from the state budget, provided that, within three years from founding it refunds from the commissions applied to the transactions the amount required for founding (Anghelache, 2000, p. 26).

The stock exchange is one of the most important institutions of the market economy, a segment of the financial market, an organised secondary market, transparent and monitored where transactions regarding securities, their derivatives, and money are performed.

In Law 52/1994 on the securities and the stock exchanges (M. Of. 210/1994) it is stipulated that the stock exchange is an institution with legal personality which provides the public through the activity of authorized intermediaries, systems, mechanisms and adequate procedures for the continuous, transparent and fair operation of transactions which represent the official and organised market to negotiate securities admitted to quotation, offering moral guarantee and financial security. Some stock exchanges are specialised only for a segment of operations with such financial securities, and for others, the range of titles and operations is diversified.

Stock markets are set up in accordance with the legal norms, their activity being supervised by the competent state authorities.

As a form of organisation, they are commercial joint stock companies, private and/or public property, or mixed. Although they emerged long time ago, their evolution being rapid, they have had an important development in the modern market economy.

In Romania, stock exchanges have appeared relatively late compared to other European countries.

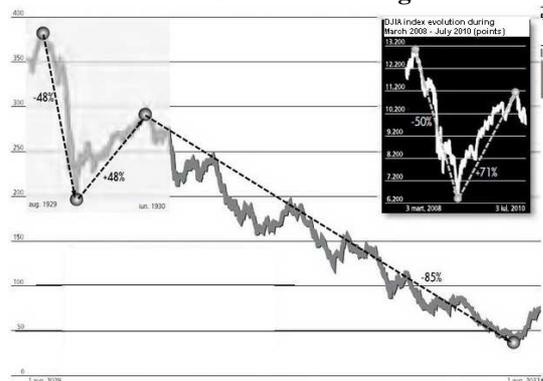
At the stock exchanges, financial securities are bought and sold at the rates established during auction sessions based on the demand and offer report. Transactions take place on certain days and at certain hours, according to precise rules stipulated by the law. They take place with the help of brokers who act as third parties and of dealers who act on their own. The transaction's coordination commission coordinates auctions and the clearing house is responsible to manage them effectively. The exchange rate established through auction is balanced, its level being determined to have the maximum of sales orders.

The stock exchange's functioning requires a permanent flow of information between the exchange agents, the commission exchange operations, the clearing house, the sellers and buyers of securities.

The evolution tendencies of the stock exchange are monitored with the market's indexes which are weighted averages of the prices of corporate securities. The regularly monitored indexes are the Dow-Jones Industrial Index of a number of 30 big companies and the Standard and Poor index (S&P500) which represents the weighted average of the stock's prices of the largest 500 American companies.

A price has a random course when its variations in time will always have high benefits.

**Figure 3: The evolution of DJIA index during March 2008-July 2010**



Source: <http://www.zf.ro/burse-fonduri-mutuale/graficul-care-da-fiori-investitorilor-din-intreaga-lume-ajuns-pietele-de-capital-din-nou-pe-marginea-prapastiei-6508253/poze/>

Stock exchange market seems to be a regulator of financial flows, a stimulator and diversifier of profitable production, and also a detector of non-profitable production.

Currently in Romania stock capitalization is around the 10% value of the GDP in terms of performance. For the Romanian stock exchange to become the most important from the central European region the capitalization percentage in the GDP has to be at least 30%. In 2007, for example, the GDP in Romania reached 53 billion dollars, a condition in which the stock capitalization should be of approximately 20 billion dollars and the transactions' average daily value between 15 and 20 million dollars.

Regardless of its legal form (public or private law), the stock exchange works under the control and supervision of the government. Internationally, in most of the countries there are private law stock exchanges as joint stock companies.

At the stock exchange there are being negotiated:

- securities (financial securities): shares, bonds, treasury bills and tickets, annuities, etc.;
- selective currencies;
- derived stock products: futures contracts, commodity options, securities options, currency options, stock indexes options, interest rate options, etc.

The following conditions are required to establish a stock exchange:

- the existence of large-scale joint-stock companies in that area or in the vicinity;
- the release of shares and bonds issued by those joint-stock companies to a higher number of shareholders;
- judicious regulation of the transactional activity through imperative legislation on the ethics code, the limit of shares, the progress of negotiations, etc.

From a legal perspective, stock exchanges are classified as it follows:

1. *The official stock exchange*: the market where securities admitted to quotation are negotiated. Operations take place in a specially designed place according to internal regulations. Transactions are centralised and available for the clients' permanent information. Operations are exclusively conducted within a mechanism, using specialised personnel to negotiate transactions and technical personnel who prepare negotiations, keep track of the contracts and monitor their implementation. Access to the stock is restricted. It can be classified in:

- a) classical stock exchange: a single, centralised rate of exchange is established, since the negotiation process is subject to the internal regulations, meaning that it is coordinated and supervised, the prices being formed based on public auction;
- b) the modern stock exchange: the negotiation processes are automated based on electronic means and computers, exclusively or combined with conventional means.

2. *The unofficial stock exchange*: a stock exchange with less restrictive access. This is the market where unlisted securities to quotations are negotiated. It is the case of small and medium-sized companies that want to get funds but cannot meet the severe admittance conditions on the official market. Moreover, here are the companies removed from the official quotation and companies in difficulty such as winding-up or liquidated companies.

3. *Over the counter market*: the market directly organised between operators outside the organised stock exchanges and which operate through a telecommunication network. On this market there can sold and bought securities in whatever amounts and not only shares that have a particular value. Prices, although formed based on the rates listed at the official Stock exchange are different, ranging from one company to another.

The stock market's main role is to facilitate the accumulation of necessary funds for financing the economic activity and to guide the flow of accumulated funds towards the most profitable economic branches. It does this especially through the selling and buying operations of shares and bonds issued by joint-stock companies. Those who want to become owners and take part to unlimited risks and benefits purchase simple shares, those who do not want to take unlimited risks and benefits buy preferential shares with a fixed income and a minimum risk and those who do not want to become owners, but only creditors, decreasing risk to its maximum, buy bonds with a fixed income expressed in percentages and called coupon.

Money resulting from the sale of the three types of financial securities is used by the issuing company for productive investments, the purchase of raw material and materials, employment, the payment of economic administration; this would be the order in which the issuing company distributes its benefits. If the economic activity takes place normally, total incomes result that diminish the working costs (which include the repayment of debts) and profit is obtained. The sharing of the working profit falls in the following order of priorities:

- coupons to bonds are paid;
- of what is left, income or turnover taxes are paid;

- the remaining net profit is called is divided and distributed between co-owners or between shareholders.

The distribution of the net profit has the following order of priorities:

- incomes to preferential shares are paid;
- the rest is divided into two: for the payment of dividends to simple shares and for establishing the reserve quotations for new investments (or according to the statute).

### 3. The Bucharest Stock Exchange (BSE) products and the organisation's management

After a break of half a century, the Bucharest Stock Exchange was restored in 1995, the first transactions having been conducted in November. The following year, 1996, the second stock exchange market in Romania was founded, RASDAQ, established after the USA NASDAQ model.

RASDAQ was established to provide trading of shares for privatised companies. Individual owners, holders of share certificates issued after privatization were given thus given the possibility to sell and the investors interested to buy capital or take control over one of the listed companies. The Bucharest Stock Exchange was created as a market that includes the elite of the listed and traded companies in our country, selected according to some rigorous performance and efficiency criteria.

Later on, the merger between Rasdaq and the Bucharest Stock Exchange was conducted (BSE practically swallowed Rasdaq, which is now a part of the Bucharest Stock Exchange). Transaction costs are smaller, the diversified financial products, the transparency are some of the premises from which the reinvention of the Romanian stock exchange should start.

The tutelary body for negotiations RASDAQ was the National Association of Securities Companies (ANSVM), self-regulatory body, according to the decision of the National Securities Commission (Gabriela Anghelache, *Bursa și piața extrabursieră*, Editura Economică, București, 2000, p. 27). The National Association of Securities Companies (ANSVM) changed its name in 2006 in the Brokers' Association, becoming, besides professional association an employers' association.

The legal framework for turning the BSE from public interest institution into joint stock company, ensured by the new consolidated law of the capital market opens prospects of creating a powerful capital market that could provide financing of economic development.

The BSE mission is to provide and promote an efficient market with correct rules, attractive and compatible with the European standards that would become an influence factor of the economic and institutional tendencies and that would create an environment of development and entrepreneurial initiative by offering services, mechanisms and norms to efficiently mobilize, attract and assign the financial resources under transparency and safety conditions (<http://www.bvb.ro/>).

The BSE role is to provide an organised market for trading securities, contributing to the increase of liquidity on the securities market, by introducing a great volume of securities on the market, contributing to the formation of prices that reflect accordingly the demand-offer relation and disseminating these prices to the public.

The principles governing the Bucharest Stock Exchange on the securities market are:

- *accessibility*: the stock exchange commits to provide equal treatment to all member companies, namely to the issuing companies listed on the Stock Exchange;
- *information*: the stock exchange commits to permanently provide stock agents and investors enough information on the traded companies and on the prices of the securities they issue (<http://www.bvb.ro/>);

The Bucharest Stock Exchange is divided into three sections:

- the sector of securities issued by Romanian legal entities;
- the sector of bonds and other securities issued by the state, counties, towns, parishes, authorities of the local and central public administration, other authorities;
- the international sector.

The products of the Bucharest Stock Exchange are divided into:

1. The traded *shares* at the stock exchange are the most popular investments on the capital market because they represent an optimal balance between the assumed risks (higher than that of bonds but however lower than that of derivatives) and the potential profit to be obtained (higher than the interest to bonds but lower than the theoretical one for the speculations with futures contracts), (BSE, 2006, p. 10).

According to the most common definitions, shares are an investment in the share capital of a company. Shareholders have a right of property over that company's net assets, proportional to the owned number of shares. They have the right to be informed about the company's activity, to take part to the

General Assembly of Shareholders and to vote for the decisions taken by this body and to receive dividends if the company has gained profit.

2. *Bonds*: unlike shares that require participation to that company's share capital (namely becoming associate, partner in that company, sharing earnings and contributing to losses), bonds are nothing but a loan granted for a well-determined period of time, at a fixed or variable interest, but clearly established from the moment of the bond's issue and which can be transferred to a third party on the stock market. Bonds are issued by companies that need financing and try to obtain it cheaper than borrowing from a bank, therefore avoiding the possibility of increasing the capital which would involve a possible dilution of the voting rights and the already existing shareholders' benefits and at the same time the emergence of new shareholders within the company.

**Table 3: The evolution of BSE bonds during 2001-2010**

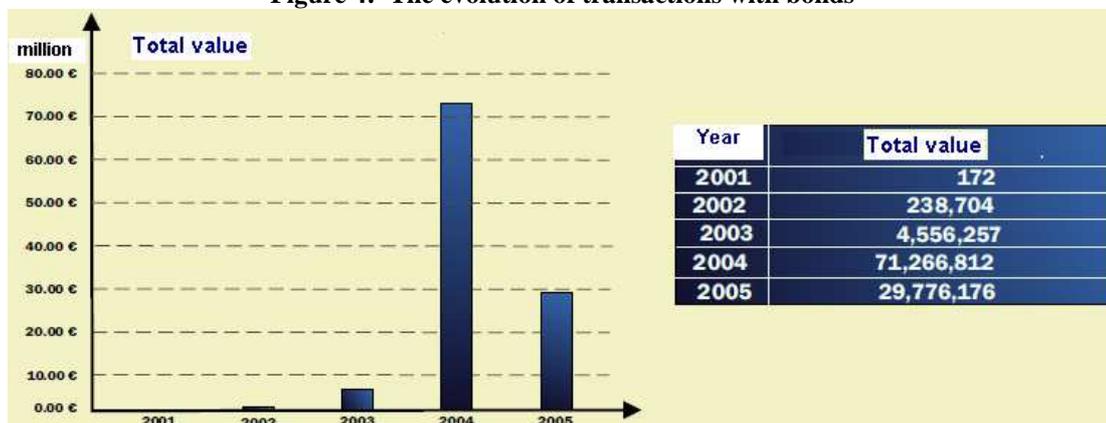
Year	No of traded sessions	No of transactions	No of bonds (volume)	Value (RON)	Daily average value (RON)	No of issuers	No of newly listed issues
2001	17	5	45	481,42	28,32	2	2
2002	247	10	59.050	782.679,31	3.168,74	4	2
2003	241	39	187.870	17.135.351,82	71.101,04	10	8
2004	253	1.116	530.466	289.794.851,55	1.145.434,20	22	16
2005	247	394	397.101	127.369.058,79	515.664,21	19	6
2006	248	570	3.917.457	985.517.592,79	3.973.861,26	19	5
2007	250	268	6.652.467	794.335.510,65	3.177.342,04	22	11
2008	250	552	1.214.353	231.929.950,72	927.719,80	50	33
2009	250	965	2.892.920	1.284.618.844,77	5.138.475,38	60	16
2010	186	461	2.023.552	2.343.850.401,79	12.601.346,25	55	6

Source: BSE (<http://www.bvb.ro/>)

Bonds' issuers may be central or local public administrations (for example state bonds, bonds issued by the municipal and county councils) or private companies, in which case they are called corporate bonds. Theoretically, the risk in case of bonds issued by the central and local public authorities is very low because it is difficult to imagine that they would get into payment default and would not be able to repay the bond, while corporate bonds are more risky. Like shares, bonds can be classified according to several criteria. One important criterion refers to the payment dates of the interests and of the bond (BSE, 2006, p. 13). Another important classification criterion is how the interest is calculated.

Therefore, in some situations the interest is fixed, regardless of the evolution of the currency market and in other situations a variable interest is employed, calculated and announced periodically (quarterly or half-yearly for example). During periods of increasing interest rates it is convenient for the company to borrow at fixed interest rates, and this situation is not desired by the owners/investors (BSE, 2006, p. 14).

**Figure 4: The evolution of transactions with bonds**



Source: Bucharest Stock Exchange

3. *Derivatives*: over the counter financial derivatives (OTC) are financial instruments whose value is based on the price offered by an underlying asset (BSE, 2007, p. 2).

The underlying asset can be merchandise (e.g. cereals, oil, coal, vegetables, aluminium), a financial instrument (e.g. shares, currencies, bonds) or other values, measurements or indicators that aim financial instruments, events or statistics (e.g. stock market indexes, volatility indexes, weather, etc.), (BSE, 2007, p. 2).

On BSE two financial derivatives are traded, which rely on the BET index, respectively the BET-FI. These products are mainly for investors who have portfolios of shares that form the BET and /or BET-FI index and that who want to protect their investment (the portfolio's value) through hedging, and for speculators who want to gain profit by anticipating the evolution of the two indexes (BSE, 2007, p. 8).

The calculation principle applied to the BET index is similar to the one used to calculate most of the stock exchange indexes, consisting of introducing the Laspeyres formula (weighted average based on capitalization). BET index is calculated by applying a weighting method by capitalizing the prices of most liquid listed companies, exclusively SIF. For those symbols, the prices registered at every trading session are correlated to the prices registered during the reference trading session, according to the formula:

$$\frac{\sum_{i=1, N} p_{i0} \cdot q_{i0} \cdot \frac{p_{it}}{p_{i0}}}{\sum_{i=1, N} p_{i0} \cdot q_{i0}}, \text{ where:}$$

- N is the number of shares from the index's portfolio: 10;
- $p_{i0}$  is (since the 29<sup>th</sup> of November, 1999) the last closing price of the share at the moment of the last update of the index's basket;
- $p_{it}$  is (since November 1999) the last closing price of the share at the current moment t;
- $q_{i0}$  is the total number of shares issued at the moment  $t_0$ .

To balance any artificial effect on the owed trading price, the value of the index is adjusted (the index is connected) to a correction factor  $f$  at the date of the exchange that affects the price. The continuity and comparability of the Laspeyres index value is thus provided.

$$BET_t = 1000 * f * \frac{\sum q_{i0} * p_{it}}{\sum q_{i0} * p_{i0}}$$

$$BET_t = BET_{t-1} * \frac{\sum q_{i-1} * p_{it}}{\sum q_{i-1} * p_{i-1}}$$

Din 2 și 3 rezultă:

$$f = \frac{\sum p_{it} * q_{i0} * i_{it/i0}}{1000 * \sum p_{it} * q_{i0}}$$

Figure 5: The evolution of the BET index during October 2007-December 2009



Source: Bucharest Stock Exchange(Evolutions, 2009, p. 1)

The specificity of the correction factor consists of the gradual diminution of its value. As it can be noticed, the correction factor varies and it directly depends on the  $i_{iv/10}^p$  and indirectly on the "0" level of the BET index (the initial level of 1000 points). The variation of the correction factor tends to become after 2000 increasingly smaller in parallel with the decrease of its influence in the amount of the index itself, which describes a maturing of the Romanian stock. If there are shares that no longer meet the rules for inclusion in the index portfolio, others being traded and complying with these rules, an update of the index portfolio is performed, the correction factor "f" thus being recalculated to compensate this change. Therefore, the requirement that the index reflects daily the shares' change in price as against the prices of the same shares at a particular reference time is provided. Currently, companies included in the BET basket represent more than 60% of the total capitalization and 70% of the total traded value on the BSE.

The BSE role is to facilitate the interaction between demand and offer by closing the transaction, and then transactions are registered and processed in view of making the compensation-clearing operations by an operator after the transaction. As stock and bond transactions are processed by the Central Depository, the financial derivatives transactions are processed by the Bucharest Clearing House (BSE, 2007, p. 10).

The launching of Structured Products Market on Bucharest Stock Exchange is an absolute premiere in Romania, by introducing a new category of financial instruments for trading on the authorised markets of BSE (BSE, 2010, p. 1). Started in 2009, the project became reality after a close partnership between the market's institutions (NCS, BSE, the Central Depository) and ERSTE Group Bank AG and the Romanian Commercial Bank regarding the development of the market product and the approval of BSE regulations on the admittance and trading of structured products.

The first structured products admitted for trading on the Structured Products Market are Index Certificates and Turbo Certificates issued by ERSTE Group Bank AG according to the Base Prospectus (*Base Prospectus*) of July 29<sup>th</sup>, 2009 approved by the Commission de Surveillance du Secteur Financier (CSSF) of the Grand-Duchy of Luxembourg regarding the Structured Noted Programme of ERSTE Group Bank AG (BSE, 2010, p. 1).

Structured products are instruments that have a financial obligation of an issuer (*debt*) which includes a derivative element able to change that instrument's risk and profitability profile. These financial instruments are based on an underlying asset that can be another financial instrument, stock or currency index, an interest rate, a commodity, baskets or combinations of these instruments or values, and also any other asset, indicator or measuring unit. A diverse terminology is used around the world for naming these products, such as: *structured products/notes*, *structured securities* or *securitised derivatives* (BSE, 2010, p. 1).

The underlying assets that are at the basis of the structured products such as index and turbo certificates issued by ERSTE Group Bank AG are the following (BSE, 2010, p. 3):

**Table 4: Underlying assets that are at the basis of the structured products such as index and turbo certificates issued by ERSTE Group Bank AG**

Underlying asset	ISIN	Currency Underlying asset	SETTELMENT REFERENCE (quotation from)	INTERNET
DAX	DE0008469008	EUR	XETRA Frankfurt	www.deutsche-boerse.com
GOLD (spot)	XC0009655157	USD	Reuters XAUFIX	N/A
OIL (WTI LIGHT SWEET) (futures contracts)	XC0007924514	USD	NYMEX	http://www.cmegroup.com/trading/energy/crude-oil/light-sweet-crude.html

Source: BSE, 2010, p. 3

Although the underlying asset value is determined in a foreign currency (e.g. USD, EUR), ERSTE Group Bank AG certificates are issued and traded in the national currency (RON) on BSE.

#### 4. Conclusions:

In conclusion, we can say that the stock exchange is one of the most important institutions of the market economy, a segment of the financial market, an organised secondary market, transparent and monitored where transactions regarding securities, their derivatives, and money are performed. Financial markets operate based on two characteristics: the issue and placement of securities, namely the selling for the first time of shares, bonds and other titles to the holder of available capitals; the negotiable character of

securities, revealed by the fact that they can be sold by the first owners before reaching maturity and turning into cash.

The Romanian stock exchange status shows that functional markets in terms of liquidity are currently: the share market from the Bucharest Stock Exchange, namely the futures market at the Stock Exchange in Sibiu. So, in Sibiu, a share market was implemented, which is still at the beginning. The Bucharest Stock Exchange has also implemented derivatives, unsuccessfully though. With a history of almost 10 years and tortuous evolutions, the Romanian stock market seems to have reached a certain maturity that can be the basis for some future increases in quantity, but more especially in quality.

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**Acknowledgement:** *Researches carried out within the framework of the project POSDRU/6/1.5/S/26, co-financed from the Social European Fund by means of the Sectorial Operational Fund Programme “The Development of Human Resources” 2007-2013.*

## TALENT MANAGEMENT – CHALLENGE OF THE ROMANIAN HR THE BIGGEST

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**Abstract:** Human resources are the most important assets of organisations, the main lever for optimizing results; the only major expense source; an asset that increases its value, not one that depreciates over time; the most ‘Dynamic’ asset in the patrimony of the organization, the one that has a decisive influence on the financial results. This is the reason why human resources are associated with notions that emphasize their value, many authors considering them to be ‘important’, ‘unique’ and ‘exhaustible’.

Attracting and retaining human resources is essential for every company and is a priority for HR managers. The rise of the level of education, the increased access to foreign markets and the technological developments and high mobility of the workforce have caused businesses to start to compete for attracting talents at a global level. A study by Pricewaterhouse Coopers Romania, presented at the National HR Club Conference (Bucioveanu, C., 2008) shows that the main concern of organization managers is administering talent. This means that managers want to develop the employees’ skills, using this method as a form of motivating and retaining the members of the company.

**Key words:** human capital, assets, talent management, employees’ skills, administering talent

**JEL classification:** M12

### 1. Why do we need talented employees?

The strategies concerning human capital, talent management and leadership development will be, in the near future, important activities of the HR departments. The hierarchy of the HR activities is going to suffer major changes and we will witness the establishment of new priorities in this field – these are the conclusions of the **Global HR Transformation study (Global HR Transformation, 2006)** done by the consulting company **Mercer**. More than 1,400 HR managers participated in this study, coming from companies from Asia, Australia, Europe, Latin America, North America and New Zealand.

According to this study, the increase in the efficiency of the HR department has led to establishing new priorities in this field, and, at the same time, the hierarchy of the main activities of the HR companies has suffered important changes. If nowadays, many HR managers are mainly concerned with the increase of the operational performance within the HR departments, with talent and change management at an organizational level, in the years to come, the main activities will focus on the strategies regarding human capital, talent management and leadership development.

The fact that the demand for talented employees is higher than the offer has become a reality, not only in our country, to such an extent that “*organizations find themselves in the need to develop and implement much more complex talent management and retention strategies, which are required to go beyond the individualistic approaches at a leadership level*” (**Global HR Transformation 2006**), claims **Anne-Marie Malley**, author of the study and **Deloitte** partner.

According to the study by **Deloitte (Global HR Transformation 2006)**, the aging workforce and the modifications in the expectations of many employees will result in a decrease of 13% of talented employees in the next 40 years. Therefore, companies will be required to develop new talent management strategies and use more complex recruitment and retention methods.

Attracting and retaining human resources is essential for every company and is a priority for HR managers. The rise of the level of education, the increased access to foreign markets and the technological developments and high mobility of the workforce have caused businesses to start to compete for attracting talents at a global level. Moreover, studies concerning organisational behaviour show that human resources are nowadays feeling discouraged and uninvolved. “*Although studies in the field show that the uninvolved human resources influence considerably the success of the organization, most organisations focus their talent management strategies more on recruiting than on increasing the involvement of the human resources.*” (**Manolescu, I., 2008**)

Specialists claim that talent management is more important than ever for a successful business. While in the previous years, companies were able to have a competitive edge through the access to financial and technological resources and an effective management, nowadays the competitive advantage of any organization is represented, beyond any doubt, by its employees. Its performances and competitive edge depend on the way the organization manages to attract, retain, motivate and develop the employees. This is why, HR specialists claim ( **Oniga, D., 2007** ), human capital development strategies are becoming more and more important for all organizations, and an important part of these is connected to the strategies for developing human capital as a long term objective.

The Romanian organizations' focus on talent management resides in the scarcity of highly trained employees, those key positions in the organization, the *talents* that are necessary for achieving the competitive advantage. Talent management is aimed at **an integrated approach of the management of different HR processes within the organization**: planning the HR requirements, recruiting, selection, employing, integration, training, performance management and leadership development.

Paradoxically, while the demand for talented employees has increased, the offer has decreased considerably, which has determined the organizations to compete on the labour market for attracting and retaining the most qualified candidates.

“While, in the past, the success of business was ensured by the competition for clients, in the future it will depend on the successes obtained in the competition for the most qualified employees. This deficit of talents will position HR as one of the most important factors responsible for the growth and productivity of the company. Therefore, in order to face these challenges, HR departments will need to replace the strategies that result in short term effects with long term results” ( **Butterfiel, B., 2008**), added Donna Murphy, Managing Director of the Adecco Institute. Attracting and retaining human resources is essential for any organization and should constitute a priority for HR managers. “*The increase in the level of education, the access to foreign markets, the technological developments and high mobility of the workforce require businesses to compete at a global level for attracting talents.*” ( **Vidroiu, A., 2008** )

**Wolfgang Clement**, president of the Adecco Institute and former Minister of Economics in Germany mentioned in a recent speech that “Multinational corporations will prospect more and more the international market, urged by the need to have the most talented employees. The new technologies have managed to overcome the borders and geographical distances that existed years ago. Talents can be identified and attracted irrespective of the location.” ( **Vidroiu, A., 2008** )

Similarly, the results of the survey done by the Adecco Institute in Great Britain, to which 5,000 HR specialists worldwide participated, reflect the fact that “the increased mobility of talented employees at a global level, especially within developing countries, has led to a crisis of talents, determining HR departments to focus all the resources on dealing with it. The lack of talents affects companies at a global level and practically forces the HR departments to create a series of development opportunities and bonuses in order to motivate and retain the most talented employees.” ( **Vidroiu, A., 2008** )

All these will determine HR departments, specialists claim, to be more and more involved in recruiting employees for the vacant positions and planning long term workforce within the organization.

We are aware nowadays that “*there are positions within organizations that are more and more specialized, that demand special competences and skills; new fields have developed and still appear, which demand specialized people, for which our market does not have a generous offer.*” ( **Vidroiu, A., 2008** )

Surely the time to come will emphasize the development of programs for loyalty building and retaining the employees, for shaping and developing competences and for the possibility of building a real career path within the organization.

The new role of HR management results from the “*concurrence of three trends: globalization, demographic changes and talent crisis*” ( **Vidroiu, A., 2008** ), claims **Donna Murphy, Managing Director** of the **Adecco Institute**. It is certain that a successful talent management and its shortage within an organization will become an important and, at the same time, distinguishing factor on the global labour market.

“*Romanian companies – whether locally based or part of international groups – do not have sufficiently refined processes to allow for such an instrument to exist and be used. The reason is the fact that few companies own an effective talent management system that allows them to identify the talents within the organization and to apply retention methods so as to be able to subsequently design and implement succession planning.*” ( **Vidroiu, A., 2008** )

## 2. Defining the concept

HR specialists claim that talent management is difficult to define because it “*requires a complex approach that operates by means of and from inside the tasks of the HR in general. Talent can be considered a complex combination of skills, knowledge, potential and cognitive abilities. The values and preferences of the employees concerning the work place/activity itself are of great importance.*” ( Vidroiu, A., 2008 )

TM has been called a fad or a short trend by David Guest, Professor at the Psychology Organization in the King College in London, who used to say that “*TM is an idea that has been present for a long time. It has been renamed and this is what offers organizations the possibility to analyse what they are doing. TM integrates a series of older ideas in a fresh gloss and this is a good thing.*” ( Nicolae, M. , 2008 )

**Adrian Stanciu**, consultant and partner in Ascendis, has commented that more and more companies speak about talents, which he considers to be a good thing, but few are those that actually put this into practice. “*For most of them, the issue is limited to plans of succession*” ( Stanciu, A., 2009 ), he says, holding the opinion that usually organizations speak about attracting talent because “it looks good”, although they even have programs from the corporation that focus on this. In his remarks, Mr. Stanciu insists upon the existence of a small difference between a talented person and a key employee. He believes that *talent can increase much faster and more considerably regarding a key employee.*

The important thing is, in his opinion, that **in a key position there must be a key person**, as his estimation is that, in a company, a maximum of 10% of the employees would fit the profile of talented. “*A good definition, a pragmatic one, I believe should focus on key-people in the company, those people whose performance the company depends on to a higher degree. If we were to consider Vilfredo Pareto’s law, then they would make not more than 20-30% of the population* ” ( Creelman,D., 2009).

It is certain that, in these extremely dynamic times, talent management has become a strategic issue for some organizations – recruiting and preserving talents are key elements in obtaining the competitive advantage. TM will be inevitably linked to the main issue of corporate governance – the way in which an organization is led and controlled – and will pose questions regarding the relation between talent management and success planning.

The existence of **an organizational culture that promotes talent management** is an advantage for difficult periods, periods when organizations are interested in having the right employee in the right position where he/she can reach performances.

The research done by **McKinsy and Heweitt Associates** has shown the fact that cultivating a “mentality of talent” is much more important than implementing a *talent management* program. If the upper management of the company allocates time and attention to developing the talents, the organization will prosper. **However, a company can imitate the succession plan implemented by another organization without obtaining the same results if the upper management does not believe in this type of strategy.**

## 3. Attracting, managing and retaining talents

Reality has shown that the current economical and social developments have determined important changes on the labour market, “*have created a new world on the workforce market, in which companies must promote talent in the most proactive way*” ( Popa, T., 2009 ) while the need to maximize human potential has become more and more pregnant.

Capitalizing on talents within an organization starts, HR specialists claim, with elaborating a good strategy that would manage to attract the right candidates. Moreover, evaluation and selection methodologies are required alongside efficient solutions for attracting, developing and retaining employees for the long run.

In this respect, it is clear that managing talents and the employees with a high potential starts with the recruitment process. **The stages required by this kind of program** are, according to the specialists ( Popa, T., 2009): *attracting the best candidates (by positioning on the market as a brand and by the type of positions offered); identifying the type of people and the competences that will generate value or will generate a competitive edge for the company, in the present as well as in the future; developing the skills and faculties of people so that they can fulfil the current requirements, as well as the future ones; placing the right persons in the right positions, at the right time.*

All these aspects must be a constant preoccupation and require a major involvement on the part of the managers, with the support of the specialists within the HR departments. The president of HR Club and Senior manager within PricewaterhouseCoopers, **Csaba Gergely** is of the opinion that it is not sufficient for HR specialists to pay attention to the carrier of talented people – they must also be concerned with motivating the employee. “*Make sure you are paying him/her better. If your benefits and compensation strategy is 60% of*

*the market, make sure that for talents and key employees you are paying 90% or 120%. It is worth it!" (Popa, T., 2009).*

Nevertheless, he mentions, retaining the best employees is not only a matter for the HR department. The impact that the resignation of the best employees can have on the efficiency of the company, in the context of the current crisis of specialized personnel and the raise of salary expectations, has made the **retention of human capital to be a daily activity for upper management as well**. This translates in the necessity for more freedom for the HR specialist in defining and implementing the retention strategies for the best employees.

Creating a talent management system requires, as the same specialists claim, 5 steps (Todor, C., 2009):

- ✓ *Defining the objectives of the company, evaluating and predicting the evolution of the positions (in order to avoid overstaffing, blockage or understaffing)*
- ✓ *Creating or importing the instruments necessary for the evaluation:*
  - defining key competences for each individual position
  - performance assessment methods
  - methods for predicting the potential or evolution of an employee in the company ("potential forecast")
- These methods can vary and are, of course, older or more modern.*
- ✓ *Creating or importing tools for evaluating the (technical or non-technical) training needs and coaching (individual or on teams).*
- ✓ *Individual evaluation of each employee.*
- ✓ *Data analysis and making the right decisions.*

The experience of the countries with a tradition in talent management has shown that the benefits it brings to organisations are multiple and ensure a competitive edge for the companies. Among its **advantages**, we would like to point out:

- *the optimum allocation of employees in the company hierarchy in order to increase performances;*
- *the increase in the degree of satisfaction and motivation of the employee;*
- *an upper management that capitalizes on human assets;*
- *the decrease of employee fluctuations;*
- *a better understanding of the people that work for the organisation.*

#### 4. Talented employees make the difference

Talents have a decisive contribution to fulfilling the objectives of the organization – it is certain that people *"who deliver results and are able of a faster progress are the soul of the company"* (Todor, C., 2009). Human resource specialists call them "talents", and organizations start to treat them differently as compared to other employees. In Romania, however, as mentioned before, talent management is in an incipient stage.

Despite all the major changes that take place in the Romanian companies, not all the managers realize that *"a company is able to purchase any type of technological equipment or other facilities, - this makes people the only competitive force of the organization. Therefore, what the employees do at their job has become essential for the organization"* (Armstrong, M.,2001) Armstrong claims that a *"company distinguishes itself through the type of activities and ideas implemented by the employees more than through purchasing modern technologies for its production"* (Armstrong, M.,2001).

Anthony F. Smiths & Tim Kelly (Anthony F. Smiths & Tim Kelly, 1997 ), the authors of *The Organization of the Future* claim that *"Technology, strategy, global alliances and innovation are the main components that will influence the competitive edge, each of these relying on and being led by the human factor. This is why it is foreseen that the future competitive edge will be held by the companies that are most efficient in attracting, developing and retaining a certain group formed of the best human talents on the market"* (Anthony F. Smith s & Tim Kelly, 1997 ).

**Companies are forced to become** more skilful and creative when it comes to talent management, and the leaders will need to overcome the classical methods for succession at the top level and identify the key people at any level in their career. The Deloitte study (Global HR Transformation 2006), points out that *a flexible work schedule, professional development plans, adapted for every employee, mobility and internal development strategies at an organizational level* are the key elements that every company must put into practice in order to ensure talent retention and a better development on the market.

Even though there are many specialists that support the importance and effects of TM on the performances of an organization, there are other leading experts in HR that claim that *"it is very dangerous to*

*make an absolute strategic priority out of this. This is because it seems very dangerous that the success of your company depends on a handful of talents. Talented people are few, they are an important asset, but one that is scarce. If everything revolves around them, they will become very expensive, and, therefore, less useful (what if he's four times more productive if he's also six times more expensive?). Slowly, they will start to consume more than they are building. The rush for "stars" is the one that has led to a spiraling escalation of the salaries of certain specialists in some industries... Moreover, the operational mechanism through which a handful of talented people lead the company forward has the wrong foundation, because it supposes very hierarchical and rigid organizational levels, where the decisions are concentrated in the top, which reduces, dangerously enough especially in these times, the flexibility of the organization." (Todor, C., 2009 ).*

We believe, therefore, that the biggest challenge for the HR profession is not talent management, but non-talent management – how you reach exceptional results with regular people. We believe that this is the question for which, in the future, we must find the answer.

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## LESSONS FROM GREAT AMERICAN MANAGERS: THE CASE OF ANDREW CARNEGIE

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**Abstract:** *At the moment when big businesses emerged in the capitalist system managers began to become more and more important in ensuring superior business performances. Andrew Carnegie represents one of the most famous examples of an American great manager which provides us invaluable management lessons. The aims of our paper are to render in brief the life of Andrew Carnegie and to highlight some of his contributions to the development of business management. Our paper contributes to a better understanding of the business management performed by Carnegie and provides a platform on which to build further studies on the same subject.*

**Key words:** business management, manager, Carnegie, railroad, steel

**JEL classification:** M10

### 1. Introduction

In the second half of the nineteenth century and the early twentieth century several capitalist countries experienced the rise of big businesses. Therefore managers began to become more and more important in ensuring superior business performances. A successful management required the implementation of new principles, methods and tools as the effective organization, the efficient businesses integration or the accurate calculation of costs (Chandler, 1977).

In the continual pursuit of profit, Andrew Carnegie represents one of the most famous and valuable examples of an American great manager. As a visionary of his times he “saw new frontiers where others saw nothing at all” (Tedlow, 2003, p. 69). Carnegie introduced the cost-accounting system in the steel businesses and was among the pioneers of vertical integration in the American industry (Mol and Birkinshaw, 2008).

The aims of our paper are to render in brief the life of Carnegie and to highlight some of his contributions to the development of business management. The paper is structured as follows. In section two we present a short biography of Andrew Carnegie. The third part of the paper is dealing with the contributions of Carnegie to the development of business management. This is followed by conclusions.

### 2. Andrew Carnegie: a short biography

The nineteenth century brought the emergence of several “Captains of Industry” all over the world. A Scottish-American, Andrew Carnegie became not only one of the wealthiest industrialists, businessmen and entrepreneurs of the world, but also a renowned philanthropist, a great nation-builder and a leader in thought.

Carnegie was born on the 25<sup>th</sup> of November 1835 in Dunfermline, Scotland, as the first son of a poor but honest family. For a long period of time Dunfermline had been the center of the damask trade in the country. His father, William Carnegie, owed five hand-loom and worked as a damask weaver, and his mother, Margaret, did by herself all the housework. His mother “inherited from her mother the dignity, refinement, and air of the cultivated lady” (Carnegie, 1920, p. 9). Margaret did her best to make their home a pleasant place to live for her two boys. As a consequence Carnegie had the possibility to keep some pigeons and rabbits within their household.

He was named after his grandfather name from his father’s side, Andrew, well known for his wit and humor. “I think my optimistic nature, my ability to shed trouble and to laugh through life, making “all my ducks swans”, as friends say I do, must have been inherited from this delightful old masquerading grandfather whose name I am proud to bear” (Carnegie, 1920, p. 7). That is why Carnegie valued more a sunny disposition than money throughout his life. On his mother’s side the grandfather, Thomas Morrison

was a fine orator and an advocate of the technical education: "My Grandfather Morrison was a born orator, a keen politician, and the head of the advanced wing of the radical party in the district" (Carnegie, 1920, p. 8).

Andrew attended Mr. Martin's school upon his eighth year, which was quite early for any child in that century. He enjoyed very much the school and he was unhappy when something occurred which prevented his attendance. This happened because in the morning his duty was to bring water from the well located at the head of their street. The fact that water supply was irregular led to numerous disputes among people waiting in a queue. This might explain his future spirit of combativeness. In spite of the fact Andrew was often late for school, his master, knowing the situation, forgave him. Mr. Martin proved to be an excellent teacher to whom Andrew showed great respect and owed a debt of gratitude. He was educated on the history of Scotland, the poems of R. Burns and the plays of W. Shakespeare. On the other hand, his uncle Lauder taught him and his son, George, the British history by placing each of the monarchs in a certain place upon the walls of the room they learned. "My home, of course, was with my instructor, guide, and inspirer, Uncle Lauder- he who had done so much to make me romantic, patriotic, and poetical at eight" (Carnegie, 1920, p. 59).

During his childhood the political atmosphere around him was in a state of violent disturbance. Many disputations upon theological subjects took also place and his father decided to leave the Presbyterian Church, but William never ceased to attend various other churches. A true believer, his father prayed every morning and stated that theologies were many, but religion was only one.

The Carnegie family lived in a small way in an area where most households earned their money through the craft of linen weaving. In the beginning his father weaving business proved to be successful. Andrew had often the shop errands to run after coming back from school so he became useful to his father business at an early age.

At the moment when factories introduced the steam weaving looms in their production activities all that Scottish families were severely hit by the technological progress. In hope for a better life, his father made his mind to move to the USA as Scotland faced large scale famine in the late 1840s. William sold the hand-loom but the sum he got was insufficient to pay the tickets to America. One of his mother friends advanced them the needed money and the Carnegie family finally left Dunfermline on the 17<sup>th</sup> May, 1848.

Three months later the family arrived in Pittsburgh, Pennsylvania. William had become greatly disheartened by the failure of his business, but this, in turn, led Margaret to a higher determination to see her sons succeed in their lives. William began making tablecloths and acting also as his own merchant. In addition to attending to her household duties, Margaret started binding shoes for four dollars a week. Andrew and his brother Thomas brought up with "the mother, nurse, cook, governess, teacher, saint, all in one; the father, exemplar, guide, counselor, and friend" (Carnegie, 1920, p. 21).

As William entered the cotton factory of Mr. Blackstock, he obtained for Andrew a position as a bobbin boy. By age thirteen, Andrew earned \$ 1.20 weekly. So, he learned very early the meaning of hard work and became a breadwinner. In spite of the fact that the work itself was boring, it gave him the feeling that he was doing something to help his family. He moved to another manufacturer, Mr. Hay, where he received two dollars per week for running a small steam-engine. As Mr. Hay had no clerk, he asked Andrew to write his bills. He was able to handle Hay's books in single entry, but hearing that big companies kept their books in double entry, he decided with other three companions to attend night school in order to learn the double-entry bookkeeping.

In 1850, Andrew took another job as a messenger for Mr. Brooks, the manager of the telegraph office, who paid him \$2.50 weekly. He had to exercise his memory in order to remember the addresses of the business houses to which messages had to be delivered. His new job soon made him acquainted with few leading men of Pittsburgh such as judges and businessmen. Together with two other messenger boys, Andrew had also to sweep the office of the Eastern Telegraph Line each morning. Later he stated: "It is not the rich man's son that the young struggler for advancement has to fear in the race of life, nor his nephew, nor his cousin. Let him look out for the "dark horse" in the boy who begins by sweeping out the office." (Carnegie, 1920, p. 27).

The prompt delivery of messages allowed the boys to get fruits, cakes or even free admission to the local theater from the beneficiaries. On the other hand, as the messenger boys could charge with extra ten cents the messages delivered beyond a certain limit, quarrels arose among them. Andrew proposed his colleagues to divide the cash equally at the end of each week and peace was restored among them.

The long hours worked did not leave Andrew much time for self-improvement. However when Colonel J. Anderson announced that he would open his library to working boys Andrew had the possibility to read. He was a consistent borrower and a truly "self-made man" in his intellectual development. Due to

the invaluable privilege of the use of Anderson's library he became familiar with Macaulay's essays and Bancroft's history of the United States. From that time he decided that "there was no use to which money could be applied so productive of good to boys and girls who have good within them and ability and ambition to develop it, as the founding of a public library in a community which is willing to support it as a municipal institution" (Carnegie, 1920, pp. 29-30). Later, when fortune smiled upon him, Andrew erected a monument to his benefactor as a slight tribute.

Carnegie also became acquainted with the world that lay behind the theater curtain. The Shakespearean characters had a great influence on him. Andrew was able to memorize many cues, without reading the plays. Much later he heard R. Wagner's "Lohengrin" in New York, recognizing the music of a genius.

The Carnegie brothers were encouraged by their parents to go to church on Sunday. By showing his interest in the mysterious doctrines of E. Swedenborg, their father took them to the Swedenborgian Society of Pittsburgh. For Andrew it was a good opportunity to sing in a choir and to build a musical education.

Andrew understood the need to save any penny he got. He knew exactly all the earnings and expenditures of his family. When Colonel J. P. Glass, the manager of the downstairs office, paid him an extra two dollars and a quarter for his work, his parents highly appreciated their boy's first triumph. It was then, for the first time in his life, Andrew took the decision to go into business together with his younger brother.

After sweeping out the office in the mornings, he had enough time to practice upon the telegraph instruments before the arrival of operators. As a result Andrew learned the art of telegraphy in a relatively short period of time. In 1852 he occupied his first responsible position in the telegraph service as an assistant operator. Due to his willingness for hard work and his perseverance he became an operator by sound and soon received a salary of twenty-five dollars per month. As Carnegie pointed out, "knowledge is sure to prove useful in one way or another" (Carnegie, 1920, p. 35).

In 1853 Andrew was hired by T. A. Scott, the superintendent of Pennsylvania Railroad Company, as his clerk and operator. Consequently, a raise in his salary from twenty-five to thirty-five dollars per month occurred.

As a strong anti-slavery partisan, he participated with enthusiasm at the first national meeting of the Republican Party organized in Pittsburgh. Andrew carefully watched the prominent political men as they walked on the streets, being lost in admiration for various senators.

After the death of his father, Andrew continued his job with the railroad company. Following Scott advice, he invested \$ 500 in shares of Adams Express and received a ten dollars monthly dividend. For the first time in his life he obtained revenue for his capital investment. In 1859 he was appointed superintendent of the Pittsburgh Division with a salary of fifteen hundred dollars per month.

In his twenty-seventh year, Andrew and his mother returned to Scotland for a visit. Both of them were moved to tears and expressed their love for Dunfermline. He met his uncle Lauder which had been his mentor in his childhood.

After becoming one of the world's foremost entrepreneurs, Carnegie decided to distribute his wealth in the form of public endowments in 1911. He founded more than 2,500 libraries in the whole English-speaking world. He passed away on the 11<sup>th</sup> August 1911 in Lennox, Massachusetts.

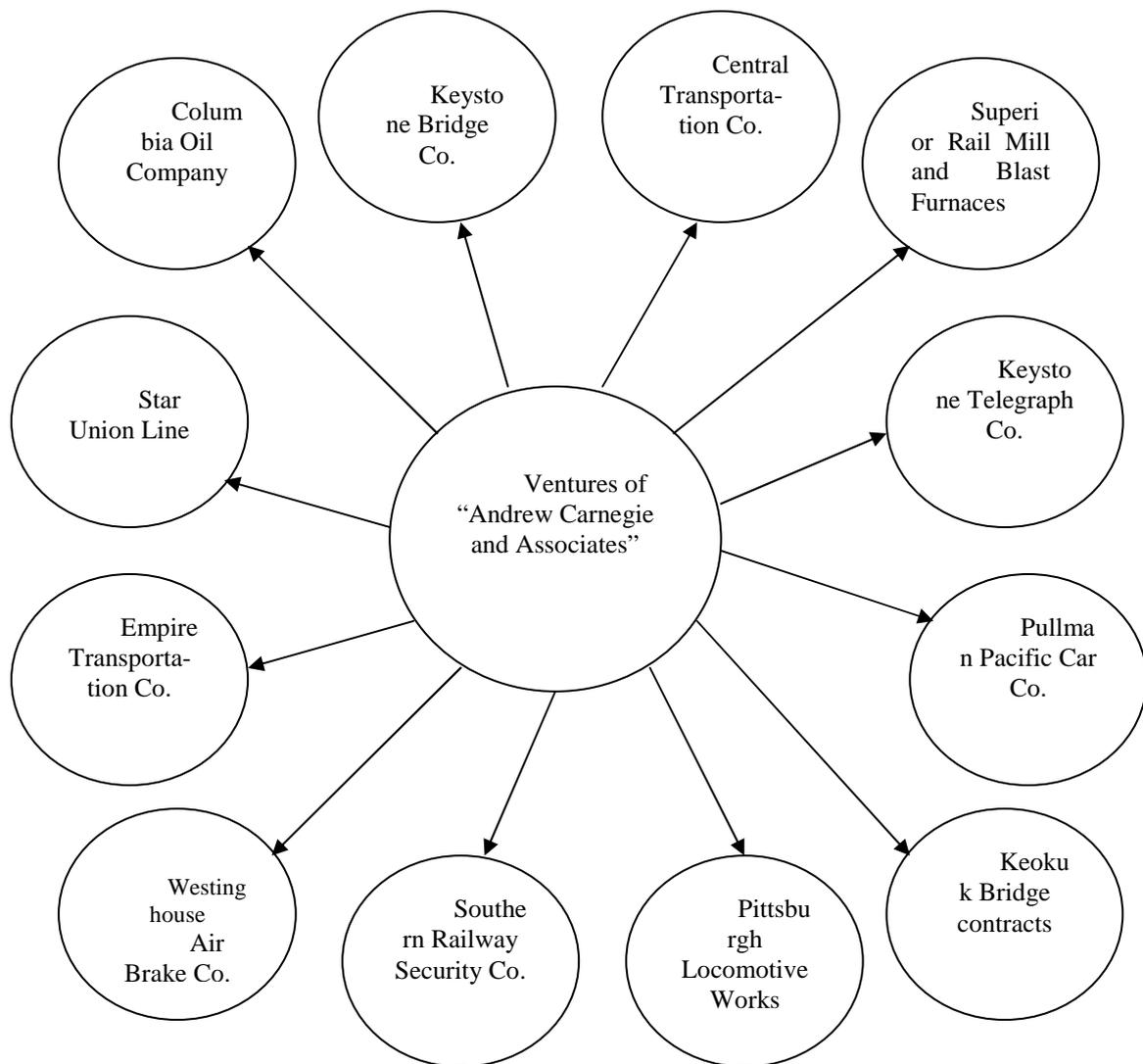
### **3. Andrew Carnegie and business management**

As the price of iron went up during the Civil War, Carnegie entered in the iron businesses. He organized a company to build iron bridges, the first of its kind in the USA. The later Keystone Bridge Company was founded by five associates (J. Linville, J. Piper, A. Shiffler, T. A. Scott and A. Carnegie) and started with a capital of \$ 6,250. Each of the associates paid for a one fifth interest and Carnegie borrowed the money from the bank. In 1865 the company already capitalized at \$300,000 (Bridge, 1991). In 1871, out of 8380 shares of Keystone Bridge Company, Carnegie owned 1004 shares, Scott 960 shares, Linville 900 shares, Piper 700 shares and Shiffler 640 shares.

When Carnegie felt satisfied that the prosperity of this company was assured, he quitted his job with the Pennsylvania Railroad Company. For many years he had aspired to enter the business world on his own account. Consequently, he concentrated all his efforts and genius on the advancement of his own business. Gradually the superiority of iron bridges over the wood bridges became widely known in the USA. The Keystone Bridge Company evolved into the first in its field, enjoying an excellent reputation for first-class workmanship and rapid delivery. The success of the company was achieved by the implementation of the most progressive business methods and most enterprising innovations. Carnegie perfected the organization of the Keystone Bridge Company at every point and bought the most up-to-date machinery.

In the late 1860s “Andrew Carnegie and Associates” emerged as a small business group that evidenced the tight relationships among J. E. Thomson, T. A. Scott and A. Carnegie. The group took an increasingly dominant position in the building of bridges and railways, especially in the Mississippi West region. Its joint ventures proved to be solid investments in different domains (e.g. oil, railways, iron etc.) that generate sizeable profits on investments that were far less risky (Figure 1). They created and exploited almost every market opportunity whose profitability was nearly secured by using the connections of Pennsylvania Railroad Company both in the public and private sector.

**Figure 1: Ventures of “Andrew Carnegie and Associates”**



In the shadow of Scott, one of the best American railway managers of that era, Carnegie became also a member of the so-called “The Philadelphia Interests” which comprised sonorous names such as J. E. Thomson, J. A. Wright or J. M. Kennedy (Table1). In its activities the Philadelphia Interests allied itself with local entrepreneurs, railway men or state officials in order to raise its chances of success in various businesses.

After visiting England where he discovered the Bessemer invention, Carnegie realized the great superiority of steel rails over those made from iron in the late 1860s. He was determined “to become the undisputed master of the steel market, and to shrink from no responsibility in order to maintain his lead” (Alderson, 1905, p. 40).

A man of rare vision, Carnegie understood that a new era in industrial history emerged. Therefore, he was among the first which introduced the Bessemer converters in the USA in order to produce steel on a

massive scale. Carnegie's Edgar Thomson Works in Pittsburgh was a new rail plant designed by A. L. Holley. Aiming at assuring a very large and regular output, this brilliant engineer focused on the designing of equipment and facilities and their arrangement within the works. Holley also emphasized that the design of works, the performance of machinery and the quality of its management were main factors in increasing the output of a unit of capital and of a unit of working expense.

**Table 1: Some of the most important members of "The Philadelphia Interests"**

No.	Name	Position
1.	J. E. Thomson	President of the Pennsylvania Railroad
2.	T. A. Scott	First vice president of the Pennsylvania Railroad
3.	W. Palmer	Treasurer, UP Eastern Division
4.	G. W. Cass	President of Pittsburgh Ft Wayne and Chicago RR
5.	S. Felton	President of Philadelphia, Balto & Washington RR
6.	E. C. Clark	Banker
7.	J. M. Kennedy	President of Logan Iron & Steel Co.
8.	J. A. Wright	President of Freedom Iron Co.
9.	W. Morris	Principal of Morris, Tasker & Co.
10.	J. Cooke	Banker

Source: (Ward, 1980)

As a great American business manager Carnegie made the steel production processes more capital-intensive and energy consuming through the improvement of plant design and of technological innovation. By accelerating the velocity of the throughput increasing demands on the management occurred at a rapid pace. Overall coordination and control of activities had become more and more difficult but Carnegie proved to be a highly effective manager.

By using his huge experience as a railroad executive and introducing the railroad administrative techniques to iron and steel plants Carnegie organized his steel company in a similar structure to the one he had worked in on the Pennsylvania Railroad Company. In this respect he hired highly competent people in the top management of Edgar Thomson Works as Captain W. Jones, the nation's most accomplished steel-maker, and W. P. Shinn, a well-known railroad executive. Shinn not only created an effective unit of production, but also initiated the voucher system of accounting. As a result each department could calculate the amount and cost of materials and labor used. Monthly and even daily statements providing data on the cost of raw materials and labor for each ton of rail produced were sent by Shinn to Carnegie.

Cost reduction was one of Carnegie's obsession and that why he carefully watched the costs. Benchmarking the current costs of each operating unit with those of previous months and, where it was possible, with those of other companies allowed him to analyze in details the cost sheets. Thus the eyes of top management were always directed on employees through those cost figures. Moreover, "in addition to using their cost sheets to evaluate the performance of departmental managers, foremen, and men, Carnegie, Shinn, and Jones relied on them to check the quality and mix of raw materials" and "they used them to evaluate improvements in process and in product and to make decisions on developing by-products" (Chandler, 1977, p. 268).

The Edgar Thomson Works evolved into the Carnegie Steel Company. In the late 1880s, H. C. Frick, another steel master, was appointed the chairman of the Carnegie Steel Company, a limited partnership that dominated the American steel industry. Frick was one of the seminal figures in the creation and development of modern cost-accounting system in the USA. He consolidated and rationalized the several Carnegie plants into an integrated whole.

Carnegie gained a superior efficiency by purchasing coke fields and iron-ore deposits that furnished his steel company the raw materials needed. Frick systematized and departmentalized all activities (e.g. purchasing, sales etc.). On the other hand Carnegie and Frick implemented some sort of central coordinating office. The achievement of vertical integration in the steel industry represented another milestone in the American manufacturing.

Carnegie was a pioneer in introducing and expanding the mass production methods in steel industry. He created an effective plant organization that led to a huge increase in the volume and speed of throughput and to a significant expansion of the productivity of operations. Carnegie scrupulously evaluated the performance of his business in terms of the cost of operations as a percent of sales and the profits in terms of a percentage of book value of stock issued. Step by step his prices became lower and his profits higher than any steel producer. Carnegie "had originated a new business principle in the steel trade- that big men should do big things and small men do small things" (Casson, 1907, p. 86).

In the late 1880s Carnegie became a very wealthy businessman, possessing seven big iron and steel works, iron mines, railways and fleets of steamers. However, he stated that business to him had been only a means to an end. That is why Carnegie “accomplished [his] ... most important goal” (Nassau, 2006, p. 801) of giving away the majority of his fortune.

#### 4. Conclusions

Andrew Carnegie, the undisputed steel monarch of the nineteenth century who amassed a great fortune, constitutes one of the remarkable examples of a great business manager. Firstly, the life and works of Carnegie illustrate the success story of a poor Scottish boy who came to the USA and succeeded step by step, through many trials, in becoming the American steel tycoon of the nineteenth century. Secondly, his business philosophy shows that the man who built up a huge industry and gathered an enormous wealth understood the need to give away his money for the enlightenment and betterment of humanity. His love for mankind highly demonstrates his loftiness. Thirdly, Carnegie gives us several invaluable management lessons. In essence, he taught us that the goal of managers is to make others work while they think.

Our paper contributes to a better understanding of the business management performed by Andrew Carnegie. Further studies can be carried on in emphasizing the major role played by Carnegie in the development of management.

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**RELATIONSHIP BETWEEN LEADERSHIP, CHANGE AND CULTURE**

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**Abstract:** *To lead their supporters successfully through the turbulences of today's economic environment, leaders must understand the change process. For this it is very important the ability of organization's leaders to assimilate change, then formulate and articulate a clear vision, attended by fixation and implementation of strategic goals and objectives. Specialists observed that many leaders rely on instinct and experience rather than on a full understanding of the change process.*

**Key words:** leadership, organizations, change, organizational culture.

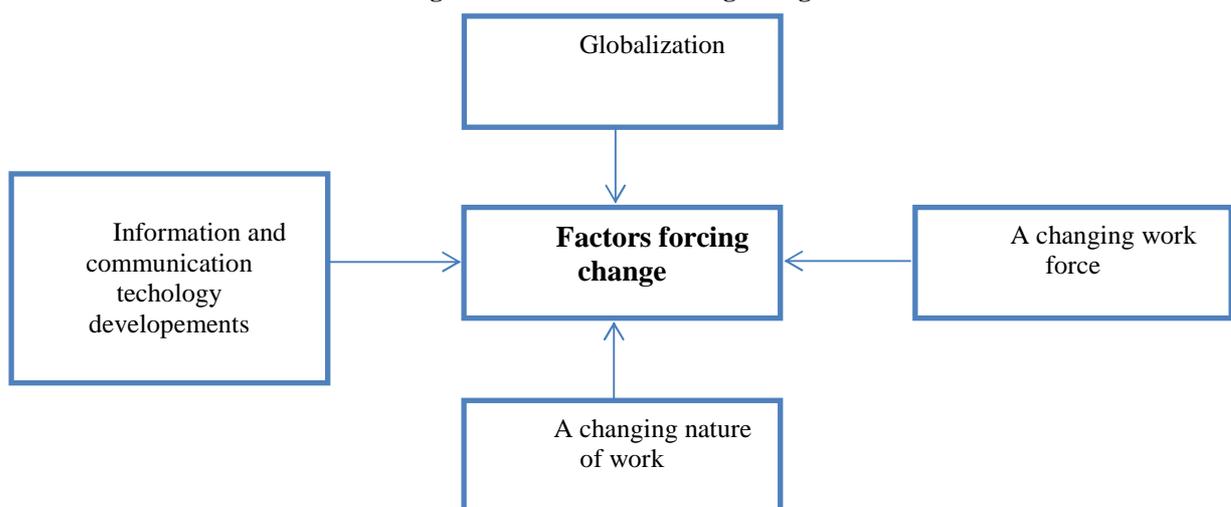
**JEL classification:** M21.

A recent study at Center for Creative Leadership found that the four most important skills or capabilities needed by organizations in the future are: leading people, strategic planning, inspiring commitment and managing change. These are among the weakest competencies for today's individual leaders. At the same time, the nature of effective leadership is changing. CCL's changing nature of leadership research showed that approaches focusing on flexibility, collaboration, crossing boundaries and collective leadership are increasingly more important than the basics of making the numbers. These findings suggest that organizations should continue to seek more of a balance between developing leaders through individual competencies and fostering the collective capabilities of teams, groups, networks and organizational leadership. The common thread among these studies is a powerful one: choosing the right leadership culture is the difference between success and failure. (*John B. McGuire, Charles J. Palus, William Pasmore & Gary B. Rhodes, p.4*)

Many organizations have had success with quality initiatives, but such initiatives can have insidious effects on organizational culture and the building of sustainable leadership capacity.

Factors that determine change in the external environment of the organization are as follows, according to Tiernan (2006, p.456), factors that cause organizations to change their strategies and actions. These factors are illustrated in Figure 1: The factors forcing change.

**Figure 1: The factors forcing change**

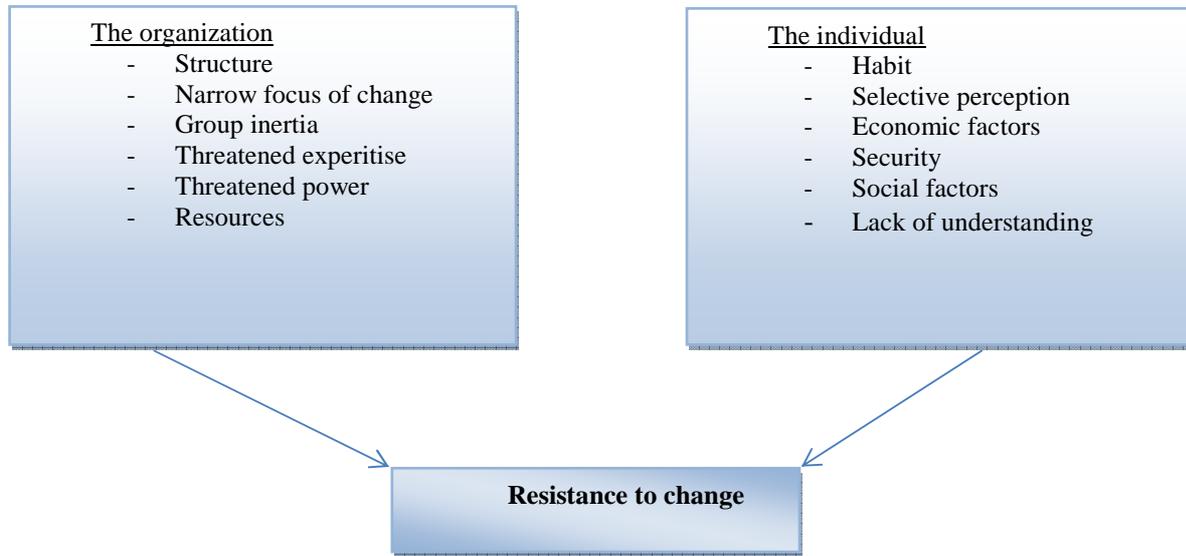


Source: Tiernan Siobhan, Modern management, p.456

Resistance to change has its origins from two main sources, namely: the individual or organization, as presented in Figure 2: Sources of resistance to change, explained by Tiernan (2006, p.471). In a changing

environment is essential that both managers and employees to know the reasons and sources of resistance to change.

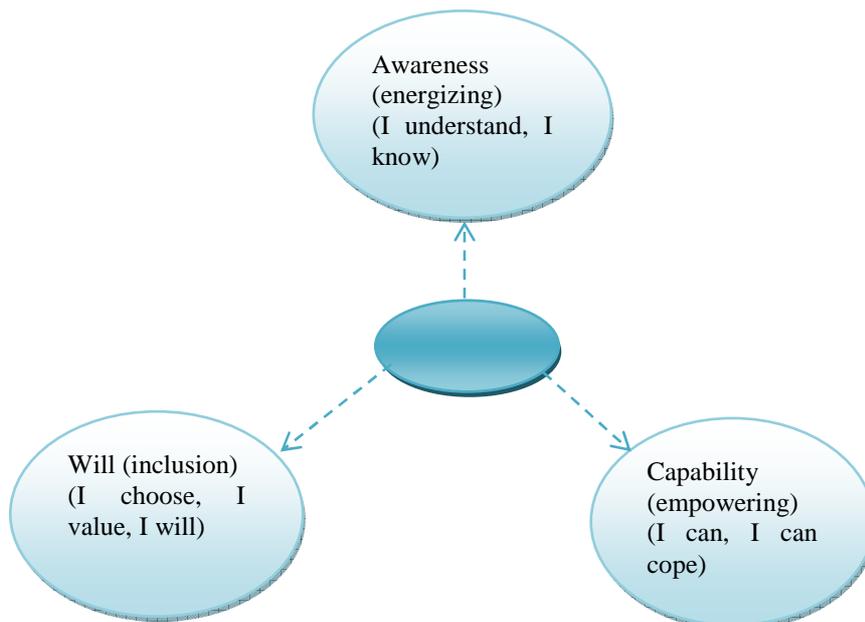
**Figure 2: Sources of resistance to change**



Source: Siobhan Tiernan, Modern management, p.471

Colin Carnall (Carnall, 2007) identifies three characteristics of awareness, capability and inclusion as necessary conditions for effective change, represented in Figure 3. He explains that, for change to be successful, those involved must understand that change, its objectives, and their role and so on. Understanding and credibility are vital as Carnal shows. Only then will they feel confidence in the likelihood of success and only then is there the prospect of energizing them to act appropriately. Given that, they must have or be helped to acquire the necessary capabilities to handle the new tasks and new work situations. People must feel that they can cope with the new situation and finally they must feel included in the change process. To be successful those involved need to feel that they value the new objectives and that they both choose and feel able to choose.

**Figure 3. Necessary conditions for effective change**

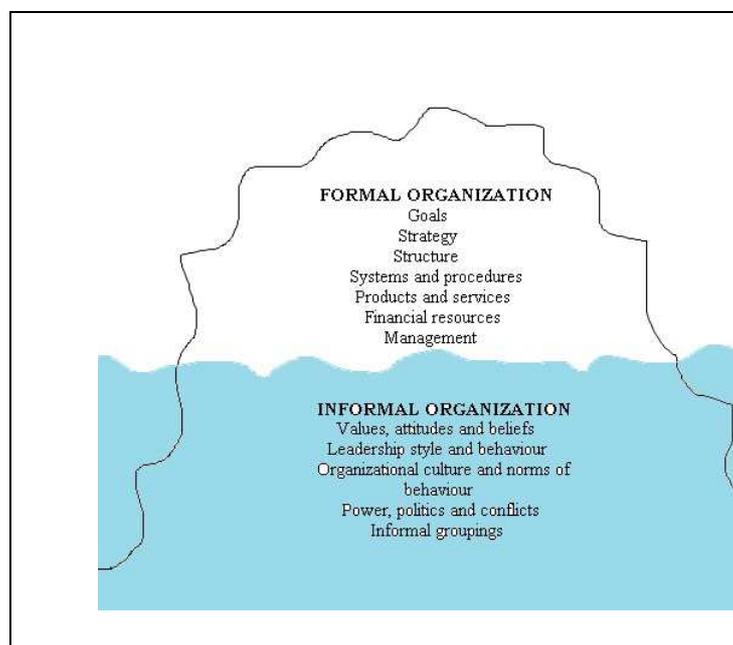


Source: Colin Carnall, Managing Change in Organizations, p.255

About the meaning of culture, Senior Babara (2002, p.124-125) explains that it consists in patterned ways of thinking, feeling and reacting, acquired and transmitted mainly by symbols, constituting the distinctive achievements of human groups, including their embodiment in artifacts; the essential core of culture consists of traditional ideas and especially their attached values. So, culture is an objective which can be identified and which delineates one human grouping from another. It is clear that culture has cognitive (to do with thinking), affective (to do with feeling) and behavioral characteristics. According to Schwartz and Davis cited by Senior B. (2002, p.155), “Culture is capable of blunting or significantly altering the intended impact of even well-thought-out changes in an organization”, so organizational culture comes in many forms and therefore, it can be more or less supportive of change.

When we refer to culture we think about the informal aspects of organizational functioning with accent on the concept of culture as it influences organizational life and organizational change processes. Referring to these formal and informal aspects of organizations, Senior B. (2002, p.123) shows in Figure 4: The organizational iceberg.

**Figure 4: The organizational iceberg**



Source: Barbara Senior, Organizational change, p. 123

Talking about this formal and informal part of any organization, it has been proved by many specialists that changing it is not easy. Specifically changing organizational structures is not always easy, even though organizational structures are to a large extent visible and understood. By contrast, organizational culture, although allied to organizational structure is much less visible and, with its many layers, dimensions and types, that are much more difficult to change (Senior, 2002, p.167)

“Transforming an organization begins at home - with its leadership culture - and depends on the capacity of senior leadership to work together in leading change” explained Dean Smith, director of publications for ASTD in his paper “Transformation begins at the top”. When executives change their leadership culture, the rewards include greater speed and flexibility, achievement of bottom-line results, and the creation of shared direction, alignment, and commitment throughout the organization, explained Smith. Given an immediate mandate for change, companies must invest in a leadership culture that will match the size and scope of the challenge. It’s also fair to assume that the culture that brought your organization to its current situation will not have enough capacity to achieve transformation. A starting point for transformation will require an organization to select the right level of leadership culture. Choosing the right one will make the difference between success and failure.

According to Sam Palmisano, IBM chairman, president and chief executive officer, to be competitive, any individual – like any company, community or country – has to adapt continuously, learning

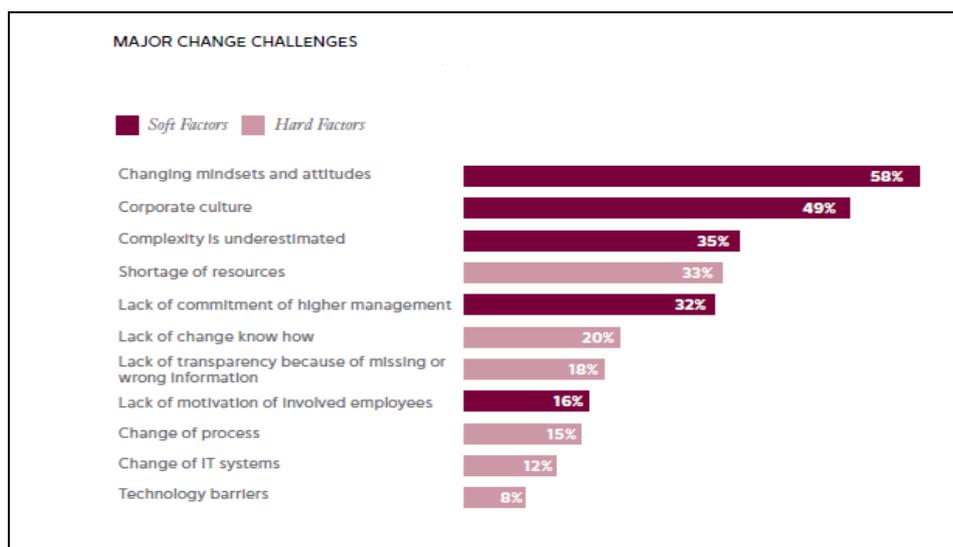
new fields and new skills. We need a workforce model that recognizes this shift. As always, the really hard part is culture and mindset. Successful global leaders and organizations must recognize and truly embrace diversity as part of the corporate culture.

IBM Global Business Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues. In 2008 they realized a study named “The IBM Global Making Change Work Study” which examined how organizations can manage change and identified strategies for improving project outcomes.

The study explored differences in how change was implemented by over 1,500 practitioners worldwide in three big geographical regions: Europe (34%), Americas (29%) and Asia Pacific (37%). A breakdown by industry presented the main areas: public (21%), industrial (18%), communications (17%), financial services (16%), distribution (13%), professional services (8%) and others (7%). The companies included in the research were from small ones to big ones which had more than 100.000 employees. IBM conducted surveys and face-to-face interviews with project leaders, sponsors, project managers and change managers from many of the world’s leading organizations. The percentages of hierarchical status of these were like this: the majorities were project managers (38%) and then initiator or project sponsors (25%), followed by change managers (17%), project team members (7%), subject matter expert or reviewer (7%) and others (6%).

From the report were extracted some aspects useful for this article. The study revealed that the most significant challenges when implementing change projects are people-oriented. In the top of the list are changing mindsets and attitudes of the individuals which have a 58 percentages, and second corporate culture with a 49 percentage. *Figure 1: Major change challenges* presents the main obstacles in implementing change in organizations.

**Figure 1: Major change challenges**

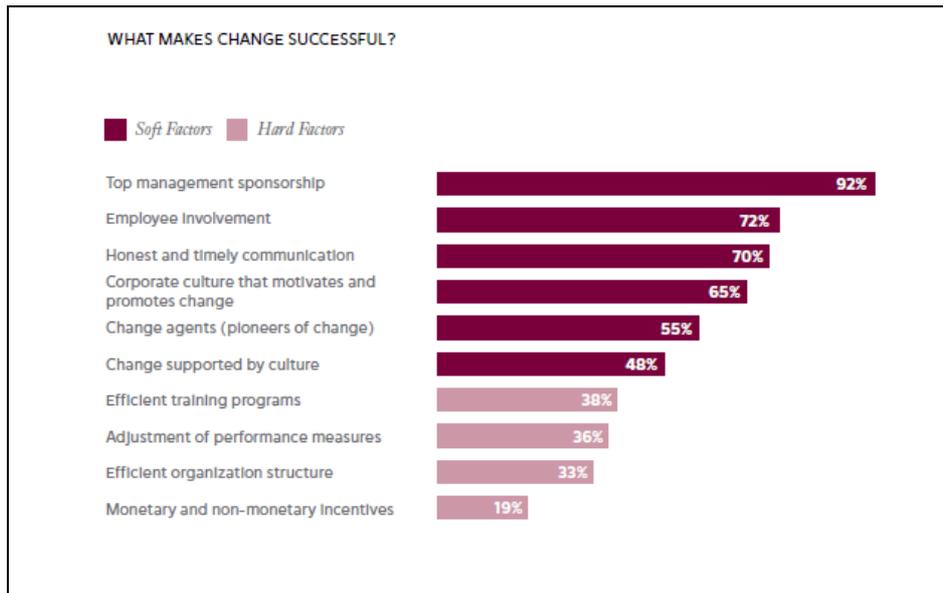


Source: “Making Change Work”, IBM Global Business Services, 2 008

The study revealed that changing mindsets, attitudes and culture in an organization typically require different techniques, applied consistently and over time – sometimes across a series of successive projects and often continuing after the formal “project” has finished. Practitioners typically find such less concrete challenges tougher to manage and measure than challenges related to business processes or technology, which are more tangible and possibly capable of being changed permanently through a single intervention.

When the interviewed were asked to identify key factors for successful change, they noticed the difficulty in dealing with intangible aspects of organization like leadership, employee engagement and honest communication which are obviously determined by organizational and formal aspects. In *Figure 2: What makes change successful?*, are illustrated a list of answers.

**Figure 2: What makes change successful?**

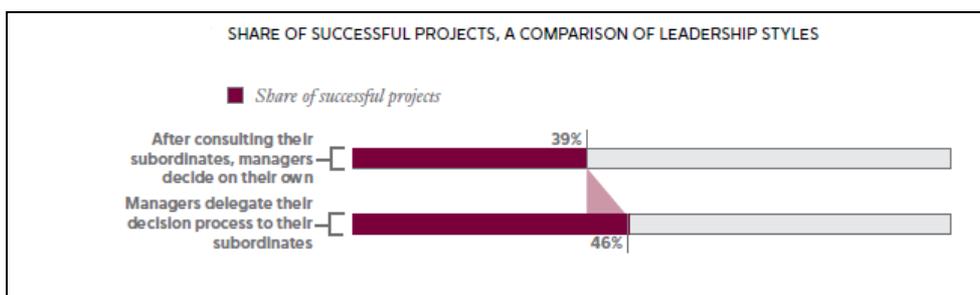


Source: “Making Change Work”, IBM Global Business Services, 2 008

Practitioners firmly place key responsibility for the fate of change projects in the executive suite – an overwhelming 92% named top management sponsorship or leadership as the most important factor for successful change. Rounding out the top four success factors were employee involvement with 72%, honest and timely communication with 70%, and corporate culture that motivates and promotes change with 65%. Not to be neglected that change supported by culture is on the list and has a 48 percentage between respondents.

From the same study, it has been proved that change leaders with participative leadership styles were more likely to have successful projects, that is why a strong culture of empowerment and delegation of decision-making power distributes responsibility for change throughout the organization. This also may be called a leadership culture. Leaders who delegate the decision process to their subordinates had a 46 percent project success rate, compared to a 39 percent success rate for those who consult with subordinates, then make decisions on their own. *Figure 3: Share of successful projects, a comparison of leadership styles* explains that leadership styles have a great impact on project outcomes in organizations.

**Figure 3: Share of successful projects, a comparison of leadership style**



Source: “Making Change Work”, IBM Global Business Services, 2 008

Here are extracted some practical suggestions from “The IBM Global Making Change Work Study” for top management to support continuous change:

- **Lead from the top:** Set vision and direction clearly, allocating resources and establishing corporate culture from the top. A change leader should be actively and visibly involved in setting overall direction, publicly communicating at all levels and using different techniques and media, and dedicating the right skilled resources to the change effort.
- **Involve the people:** Emphasize employee involvement to ease resistance to change, at both individual and group levels, and set in place mechanisms to encourage this involvement.

- **Communicate or fail:** Enable honest and timely two-way communication to build trust and commitment to change programs and leaders, and reduce resistance. Use multiple channels and different media. Take time to understand the audience and how they like to communicate.
- **Get the right skills – everywhere:** Enable rapid development of internal skills to keep pace with changes in the external environment. Consider the establishment of a sustainable change management capability within the organization.

Because companies reflect the ethics, values, principles of its leadership who run them, it is obvious the strong connection between organizational culture and leadership, and more on to be, the next focus of the specialists, the leadership culture.

#### **Acknowledgement:**

*Researches carried out within the framework of the project POSDRU/6/1.5/S/26, co financed from the Social European Fund by means of the Sectorial Operational Fund Programme “The Development of Human Resources” 2007-2013.*

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## EMPLOYING THE OPTIONAL AND MANDATORY INSURANCE SYSTEMS FOR INCREASING THE SECURITY OF URBAN ECOSYSTEMS

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**Abstract:** *The necessity for increasing the security of urban ecosystems was amplified in recent years as a result of the different threats posed to the urban ecosystems. A certain sense of urgency was felt towards the need for protection in general and protection through the insurance systems can become one of the most important means of realizing this objective. The starting point in developing an integrated insurance system is based on the insurance system of the rural ecosystems, both because of the possible risks which could be covered by the insurance, as well as the functioning mechanism of the insurance as well.*

**Key words:** insurable risks, biodiversity, urban ecosystems, protection.

**JEL classification :** G22, R12,

### 1. Introduction

The present study aims at identifying and analysing the risks specific to urban ecosystems, setting out on two main directions:

- the first relates to the most significant elements of the rural ecosystems insurance, starting from the nature of the subjects to be insured, the insured risks, the possible exclusions and the execution mechanisms of the insurance contracts, in order to take the most appropriate and compatible elements for laying a strong groundwork;
- the second direction is represented by determining the main risks that threaten urban ecosystems, emphasizing the urban influences and including these specific risks within an integrated insurance system for urban ecosystems.

The natural environment in which people carry out their activities is comprised of several ecological systems. An ecosystem, in general represents the relationship between the world of living organisms and their living environment, or, this is another way of saying, unity between **biocenosis** and **biotype** (for example: a lake, a forest, etc. each form an ecosystem). A group of people on a determined space and their respective environment together form an **urban ecosystem**. As humans are only living being that is able to consciously undertake an activity, the human ecosystem plays a central role within the ecosphere.

### 2. The increasing the security of urban ecosystems

The necessity for increasing the security of urban ecosystems, in general, stems from the unprecedented increase, in recent years, of attacks from certain invasive species on plant species, specific to urban ecosystems, oriented especially towards the ornamental nature of the native biodiversity. At the same time, no specific insurance system of protection for the urban ecosystem exists, during this period of transformation and transition from urban spaces to urban ecosystems.

### 3. The direct relation between the insured and the insurer

The direct relation, which emerges in each business contract, emerges also within the insurance system, namely between the insured and the insurer, either by contract (optional insurance) or by law (mandatory insurance), in the form of mutual obligations, expressly provisioned in the insurance contract. Specifically, in both cases the insurer is an insurance company, but in regards to the insured party and the beneficiary of the insurance, when speaking of urban ecosystems, certain differences and nuances emerge. If in the instance of rural insurance, the insured is the one that contracts the insurance and has the right to receive the damage compensations, respectively the insured amount, in the case of urban ecosystems the insured party is either the city hall (the owner) or another commercial entity, which has under its supervision the subject of insurance and the beneficiary is represented by the whole community, specifically the urban community.

There are certain similarities regarding the subject of insurance of the two ecosystems, when we refer to forests and tree plantations, seed beds, tree plantations as such, grapevine and fruit trees, because as with the urban ecosystems, together with the actual compensations one must consider the calculation of the insurance premium and the *time factor*, meaning the time for recovery to the initial state, the state before the

occurrence of the damage. This refers to the time it takes to grow and mature, which for example, in the case of some urban dendrological parks, can span to even decades. In other instances, the differences are greater between the two ecosystems, when one considers the insured subjects of the rural ecosystems, like hayfields and grazing fields, cultivated plants and crops, which have a total existence, from sowing to harvesting, of one year. At the same time, there are similarities in the instance of certain special insurance conditions, given by some insurers, namely for greenhouse crops, ornamental or decorative plants.

The system of insurable risks (*Cistelean L., Implicații ale globalizării în asigurări, Revista Finanțe Bănci Asigurări, nr.1 din ianuarie 2002*) that are taken over by the insurance companies are covered by optional insurance contracts, they are the result of natural action of risk factors such as: hail, frost (late spring frost, early autumn frost) rainfalls, storm, hurricanes, tornadoes, landslides or collapses of cultivated land and fire caused by natural cloud-to-cloud discharges (lightning, thunder);

These risks represent a genuine threat (*Udrea NM, Managementul financiar al societăților de asigurare, Editura Alma Mater, Sibiu, 2008*) for the urban ecosystems too and they can constitute an important component of their portfolio risks. But alongside these risks, a number of other specific risks should be taken into account, risks determined by the action of invasive organisms (which they should be protected as well) and a second category of risks arising from inherent dangers due to the urban environment.

Some additional details (*Ciumas Cristina, Asigurările internaționale – arhitectura și problematica la debutul mileniului III, Editura INTELCREDO, Deva, 2001*) should be mentioned given the different nature of the two ecosystems. For example, for insurances of the rural ecosystem, oriented only towards the production and ever increasing in quantity and quality, the prejudice is compensated only for quantity and quality losses caused to the crop and only to the basic product of the culture, thus, in the case of straw, there are liable damages only for the loss of grain. In case of torrential rain, there are liable damages both for prejudice caused by its direct effects, that is by washing the seed or the soil around plants, roots exposure, mud produced by streams tearing of plants with or without soil around them, etc., and for the indirect effects such as slops, water overflows that affect these crops, crashes, collapses and landslides of arable lands with implications over the agricultural crops. In case of hail, there is the risk of plants damage or injury due to mechanical effects of hail or ice layer formed down the stem. In case of storms, hurricanes, there is risk of roots exposure from the soil, plant wrecking, breaking of stems, roots or flowers, stem bending which stops the maturation cycle, shaking of seeds and bunches, etc.

The main difference in the approach regarding the treatment of risks between the two ecosystems lies in the purpose, that is, if urban ecosystems have emerged and expanded mainly out of aesthetic, decorative reasons and lately, having a prominent role of urban environmental health (its role growing continuously), the insured people from the rural area, beneficiaries of the insurance system operate in commercial regime.

The first assessments of the main elements of the integrated risk system of the urban ecosystem:

*Elements generated by urban structures.* Human settlement represents, by its spatial and functional manifestation, a completely different entity in terms of biotope compared to the natural ecosystems; urban functional areas, strongly anthropized, especially the industrial, commercial and business ones and in various measures the residential, education or leisure ones, present specific spatial changes of the initial biotope, oriented towards achieving the purposes for which they were made. This leads to important changes of all environmental factors (water, air, soil), and significant changes in the microclimate.

Pollution is directly or indirectly the result of human activities taking place in the city. No doubt the origin of the pollution is the production of materials non-specific for the environment. The real cause is not the range of man-made materials, but how they are administered, besides the fact that they incorporate non-renewable and exhaustible resources, after their usage, they are released in the natural environment, without knowing the long-term effects on it.

The main factors of urban pollution are those that fall within the generally accepted factors of environmental pollution and they refer to:

1. Lack of economic development and organization on ecological criteria, in other words, the lack of a sustainable development basis.
2. Explosive population growth which involves crowding cities, extending the occupied city areas and increasing necessity of all kinds, represent the main pressure exerted by the urban centers on the environment.
3. Technique development without taking into account the ecological principles.
4. Building material goods which incorporate exhaustible and non-renewable resources (or hardly renewable heavy).

5. Lack of environmental awareness, with regard to environment possibilities, constitutes that conduct factor which contributes, together with other factors to the environmental degradation.
6. Increasing water demand in the future.

Creating the large urban areas can cause imbalances that may turn into disasters (for example, in Milan in the last 20 years, the groundwater level dropped by 20 m, in Bologna, the groundwater was at 12m in 1945, now it lies at 35m depth. The problem is not only that of the possible lack of water in coming decades, but also the possibility to produce massive land slides and destruction of large built-up areas, by lowering movement of soil.

Variety of pollution, as well as of causes which produce it, leads to specific changes, sometimes irreversible, of the qualities of environmental factors.

Within the rural ecosystems, determining the risk areas and the economic certainty areas for a particular crop is done according to the average values of income, expenses and profit. The variation of risk and production conditions, in territorial profile, requires taking into account too the average square deviation that characterizes the plus or minus differences compared to the average level of the analyzed indicators.

For the protection of urban ecosystems, there is no such problem as the value of the expected profit as a sum of money, because that is not the goal. Instead, the values of average expenditures should be taken into account.

Significant differences also occur as far as the period of insurance is concerned; in the case of rural ecosystems, insurances may be made almost any time during the agricultural year, periodically, being terminated at the end of the year, together with the activities related to harvest and transport to storage location. To ensure urban ecosystems, we propose the use of framework contracts for several years, for example, of 5 or 10 years with annual or sub annual installment payment (quarterly).

The liability of insurance companies is strictly related to the insurance period, in fact the period between the coming into force and entry into liability and the termination period of liability.

For example, if the liability of the insurance company terminates starting with the moment of harvest (if the crops are being threshed, for the fire-risk, liability terminates after threshing) and in the urban ecosystem insurance, the insurer's liability varies substantially, meaning that liability starts according to the calendar, after a certain number of hours as from the end of the day when the contract was concluded and the insurance premiums had been paid, and will continue until the restoration to the initial parameters of the injured urban ecosystem.

Another important part (*Constantinescu, D., A., Dobrin M., Odiățiu R., Nițu S., (1999), Managementul riscului în asigurări, Ed. București*) of the insurance contract is one that refers to finding and assessing the damage and also determining the damages. This operation is set off along with the written notice by the insured, out of which it should result the destroyed or injured areas, the kinds of crops, and also details about the circumstances they occurred in. Then they proceed to the preliminary findings which establish the reality and the extent and the incidence of the risk comprised in the insurance, then the data are confronted with the ones recorded in the agricultural register and in the findings of the risk inspection.

#### **4. Conclusions**

Final finding and assessing the damage usually occurs during the period when crops reach maturity, when their destruction degree can be determined.

Related to this last component of the insurance contract, there is also one of the most important differentiations between the insurances of the two ecosystems. While in the case of the insurance of rural ecosystems the contract is concluded by paying the part of the harvest that was damaged, in the case of the urban ecosystems, it will be also calculated the amount of restoring in the original state (to the original parameters) of the damaged urban ecosystem, which can spread over a longer period of time, period determined by the kinds of plants and existing and insured plantations.

Finally, we can note that using and adapting insurances of rural ecosystems, we can build an integrated system of optional and mandatory insurances, so that it enhances the protection of the urban ecosystems.

#### **Acknowledgements**

*This paper was cofinanced from the European Social Fund through Sectoriale Operational Program Human Resources Development 2007-2013, project number POSDRU/89/1.5/S/63258 "Postdoctoral school for zootechnical biodiversity and food biotechnology based on the eco-economy and the bio-economy required by eco-san-genesis".*

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## TRAINING, CONSULTING AND PROFESSIONALISATION IN THE MANAGEMENT OF SMALL AND MEDIUM ENTERPRISES IN ROMANIA

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**Abstract:** *Implementing Europe 2020 policy requires large steps to professionalize the managers and management. The document assumes that management is the most important success factor for any type of organization, while training and management consulting are two important ways to professionalize managers.*

*The paper highlights the critical results registered in Romania in these areas, and provides strategic and tactical recommendations the factors that generate strengths and weaknesses in each of the areas. Rethinking training and management consulting will enhance the financial side, and improve managerial skills in companies undertaking such services.*

**Key words:** Management, training, management consulting, professionalize and SWOT analysis.

**JEL Classification:** M12

**Acknowledgements:** PCE-funded study by IDEAS 1470, NURC 2008-2011 "Models of organizational change through reengineering of SMEs in Romania in the context of knowledge management."

### 1. EUROPE 2020 - Strategic Priorities

*Europe 2020* offers a new vision for Europe's economy in the next decade, which could help the EU emerge from the economic and financial crisis, and build an intelligent and sustainable economy, with high levels of employment, productivity and social cohesion.

Europe 2020 offers three mutually reinforcing priorities:

- *Smart Growth:* developing an economy based on knowledge and innovation;
- *Sustainable growth:* promoting a resource efficient, greener and more competitive economy;
- *Inclusive growth:* promoting a high employment economy that will help deliver economic, social and territorial cohesion

EU must define the implementation strategy to meet these priorities by 2020. To this end, the Commission proposes the following main objectives:

- *75% of the population aged between 20 and 64 should have a job:* employment rate of the population should increase from the current 69% to at least 75%. This target can be achieved by getting more people into work, especially women, older people and a better integration of legal migrants in the labour market;

- *3% of EU's GDP to be invested in R&D and innovation.* This target managed to draw attention to the need for both the public and private sectors to invest in R&D, but focuses more on resources than on its impact. Many of the measures proposed in this strategy will lead to grated investment in R&D, if the private sector is given better incentives for investment in R&D.

- *Reducing greenhouse gas emissions to at least 20% which is lower than 1990 or 30%, if the conditions are right.* Another target is to increase the use of energy from renewable resources to 20%, and to boost energy efficiency to 20%.

- *Reduce early school drop-out rate below 10% (from the current 15%) and increase the percentage of 30-34 year old people completing third level education from 31% to at least 40% by 2020;*

- *Number of citizens living below a national poverty threshold should be reduced by 25%, which would mean the removal of over 20 million people in poverty.*

These objectives are interrelated and representative for each of the three priorities - an increase of smart, sustainable and inclusive growth - but not exhaustive: to carry on these priorities, it will be necessary for a wide range of actions at national, EU and international levels.

This strategy describes seven flagship initiatives to stimulate progress in achieving the objectives of each area of priority themes:

*I. "Innovation Union"* to improve conditions and access to finance for research and innovation in Europe, to ensure that innovative ideas can be turned into products and services that create growth and jobs;

*II. "Youth on the move"* to enhance the performance of education systems and to facilitate entry in the labour market for young people;

*III. "A Digital Agenda for Europe"* to speed up development of high-speed Internet services and to harness the benefits provided by a unique digital market for households and businesses;

*IV. "Resource efficient Europe"* to allow decoupling economic growth from intensive usage of resources, to support the transition to a low carbon economy, to increase the use of renewable energy, to modernize the transport sector and to promote energy efficiency;

*V. "An industrial policy for the globalization era"* to improve the business environment, particularly for SMEs, and to support the development of a solid and sustainable industrial base able to compete at a global level;

*VI. "An agenda for new skills and new jobs"* to modernize labour markets and to empower the citizens by developing their skills throughout life in order to raise employment levels on the labour market, and to better correlate demand and supply in the labour force through workforce mobility.

*VII. "European platform to combat poverty"* to ensure social and territorial cohesion, so that benefits of growth and employment should be equally distributed, and people experiencing poverty and social exclusion to be given the opportunity to lead a good life and to play an active role in society.

## 2. Strategic Priorities for Romania in the context of SBAE

Education, training and continuous learning, development of new skills through consulting are all concerns that, at least for Romania, should be **priorities in management**.

Given that SMEs are the "engine" of the Romanian economy, the central authorities need to take the following measures to take advantage of the opportunities presented by SBAE (Small Business Act for Europe "):

### *a. promote effective entrepreneurship education and entrepreneurial culture through:*

- Continuous development of the education system to promote entrepreneurial culture;
- Supporting partnerships between businesses and educational institutions to promote entrepreneurship;
- Supporting training programs at a national level;
- Developing entrepreneurial education programs in colleges and universities.

The Romanian Government will pursue further development of the educational system to promote entrepreneurial culture through:

- Development of school/university curricula by encouraging entrepreneurship and providing appropriate training for professors;
- Encouraging student creativity, develop their ideas by organizing competitions with prizes;
- Supporting cooperation with the business community to develop systematic strategies for entrepreneurship education at all levels;
- Development of entrepreneurial culture and skills among women managers and young persons.

Training companies that are specialized in business administration have to support new business creation, to assist transferring business skills, and to help existing SMEs to have an accelerated growth. In order to enhance the ability these companies have to support the business community, the Romanian Government will take the following measures:

- Develop programs with local businesses that provide students the opportunity to improve their work experience through industrial placements;
- Create an environment that facilitates entrepreneurship, and development of family businesses in local communities.

To support a national training system, the Romanian Government will carry out actions in regard to:

- Improve definition and transparency of professional skills;

- All social groups will find it easier to have access to education, to training and knowledge through the organization of working time, to family support services, and new forms of cost sharing;
- Create partnerships between the educational, the training component, and the real economy through the involvement of social partners in education planning and training.

Development of entrepreneurship education at university level will be achieved through the following actions:

- Ensure consistent elements of entrepreneurship education are present in universities;
- Encourage student creativity by rewarding their entrepreneurial ideas in competitions with various prizes.

**b. Improve SMEs involvement on the Internal Market, and on tertiary markets by:**

- *Promotion of SME products and services to foreign markets;*
- *Fostering communication and partnership in business;*
- *Preparation of entrepreneurs in the field of export promotion techniques.*

The Government seeks to support SMEs in their export activities through the promotion of SME products and services in foreign markets. This will be accomplished through:

- Helping SMEs to gain access to new markets and internationalization;
- Development of the Romanian portal for foreign trade;
- Providing professional assistance.

The following actions will lead to enhanced communication and business partnerships:

- Expand business partnerships to grow exports;
- Encourage international projects undertaken by industry associations, in order to support export and to increase the SMEs ability to enter foreign markets;
- Improve communication between public institutions and SMEs regarding foreign investments;
- Improve cooperation between SMEs - universities / research centers;
- Develop management & strategy consulting sector;
- Support consulting companies to generate market and product research reports at the request of SMEs.

Consequently, the development of an entrepreneurial education system, continuous training and consultancy are becoming a priority for this decade.

### 3. Training and management consultancy

As managers are the most important "characters" when it comes to business decisions that influence the economic performance of SMEs, their professional development and training is of high importance.

#### 3.1 Improvement of managerial skills and Training

In Romania, the following types of organizations are providing training for managers (Nicolescu, Verboncu, 2010):

- **Universities and business colleagues**, involved in both their initial education and their continuous training through masters and PhD programs.
- **Training centres** affiliated to ministries and large organizations (INA, School of Finance, etc.)
- **Business schools**, which can be local or branches of international educational organizations
- **Private training companies**, which are involved in the short-term programs focused on specific issues.

The main suppliers of managerial education in Romania are the Public Universities, which initiated large national scientific research programs and trainings to modernize the Romanian management.

**The economic academic environment is responsible for the significant progress in the management science** which resulted in:

- Appearance of numerous papers published by Romanian professors and scientists.
- Higher education development, in particular colleges or management courses for improvement of persons in management positions
- Numerous management books that belong to Americans, French, English, and German experts were translated into Romanian, which allowed the dissemination of latest news on management
- Continuous management education development, with the emergence and consolidation of appropriate programs, masters and PhDs.

- Increased scientific research in management, either through national programs, financed by the Romanian government, either through collaborations with business
- The Management School within the Academy of Economic Studies, Bucharest had an important role in shaping cohesive theories in management
- Emergence and development of national organizations in the area of management, the most important being the Romanian Management Academy.
- Existence of numerous national magazines dedicated to management studies, ISI indexed or present in international databases, within which are numerous studies and articles published by local and foreign experts
- Use of benchmarking techniques, by ensuring the transfer of "best practices" management from Western economies and organizations to Romania
- EU-funded programs have increased the international mobility of both academic researchers and professors, as well as of students in Business Schools
- Frequent international scientific meetings focused on management issues organized in Romania or abroad, where the Romanian participation is becoming more consistent.

In conclusion, the evolution of management theory constitutes an important support for the economic and social leaders. Within the management theory, a set of locally adapted **theoretical and methodological elements** are being shaped:

- Shaping a set of general or specialized methodologies, for design / redesign and maintenance of management systems
- The development of management tools which should be used by Romanian organizations - management based on profit centres, management by objectives, management by project, dashboard, and diagnosis.
- Clarify management concepts, with the stated purpose of facilitating pragmatic approaches in the field
- Provide the set of principles, concepts and tools which are specific to Knowledge-based economies, organisations and management.
- Diversification of management training by including case studies, simulations, and other methods encountered in internationalised organisations.
- Reveal what performance managers need to achieve, and competencies that managers must possess to achieve such performance
- At a small scale, the training offered by the Romanian higher education management can be compared to the one provided in the European Union
- The most competitive management training in the country is within the public universities that offer economic degrees.
- The management education provided by the state is considered to be competitive compared to private education
- The least appreciated are the trainings provided by private universities that offer engineering degrees.

Due to some malfunctions of management education, such as the predominant theoretical lectures held by professors, the theoretical character of training programs, management training is in a bad condition. Other factors that contributed to this state are: the business environment in Romania (in this regard it should be emphasized that the transition to the "Bologna system" where the undergraduate studies are reduced to only three years – has decreased the time allocated to specialized courses), poor case studies, poor simulations "built" on the actual situations of management practiced in Romania, mainly at a SME level, relatively high tuition fees charged by providers of management training given the level of development of Romania and the poor economic status of most SMEs, the fact that managers only participate in such programs to obtain a document that allows them to maintain their job or promote to a better position within the company. Furthermore, the demand for management training has decreased because firms are not willing to make any financial efforts to train their managers, and central and local public administration authority have a low level of involvement in these trainings.

The importance of the continuous professional development and training of SMEs staff is obvious in order to enhance the economic performance, given that over half of companies have much better performance or better performance after the training. And if such placements are primarily focused on improvement in the management field, the recorded results would considerably improve.

We understand that, besides some natural and rational causes influencing the reduced financing for this activity - poor economic potential of many SMEs, "smothered" by all sorts of fees and taxes, sales and supply problems etc.-, the entrepreneurial **attitude** can be brought into question- of managers whom, in this position, believe that "they know everything" and they do not need new managerial skills and knowledge. Their only mission is to "make money" and the positive evolution of their business at the onset cultivates into their minds the idea that people can be successful without investing in managerial education or trying to professionalize management.

**3.2 Management consultancy**

Managerial consulting services are offered in Romania by the following main **suppliers**:

- Local consulting firms
- International consulting firms
- Universities (especially the specialist economics ones)
- Employers' and SME associations, chambers of commerce and industry

The quality of management consultancy in Romania can be described by the following (Svasta 2010):

- If we judge based on the performance of local consulting firms and Romanian universities within the European Union, this quality is generally net inferior
- Consulting services offered by specialist international firms are particularly valued
- We cannot disregard the fact that Romanian prestigious universities, as well as many consulting firms in our country have not built a strong brand in the consultancy field, as there tends to be a preference for the foreign ones which:
  - Are well known
  - Where their consulting experience is remarkable

Unfortunately, however, these do not appreciate the particular nature of their target organization, they often come up with non-fundamental solutions and, more importantly in the context of economic crisis, **their cost is enormous!**

**3.3 SWOT Analysis of continuous training and management consulting in Romania**

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>· The increasing importance of continuous training in the Romanian educational system, in terms of 2020</li> <li>· Diverse forms (methods) of continuous learning, both classical and online postgraduate and specialization courses, traditional and online masters</li> <li>· Covering the most important procedural and professional "areas" existent in Romanian economy and society in terms of continuous training</li> <li>· Increasing training (learning) contribution to professionalizing the Romanian management</li> <li>· High adaptability to Romanian labour market requirements and opportunities</li> <li>· Increasingly higher national and international visibility of continuous formation</li> <li>· Presence of AMCOR, an organisation affiliated to the European structures in the area, and of over 8,000 management consultants</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>· The curriculum is insufficiently adapted to European and international requirements in terms of permanent learning</li> <li>· Reduced focus by some economic operators (agents) to continuous training for achieving economic management and economic performance (especially SMEs)</li> <li>· Low participation rate of specialists in various fields in permanent training programmes</li> <li>· Current insufficient financial allocation to support consistent training programs due to poor economic status of SMEs</li> <li>· Low priority given to actions with immediate effects from an economic perspective</li> <li>· Reduced flexibility in designing and developing continuous learning programmes by education providers</li> <li>· Insufficient connection to community permanent training programs</li> <li>· Consulting below European standards</li> <li>· Lack of brand management in management consulting in Romania</li> <li>· Reduced international dimension of permanent educational programs</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>· Romania's EU integration</li> <li>· Universities' integration in the European Higher Education System</li> <li>· Converge to knowledge-based society, economy and management</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>· Reduced current economic strength of economic agents and public institutions in Romania which are unable to financially support the need for continuous training</li> <li>· Lack or insufficiency of realistic strategies for continuous learning at national, sectoral and organizational levels</li> </ul>

<ul style="list-style-type: none"> <li>· Presence of "models" in the field at European and international level, both at universities and at specialized schools for continuing education (see top management schools in France, Open University - United Kingdom, international graduate schools organized by ASE etc.)</li> </ul>	<ul style="list-style-type: none"> <li>· Lack of material required for participation in online continuous education</li> <li>· Inconsistencies in the strategic approach of educational services training providers (suppliers)</li> <li>· Legislation adjustment in the area to the enforcement of the new Law on national education</li> <li>· Opening the labor market in the EU, with adverse implications on those not adapted to the professionals rigors of economic development stage</li> <li>· The presence on the Romanian educational market of a large number of continuing education providers with a low rate of success (mainly LLC sites, or the so-called "schools" set up "near" some ministries)</li> <li>· Priority given to the economic objectives and not to the educational ones by some of the most important players on the continuous training market.</li> <li>· Constant presence of prestigious companies having branches in Romania</li> </ul>
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### 3.4 Strategic-tactical recommendations; influences on professionalizing managers and management

- Focus of education and training systems on creativity, innovation and entrepreneurship
- Adapting managerial training programs to the real needs of the Romanian economy and business environment
  - Improving the quality and diversification of management consulting services according to the requirements of the Romanian market and trends in the European consulting. Simultaneously, there is a real need for sustained promoting of consulting services to SMEs, enhancing their pragmatic nature, based on the win-win principle, in a pronounced strategic dimension, a more effective collaboration with academia and taking advantage of the possibilities offered by the European structural funds.
- Increasing pragmatic size of managerial training
- The development of public - private partnerships between universities, the providers of training services and management consulting firms, as well as beneficiary enterprises
- Increasing the visibility of national and international training programs and management consulting

Performing these recommendations will have a great impact on the level of knowledge, qualities and managerial skills of those who lead and manage Romanian companies in terms of their improving their managerial competence and their professionalization.

Thus, for a significant part of small and medium firms, there will be a division of management through the employment of real management professionals able to answer the following mandatory requirements ( Verboncu 2005):

- Knowledge of the configuration of management processes and knowledge of the specific content of each function - foresight, organization, coordination, training, control evaluation;
- Knowledge of the basics or managerial decisions and the ability to adopt them by complying with the quality requirements imposed on them - scientific, timeline, comprehensibility, etc.
- Able to utilize systems, methods or management techniques depending on the circumstances
- Able to set goals for others and to assume the achievement of their own objectives, as well as managerial objectives
  - Able to communicate with subordinates and, thus, to harmonize their actions and decisions as a premise for achieving the objectives
  - Able to determine the staff's participation rate in setting and achieving goals
  - Able to control the subordinates' work in the light of achieved results
  - Able to evaluate these results, to detect the causes of positive or negative deviations, and to adopt some decisions that require adjustment or update
- Knowledge in detail of the configuration and operation mechanisms of the managerial system and its components (methodology, decisional, informational, organizational and human resource management)

Finally, professional managers are the pioneers of managerial and economic performance which is generating competitive advantages for the Romanian companies.

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## DEMANDS ON EMPLOYEE PERFORMANCE DEVELOPMENT AND EVALUATION USING THE 360<sup>0</sup> FEEDBACK METHOD

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**Abstract:** *In this paper we address issues concerning employee performance development and evaluation using the 360<sup>0</sup> feedback method. The purpose of this research is to put in value this method, which is one of the most modern and relevant ways, both for employee performance evaluation, and especially for their development.*

*The paper aims to present the methodology and steps followed in developing and implementing the evaluation system under consideration, and how that system could be used, without neglecting the advantages of the 360<sup>0</sup> feedback method. Also the paper presents a case study on the implementation of this method in the simulated companies.*

**Key Words:** human resources, feedback performance evaluation, development, innovation

**JEL classification:** M12

**Acknowledgments:** *This paper was financed by Constantin Brâncuși University from Târgu-Jiu, Romania, through UCB-TP-T no. 433C/2010 grant.*

### 1. Introduction

Employee professional performance evaluation is a human resource management activity that gets spread even more, becoming a strategic activity within the human resources management process. In the context of obtaining economic performance and achieving competitive advantage, private organizations, increasingly more in the public administration system, acknowledges the need to implement a system as adequate as possible for assessing the professional performance of employees.

As mentioned in the literature in our country there are various systems for assessing staff in the organizations so the beneficial effect of this activity on employee productivity is realized, recognizing its necessity in raising the competitiveness of organizations. At the same time, however, it is pointed out that in practice we are faced with many other aspects, such as standardized assessment forms required by law, performance criteria established annually by a superior body, annual or quarterly tasks packages to be met and do not account for transient labour.

Also, in public institutions, the weighting coefficients, ie the degrees of importance are set arbitrarily, and the determination of the overall rating has no scientific foundation, based on mathematical speculations. Another is linked to the assessor-assessed report and the degree to which they are able to determine evaluations with high ratings of objectivity. This, moreover, as the assessor has a central person in the performance evaluation process, it is faced with many professional activities or components. It is essential that the assessors understand the content and performance standards, for this reason it is important that performance appraisal systems should be focused on the inclusion of evaluators in the research team that designs them to avoid any evaluation errors in order to increase the objectivity of the process.

Although management theory and practice in this area has some pros and cons related to evaluating performance, most of them however sustain the formal evaluation of performance, highlighting also, the most important objectives (Manolescu A., Puia R.S. 2008) of this activity, ie:

- Help in employee performance improvement and to determine the change of attitude and behavior to the ones promoted by the organization;
- To mobilize all employees to guide their work towards achieving results;
- To make employees be aware of the link between their performances and those of the organization;
- To promote the key attitude and behavior for each position;
- To evaluate individual and team objectives;
- To recognize and reward individual and team performance;

- To make a support for an efficient communication ;
- To be a starting point in professional career development of all employees , helping them to identify the development needs, individual objectives and the action plan in order to reach these objectives in the future .

Performance evaluation is a justified managerial activity , always current and highly important, with multiple individual and organizational implications.

The evaluation, because of the scale and complexity of its implications, is experiencing a steady expansion in today’s organizations. In fact by some specialists opinion, the number one problem of the organization’s management is the evaluation of human resources .(Nicolescu,I., Verboncu,I.,2007)

So professional performance evaluation should be an ongoing activity of assessment, monitoring, advice and guidance to employees.

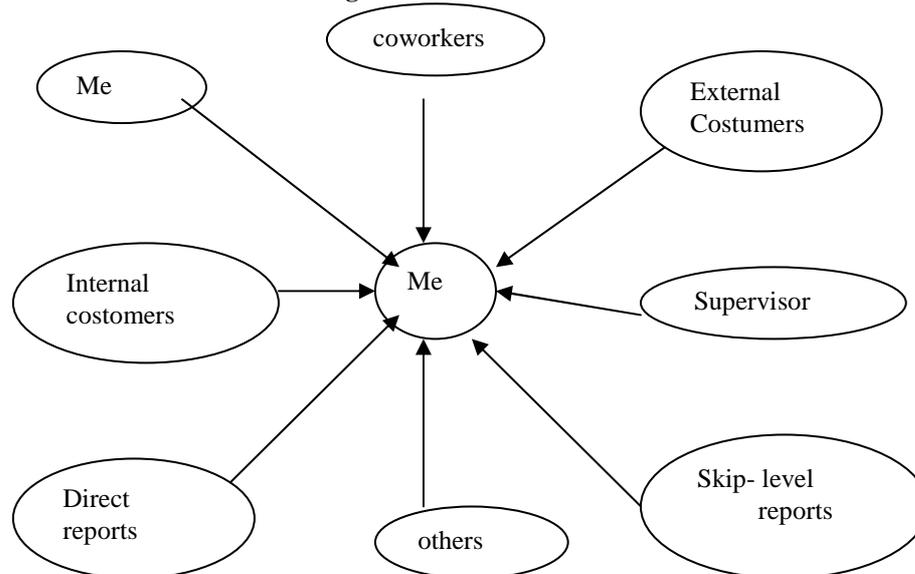
**2. Employee Performance Evaluation through 360<sup>0</sup> Feedback method**

The 360<sup>0</sup> evaluation , known in literature as 360<sup>0</sup> Feedback or multi-rater feedback , is a concept that is beginning to be used more and more, because of its high objectivity degree that ii gives in employee performance evaluation in a company. This performance evaluation system requires the acquisition of various ratings, from a large number of evaluators, both inside the company and externally, by persons involved in the organization who have interests directly related to the company.

In the 360<sup>0</sup> evaluation, feedback comes from a system that consists of subordinate assessors, persons rated the same job with the employer or the same hierarchical level, line managers and supervisors, as well as prospective customers or suppliers. 360<sup>0</sup> Feedback gives an overview on employee job performance, but also the employee’s ability to relate with others, communicate effectively.

The 360<sup>0</sup> Feedback model could be expressed with the following figure:

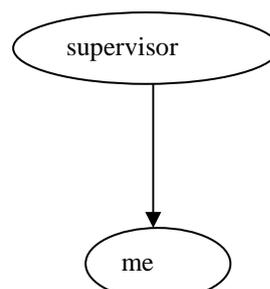
**Figure 1: 360<sup>0</sup> Feedback**



Source: (Edwards, Ewen,1996)

The 360<sup>0</sup> Feedback model differs substantially from traditional evaluation based on a single comprehensive source of supervisor, as shown:

**Figure 2. Traditional Feedback**



Source: Edwards, Ewen,1996

In the case of the traditional evaluation, usually made once a year by the supervisor, the purpose is to give employees data about the evaluation of their work and in the same time to give information to managers regarding the payment and promotion decisions.(Ilieş I., Crişan,E., 2009).

In the case of 360<sup>0</sup> feedback we can speak about a complete evaluation circle, where a person receives feedback from other persons that work around him, ie colleagues, subordinates, supervisors, clients and even from himself. Also in this model a person receives feedback from people who are on a variety of levels within the organization. In this model the emphasis is put on feedback, rather than evaluations that transfer the evaluation process outside the organization, which leads to implications on the persons career and future.

360<sup>0</sup> Feedback was defined by Ward (Ward,P.,1997) as „a systematic data collection in connection with a persons performances or of a group of persons, derived from the feedback obtained from some stakeholders of the organization ”.

Feedback can be initiated by the members of a team or department or together with a team leader.The first phase can also take the form of a 180<sup>0</sup> assessment, when it is offered by the manager’s direct subordinates.

The 360<sup>0</sup> Feedback process involves a standardized questionnaire that includes more dimensions of the performance of an individual job. Usually this form is sent to supervisors, colleagues and others, thereby making the feedback circle complete. There is also a questionnaire that each completes according to their perceptions. After the questionnaires were filled and sent, they are analyzed and summarized by the company that developed the feedback. A confidential report is sent to the involved person.

A series of questions are placed,ie: How do people see themselves compared to others ? Are their colleagues more criticising than the supervisors? How are people seen from the perspective options of work?

The great advantage from this 360<sup>0</sup> feedback is that it can be used as a tool for employee career development more than as an assessment tool. It is remarkable that a person feels comfortable when their future or career is „on line” as a result of the feedback that it receives.

This 360<sup>0</sup> feedback should be presented in a confidential manner and the information to be shown only if this person wants to use it for their future development. The most common 360<sup>0</sup> feedback serves as a supplement to the evaluation process and not as a substitute.

360<sup>0</sup> feedback provides extended and diverse benefits both for stakeholders and for the company itself.Thus, from the customers perspective, 360<sup>0</sup> feedback provides an opportunity to strengthen customer-vendor relationship and capture relevant and motivational information from internal and external customers, which makes them represent an important voice in the assessment process. In terms of team members, 360<sup>0</sup> feedback, is the only option to identify the effectiveness of the team and its members. In the absence of feedback from multiple sources, the team members don’t have the necessary information needed for their effective individual development.

The evaluation result may be presented directly to the assessed persons or managers, or both at the same time. Counseling persons after obtaining evaluation results can be achieved by a member of the human resources department or even an external consultant.

We can not say that there are no disadvantages in the use of 360<sup>0</sup> feedback method. It depends very much on how to apply this method. The fact is that 360<sup>0</sup> feedback is highly sensitive to the cultural connotations and that depends heavily on organizational culture, of how to implement this method and how to use the results.

### **3.Development and implement of 360<sup>0</sup> Feedback**

To develop and implement the 360<sup>0</sup> assessment we should follow a methodology and a series of steps (Manolescu, A., Puia,R.,Ş.,2008):

1.Objectives and performance evaluation definition – it is important to note at the outset the objectives pursued by this method. It is also necessary for evaluators to pull out from the outset that it is a method aimed at identifying the development needs of employees, and people do not necessarily promote or provide financial benefits.

2. Identification of assessed persons and the ones that will receive the evaluation results.

3. Election of the areas of work or conduct on which the evaluation focuses – that information can be directly related to a competency model or take the form of a list that will cover the main areas of development pursued. It should be pointed out that in this step the organizational culture, values and types of work should be taken into account.

4. Determination of participants in the evaluation – the person's line manager, working team's members, other colleagues from other departments, external persons such as suppliers or customers, depending on each position. Also in this step must be decided if the human resources personell or even a series of external consultants will help the managers in obtaining and using the feedback;

5. Choosing data collection methods – most often used are questionnaires, especially online, very easy to use and can achieve a synthesis of the information received from evaluators. They can be made internally by experts from the human resources department or can be co-opted external consultants with experience in producing such a performance evaluation forms.

6. The plan and implement of the initial training program – it is recommended that the program should be piloted by senior management of the company or of a department. The base scheme must give solid information to the persons involved, related to the 360<sup>0</sup> assessment, how will it work and the role that each participant will have in the evaluation. The objective is to highlight the benefits resulting from feedback.

7. Analysis and implementation of pilot scheme changes when appropriate.

8. Planning and implementing the program in final form – it must include goals, communication system, training and support by the human resources team and, when possible, the opportunity to consult an external expert.

9. Monitoring and evaluation – assessment of 360<sup>0</sup> is a process that can cause anxiety and stress for employees and therefore must be monitored continuously to have positive results and provide relevant information.

360<sup>0</sup> feedback method can be successfully implemented in open organizations, with a modern and flexible managerial system, where communication and information flows are well organized, as these companies not only allow direct examination of the individual, separately analyzed, but also of the interactions between employees, between stations on the same hierarchical level or on different ones. Also, this method allows identifying how employees interact with people outside the organization, such as suppliers and customers. Information received from customers are interrelated with the internal results and conclusions can be drawn as relevant and objective information about employee job performance. Vision in this method is much larger than for standardized performance evaluation forms. On the other hand, 360<sup>0</sup> feedback may be successful if there is trust and high ethical standards within the organization and especially between the firm's human resources.

360<sup>0</sup> feedback is not an evaluation method that complies with any type of objective pursued by performance management, being directed specifically to identifying the training and development needs of an organization's employees. It is not a tool that will successfully lead to higher payment because of performance or promotions, but it is an instrument of individual and institutional development. The method's main advantage is identifying the training and development needs of the organization's employees. This is why experts in the field advise also using other methods of performance evaluation in addition to 360<sup>0</sup> feedback, in order to establish fair rewarding systems and to achieve organizational career plans. 360<sup>0</sup> feedback can be considered as a part of the development of leadership in the organizations (Swanson, R., Holton, E., 2009)

In order to obtain relevant information through 360<sup>0</sup> feedback, there are a number of factors that the organization must take into account (Hunt, N., 2005):

- To provide a direct involvement of the personnel in order to achieve the evaluation system;
- To propose a relatively easy to learn and use system;
- To provide to all staff the opportunity to learn the ways of evaluation;
- To implement a direct communication system with the employees involved in the evaluation;
- To conduct an initial assessment test and to provide feedback from it;
- To ensure information confidentiality;
- To monitor the conduct of the evaluation process.

#### **4. Case Study - 360<sup>0</sup> Feedback method under simulated enterprises, established within the „Constantin Brancusi” University**

The simulated organization is a modern educational method, whose aim is to develop student's business skills by simulating the internal processes taking place in a real business and relationships with other firms and institutions. The simulated organization is designed to teach and develop economic and legal knowledge, skills and competences that can be applied in all economic areas, from elementary functions, up to leadership positions within the company.

Training in the simulated enterprise provides the student skills in terms of professional conduct : „ To know what to do and know how to do”. Training in these simulated enterprises determines a practical test and a deepening of already acquired knowledge, being natural and necessary to continue basic training. In the simulated enterprise it is acquired the synergy of the interdisciplinarity of the contents of various courses and seminars : microeconomics, accounting, management, marketing, finance, foreign languages, law etc.

The „simulated enterprise” is a model of a real company, being a practical approach method of contents, wich is characterized by two defining aspects :

- **Virtual** : no money and no goods;
- **Real** : commercial practice, the flow of information, documents and the flow of documents.

At the „Constantin Bracusi” University, at the Faculty of Economics and Business Administration the process of creating and organizing a simulated business has started since 2008. As can be seen from the site [www.roct.ro](http://www.roct.ro), in the faculty started the following simulated enterprises: Î.S. UCB Consulting, SRL, CUI2210003, that has Business and other management consultancy activities; Î.S. Indira Fasfion SA, Wholesale of textiles and Î.S. SYGMASTYLE SRL, CUI2110781, specialized design.

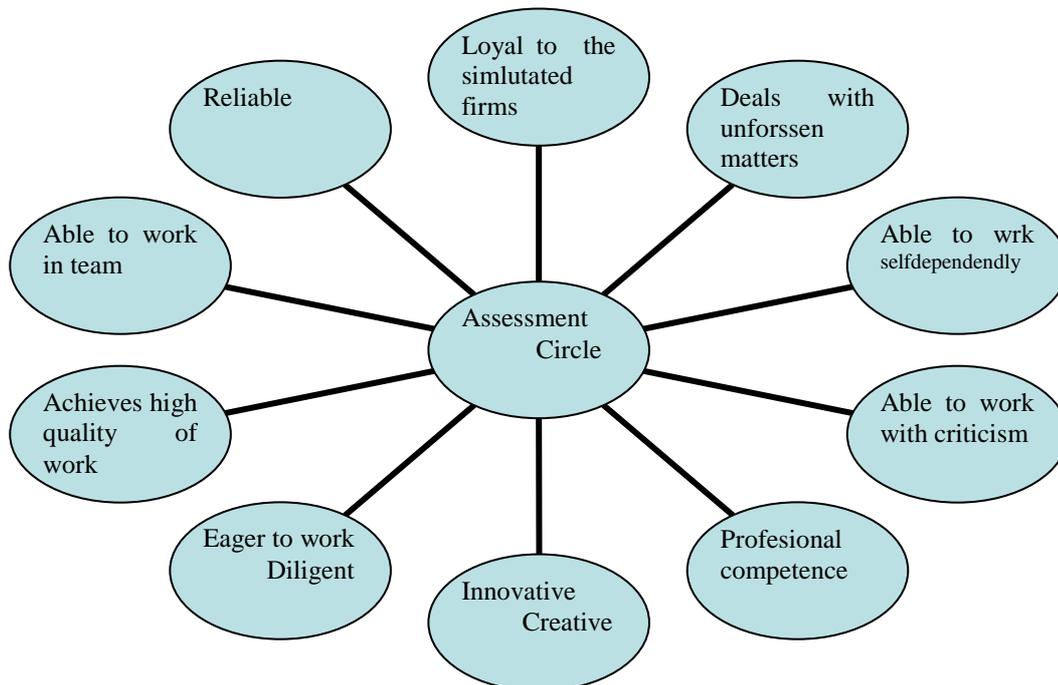
The simulated enterprises, that function as real enterprises, are made from directors that take strategic decisions, departament managers, supervisors and employees of the departments, all of them representing students that organzied and simulated their own business.

An important activity in the simulated enterprises is the student evaluation process, as employees of these simulated enterprises through the 360<sup>0</sup> feedback method under Assessment Circle.

Based on the 360<sup>0</sup> feedback concept, the Assessment Circle is used in the student evaluation process in the simulated enterprises, in that they evaluate themselves, but are evaluated also by colleagues, professors and other stakeholders in this process .

This method can be introduced at differnt stages of the activity in the simulated enterprises to illustrate the learning process and progress. In addition this tool enables students to realize how their perception of the work done compared to how they are perceived by other people.

**Figure 3. Assessment Circle in simulated enterprises**



Another form of the 360<sup>0</sup> feedback process involves the application of questionnaires to the students working in the simulated company UCB COSNULTING. There were 30 interviewed students. Each participant performad a self-assessment and at the same time each student was assessed directly by the two coordinators and teachers and by their colleagues. The most important objective of the process was to build a coherent view, a 360<sup>0</sup> view of each student’s competences.

The main questions in the questionnaires were structured as following:

1. Workload – The student solved few of the tasks given/few tasks solved; The number of solved tasks was acceptable; The student solves most of the tasks; The student solves all tasks given.

2. Quality of Work – The student never solves the tasks accurately; The student rarely does the tasks ; Most of the time performs his work with precision;The student almost allways does the tasks accurately; The student allways does the tasks accrately.

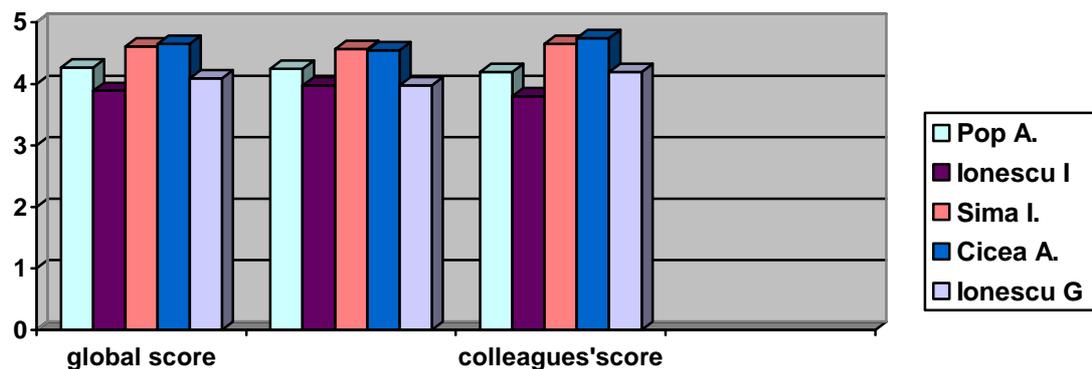
3. Timeliness – The student never completes the tasks in time; The student rarely completes the tasks in time;The student mostly completes the tasks in time ; The student allways completes the tasks in time.

4. Knowledge at work – The student has the knowledge to perform work; The student has poor knowledge to perform work; The student has acceptable knowledge to perform work; The student has good knowledge to perform work; The student has excellent knowledge to perform work.

5. Teamwork – The student barely does teamwork; The student does acceptable teamwork; The student does good teamwork; The student does very good teamwork.

After processing the data , in the following graphic, we can observe the way the students were evaluated by their teachers and colleagues as subordinates , as well as the overall score.

Figure 4. Evaluation score



This method provides students with information on the work that they carried out in the simulated companies, taking into account the workload, quality of work, timeliness, knowledge at work and teamwork. The reasearch can be extended through the analysis of other abilities that refer to simulating phenomenas and economic processes with important implications on the future career of students. Also the 360<sup>0</sup> feedback evaluation process can be completed with other methods, namely: portfolio, e-portfolio learning diary and evaluation interview based on management by objectives. (Stock M., Reinbenbauer R. 2010)

## 5. Conclusions

360<sup>0</sup> feedback is one of the most modern and relevant method employee performance appraisal and development in a company that could be successfully implemented in any organization. This method has some special advantages, for wich a large number of companies around the world are trying to implement such a rating system. Firstly, it gives to the people involved in the evaluation process a larger vision of how they are perceived within the organization. Another advantage is tied to specific identification of staff skills and competencies and its shortcomings. On the other hand, it helps senior management to realize their own needs for training and development, and also the present performances.

The method leads to the acceptance of multiple stakeholders as a means of obtaining real and concrete performance in an organization. 360<sup>0</sup> feedback encourages open feedback, affirmation of professional development needs and finds the critical points of a job. It also allows the identification of individual development needs, in different departments or even at organizational levels. This method puts into discussion the organization's key strenghts and competitive advantages previously unidentified.

One of the biggest advantages in the organization refers to the introduction of a system of training and professional development based on trust and organizational culture.

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## SOCIAL RESPONSIBILITY AND ETHICAL BEHAVIOR: STUDY ON COMPANIES WITH SOCIAL POWER

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**Abstract:** *The paper aims to analyze the issue of ethical, socially responsible companies that have a social power. In the case of small firms that don't have a major impact on the business environment, any responsibility activity chosen to be assumed brings a competitive advantage or shape their ethical behavior, companies with social power from the sector of production of carbonated soft drinks and those of fast-food industry don't have 100% ethical behavior. Differences between statements and facts are significant.*

**Key words:** corporate social responsibility, ethics, companies with social power.

**JEL classification:** M14

### 1. Introduction

While it has been debated since the 1930s whether or not corporations have certain responsibilities for society's wellbeing (Cochran 2007; Okoye 2009), the concept of corporate social responsibility (CSR) evolved in the 1950s incorporating concepts such as moral and ethical behaviors, respect for all stakeholders, and contribution to societal well-being (Tepelus 2008; Beloe, Elkington, and Thorpe 2006; Birch and Jonker 2006; Carroll 1999; Halal 1986; Bowen 1953).

Many definitions of CSR exist, and commonly denote companies' activities, policies and programs that contribute to the society's economic, social and environmental good, beyond interests to the company, its shareholders, and legal requirements (Carroll 1999; Engardio 2007; Holmes and Watts 2000; McWilliams and Siegel 2001; Tsoutsoura 2004).

The World Business Council for Sustainable Development also defines CSR as "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" (<http://www.wbcsd.org>).

This definition highlights primarily the ethical side of firms. Obviously, the concept of CSR can be understood only in relation to business ethics. Lewis (1985) claims that business ethics is: "a set of principles or arguments which should govern the conduct of business, individually or collectively". In the "synthetic" view of Roger Crisp, an acclaimed philosopher at Oxford, in the more commonly used acceptation, business ethics is a field of philosophical inquiry, having its own problems and topics, experts, publications, research centers and, of course, a variety of currents or schools of thought. In this regard, Crisp (1998) suggests that "business ethics refers to the philosophical endeavors of human beings to see the principles which constitute business ethics in this sense, usually with the idea that they should become "ethic" of business and businessmen".

However we feel that there is a difference between idealism of ethical behavior of companies, through statements and on the other hand, facts and concrete actions. The idea is supported by De George, one of the most prominent in this field, which defines business ethics as "ethics perspective, either as a default behavior, either stated explicitly, by a company or individual doing business" (De George, 1990). Therefore, the behavior and statements may, of course, disagree, so about a corporation is sometimes said that although displays an ethical *credo* in community service, the "damage" it creates shows which is actually company philosophy.

A wide range of activities can be linked to CSR giving rise to the more general term *corporate responsibility* to include issues other than social ones. This inclusive concept is demonstrated in the results of a study of CSR activity by the Center for Corporate Citizenship at Boston College (2007), which reported the most important CSR activities as: operating with ethical business practices (87%), valuing employees and

treating them well (81%), managing and reporting company finances accurately (76%), marketing and advertising products and services responsibly (68%), and maximizing long-run profits for owners (61%).

Some studies have found that the firm’s size and location relate to its CSR activities. Multinational companies tend to pioneer the CSR concept and small and medium enterprises (SMEs, firms with less than 250 employees) tend to follow their leadership (Perrini, Pogutz, and Tencati 2006). This may be because multinational companies must deal with complex local and global issues that cannot be solved solely at the governmental level requiring them to step in and act, particularly in developing countries (Marsden 2006; Van der Putten 2005).

UN, EU and the OECD are involved in developing a CSR framework to define and establish indicators to be assessed in a transparent manner. Their definitions of CSR highlight a common concern for human rights as they were stipulated in the Universal Declaration of Human Rights (1948): the right to be correctly informed, honest about products and services offered by a company or another, to decide on an informed basis and be able to take risk of consuming a particular product or not.

From this perspective, large companies are the promoters of the concept of CSR and ethical behavior. They are those who have so-called "social power", power to change things, to make others to follow their exemplary behavior, in terms of ethics. There is indeed ethical behavior of big companies or we can speak only about ethics of small firms, is a question that we want to find an answer.

**2. Multinational companies and social power**

Our study on ethical behavior and thus on the social responsibility, focuses on multinational companies in the food&beverage and fast-food industry. Among the most important and representative companies in these sectors include: Coca-Cola Company and PepsiCo - are representative for the beverage sector (the second one for food also) and McDonald’s Corporation and Burger King Corporation - Fast-food industry, companies that are market leaders in markets where they operate. Even though our study covers only the four companies competing to their specific markets, findings can be extended to other companies belonging to these two sectors and which have social power.

The social power of a company can be seen as the ability to impose, to influence - through behavior and products offered to society - the behavior of others, both competitors and consumers. Multinational companies have a great social power at least for the following reasons:

1. Products sold worldwide imply a market involving hundreds of millions or even billions of consumers annually;
2. The products of these companies are products of first necessity, aspect that weakens the power of consumer in front of companies;
3. These companies have hundreds of thousands of employees worldwide;
4. Their position of leaders on specific markets determines competitors to adopt an imitative behavior and thus influence the entire market.

These things actually demonstrate the major involvement of multinationals in social life. For companies analyzed, the figures are as follows:

**Table 1: Sources of social power of the companies analyzed**

<b>Company Indicator</b>	<b>Coca-Cola Company</b>	<b>PepsiCo</b>	<b>McDonald’s Corporation</b>	<b>Burger King Corporation</b>
<b>Sales (USD) -2009-</b>	net operating revenues 30,990 billions	60 billion	Net income 4.551 millions 60 million people in each day	200 millions
<b>Expansion</b>	200 countries	200 countries	32.000 local restaurants/ 117 countries	11.700 restaurants /74 countries
<b>Number of employees</b>	92.800	285.000	385.000	360.000

Source: Social responsibility reports published on company websites

Through this social power they hold, companies strongly influence consumer behavior through the range of products offered; competing companies that are likely to emulate the leader and will adopt a similar product range. To have such obvious social power requires a higher social responsibility of these companies and ethical behavior to all those with whom they come into contact.

### 3. Social responsibilities to be assumed by these companies and their priority

Area of social responsibilities of these companies is first delimited given the scope of work and the direct impact (problems) of economic activities on all players that companies come into contact.

Regarding companies producing food and drinks and those from fast-food industry sector, we believe that the main areas of manifestation of social responsibility must be:

#### 1. Consumers health by promoting natural products with a low content of dangerous substances.

There are numerous studies that highlight the dangers posed to consumers of these products:

- Janet James, Peter Thomas, David Cavan, David Kerr (2004) reach the following conclusion: A targeted, school based education programs produced a modest reduction in the number of carbonated drinks consumed, which was associated with the reduction in the number of overweight and obese children;
- Elvira Isganaitis and Robert H. Lustig (2005) argue that rates of rates of obesity and insulin resistance have climbed sharply over the past 30 years. These epidemics are temporally related to a dramatic rise in consumption of fast food; until recently, it was not known whether the fast food was driving the obesity, or vice versa. We review the unique properties of fast food that make it the ideal obesigenic foodstuff, and elucidate the mechanisms by which fast food intake contributes to obesity, emphasizing its effects on energy metabolism and on the central regulation of appetite. Finally, we analyze the characteristics of fast food, including high-energy density, high fat, high fructose, low fiber, and low dairy intake, which favor the development of CNS insulin resistance and obesity;
- Mark A. Pereira and colleagues (2005) conducted a study over a period of 15 years and reached this conclusion: Fast-food consumption has strong positive associations with weight gain and insulin resistance, suggesting that fast food increases the risk of obesity and type 2 diabetes;
- In Eric Schlosser's book (2001) we find some criticism of McDonald's business policy. Among them are allegations that McDonald's (along with other companies in the fast-food industry) uses its political influence to increase profits on the expense of health and taking advantage of social condition of workers.

These are just some of hundreds of articles showing the health hazards to consumers due to chemical compositions like cola drinks (water, sugar, E290 - carbon dioxide, phosphoric acid, natural flavors, caffeine, aspartame and others) and especially dynamic composition between the products of these drinks constitute an enemy of human health. Among the diseases that such drinks are consumed in excess it can cause includes diabetes, tooth decay, obesity, osteoporosis, decreased immunity, cancer (especially colon cancer), allergies, multiple sclerosis, heart disease, gastritis, colitis, fermentation, female menstrual cycle disorders, rheumatism, anemia, fatigue, sinusitis, rhinitis, and frequent consumption of sugar in children leads to poor growth, fragile bones, premature puberty, behavioral problems (loss of will, prone to violence, falls ability to concentrate, etc.), gastrointestinal disorders, kidney stones, bone decalcification, heart disease and nervous system.

#### 2. Environment protection by:

- Use of recyclable packaging, biodegradable, which have a minimal impact on the environment;
- Concern to obtain quality raw materials using agricultural technologies considered to be consistent with sustainable development;
- Use of renewable energy in the manufacturing process;
- Use means of transport (for distribution) that do not pollute.

#### 3. Responsibilities to employees, partners, associates.

#### 4. Responsibilities to the community.

### 4. Social responsibilities assumed by companies in their statements

First we will present the philosophy, the belief of these companies regarding the issue of ethical behavior and assuming social responsibility as they are presented in reports of responsibility of these companies.

First, the reports of corporate social responsibility show that they assume and acknowledge the **social power they hold**, with statements such as:

- The Coca-Cola Company: *"Every day, the actions taken by our Company and our bottling partners touch billions of lives. Whether we are purchasing ingredients from our suppliers, creating our beverages, serving customers and consumers, or supporting the communities where we operate, we strive to be a force for lasting, positive change"*;

- PepsiCo Corporation: *"At PepsiCo, "Performance with Purpose" means delivering sustainable growth by investing in a healthier future for people and our planet. As a global food and beverage company..."*
- McDonald's Corporation: *"As in the past, we are primarily reporting on our nine largest markets in terms of number of restaurants – United States, Canada, United Kingdom, France, Germany, China, Japan, Australia and Brazil. Our goal is to address issues of concern openly and in a clear and comprehensive manner."*
- Burger King Corporation: *"We also acknowledge that many of our corporate responsibility initiatives are initiated in the U.S. with the expectation that they will migrate globally as the business grows. Other regions will benefit from the learning and experience from the U.S. as well as continue to make progress with their own initiatives", which recognize their limited involvement globally, which is closely related to expansion of the company that currently, they argue, does not require a greater involvement in other 73 countries that have opened restaurants, although consumers' "... to delivering fresh and delicious meals to our guests around the world is held to the highest of standards"*.

By these statements the majority (3 of 4 companies) recognize and assume social power they hold, except for Burger King Corporation that despite the fact that have more than 11.700 restaurants in 74 countries (including the U.S. which is the most important) believes that the business is not so large as to be forced to engage in global social. If social power is clearly recognized companies need to be involved to develop socially sustainable business.

The main areas of involvement of companies can be grouped into four broad categories: responsibilities to customers, environmental responsibility, responsibilities to employees and responsibilities to the community.

**Health and safety of consumers** appears to be central to social responsibility activities, through statements like:

- The Coca-Cola Company: *"Ensuring the safety and quality of our products has always been at the core of our business and is directly linked to the success of our Company. Our safety and quality programs and protocols focus on the ingredients and materials we use to create and package our products" respective "Quality assurance is a top priority across the Coca-Cola system. Consumers trust that every time they open one of our products it is safe to drink and of the highest quality"*.
- PepsiCo Corporation: *"TO THE PEOPLE OF THE WORLD: It's a promise to encourage people to live healthier by offering a portfolio of both enjoyable and wholesome foods and beverages."*
- McDonald's Corporation: *"Safe, quality food. Affordability and convenience. A simple and enjoyable experience. Service you can count on..."*. *"We place the customer experience at the core of all we do: our customers are the reason for our existence. We demonstrate our appreciation by providing them with high-quality food and superior service, in a clean, welcoming environment, at a great value. Our goal is Quality, Service, Cleanliness & Value for each and every customer, each and every time."*
- Burger King Corporation: *"For more than 50 years, our restaurants have been serving high quality, great tasting and affordable food around the world. Our commitment to the food we serve our guests is what defines us as a company and is at the center of our HAVE IT YOUR WAY brand promise. We also take precautions to ensure that our food is safe and that the procedures we have in place for food preparation are rigorous and consistently followed. From raw materials and ingredient selection and handling, shipping and transportation, to how we serve food in our restaurants, every step on the production path to delivering fresh and delicious meals to our guests around the world is held to the highest of standards."*

From these statements the following observation can be drawn at a declarative level, companies recognize the consumer the center of social responsibility, providing safety by quality products. To win consumer confidence that products are healthy and do not represent a danger to human health, some companies take their promises to the people and highlight the tradition and decades of experience to make things "right".

Among other responsibilities assumed by these companies there are environmental aspects. On a declarative level, the philosophy of assuming these responsibilities may be surprised as follows:

- The Coca-Cola Company: *"We are increasingly focused on energy efficiency and climate protection to help reduce costs and minimize our environmental impact", "As we build our business, we remain committed to protecting the environment and reducing greenhouse gas emissions across our system, It is the face of our brands around the world, and it protects the quality of our products during delivery to*

consumers. We are actively working throughout the Coca-Cola system to create solutions by advancing a global sustainable packaging strategy aimed at preventing waste over the life of our packaging”, “Water remains a high priority for the Coca-Cola system”.

- PepsiCo Corporation: *“TO THE PLANET WE ALL SHARE: It’s a promise to be a good citizen of the world, protecting the Earth’s natural resources through innovation and more efficient use of land, energy, water and packaging in our operations” or “... find innovative ways to reduce the use of energy, water and packaging ...”*
- McDonald’s Corporation: *“We’ve long recognized the value of minimizing our environmental footprint. It’s not only good for the world in which we operate; it’s a strong contributor to our long-term financial success.”*
- Burger King Corporation: *“At Burger King Holdings, Inc., we share the concerns of our neighbors and employees about the future of our planet and the need to protect and conserve precious resources. The heightened global debate regarding the role of business in sustainability has highlighted many of the challenges and expectations among all businesses, including the quick-service restaurant industry. In our industry, specifically, our most notable challenges are in the areas of energy, waste, water consumption and emissions.”*

It is noted that the main priorities of the company's environmental concerns: energy efficiency and climate protection, protecting the environment and reducing greenhouse gas emissions or conserve resources, like water. These issues are taken very seriously into account by all the companies analyzed.

Also, all companies are taking responsibilities to employees and associates.

- The Coca-Cola Company: *“Our associates play a vital role in the success of our business, and we strive to be a great place to work for all our associates globally. We do so by fostering safe, open, inclusive and healthy work environments for our associates, where they are treated fairly, with dignity and with respect.”*
- PepsiCo Corporation: *“TO THE ASSOCIATES OF PEPSICO: It’s a promise to invest in our associates to help them succeed and develop the skills needed to drive the company’s growth, while creating employment opportunities in the communities we serve.”*
- McDonald’s Corporation: *“We are committed to our people: We provide opportunity, nurture talent, develop leaders and reward achievement. We believe that a team of well-trained individuals with diverse backgrounds and experiences, working together in an environment that fosters respect and drives high levels of engagement, is essential to our continued success.”, “We believe in the McDonald’s System: McDonald’s business model, depicted by the “three-legged stool” of owner/operators, suppliers and company employees, is our foundation, and the balance of interests among the three groups is key.”*
- Burger King Corporation: *“At Burger King Holdings, Inc., we are dedicated to supporting and investing in our people – employees, franchisees, suppliers and restaurant guests – because they are the cornerstone of our business.”*

Corporate concern for employees, business partners and associates is obvious, because the direct economic implications they have on economic activity of companies.

A final category of concerns relate to community care.

- The Coca-Cola Company: *“Our vision of sustainable communities includes stable, growing economies; access to water and energy; strong education systems; arts and culture; and opportunities for recreation and physical activity. Our Company and our global philanthropic arm, The Coca-Cola Foundation work with our bottling partners, local organizations, governments and NGOs to support projects most relevant to community needs. We are committed to giving back at least 1 percent of our operating income each year to help develop and sustain communities around the world.”*
- PepsiCo Corporation: *“Every day, PepsiCo earns its social license to operate in the thousands of communities we serve. In each community, we have a commitment to support economic development, to improve our environmental footprint, and to help work toward solutions to issues such as obesity and undernourishment. We’re committed to making positive contributions to the communities we serve.”*
- McDonald’s Corporation: *“We give back to our communities: We take seriously the responsibilities that come with being a leader. We help our customers build better communities, support Ronald McDonald House Charities, and leverage our size, scope and resources to help make the world a better place.”*

- Burger King Corporation: *“Our strategy is to support the local, national and global causes that are important to Burger King employees, franchisees, vendors and guests around the world via three main initiatives: Burger King Scholars Program (the scholarship program was designed to share our passion for education in the community), BK Family Fund (was established to offer support to members of the Burger King family in times of need), HAVE IT YOUR WAY Foundation Grants (provides financial support to charitable organizations whose programs help make a difference in our local, national, and global communities)”*.

Involvement in community activities in which they operate is a favorite target of corporate social responsibility activities of companies analyzed. All companies considered tend to give back some of their profit because local communities will come from here or from customers, partners, employees, these investments based on purely economic grounds standing. On the other hand, through foundations established by companies are financed various projects of the local community.

Based on analysis of social responsibility reports published by the four companies, we can make a hierarchy of priorities for each company on the 4 major areas of involvement that we have identified.

**Table 2: Areas of involvement and prioritization for companies in the food and beverage & fast-food industry**

Areas of involvement	Our order of priorities	Companies order of priorities (at declarative level)			
		The Coca- Cola Company	PepsiCo Corporation*	McDonald’s Corporation	Burger King Corporation
Corporate responsibilities to consumers	1	1	1	1	1
Environment responsibilities	2	3	2	2	3
Corporate responsibilities to employees, associates	3	4	3	3	2
Corporate responsibilities to community	4	2	4	4	4

\* in the case of PepsiCo Corporation, assumed prime responsibility is to investors: *“TO ALL OF OUR INVESTORS: It’s a promise to strive to deliver superior, sustainable financial performance.”* This "responsibility" does not match the first priority of a social responsibility report, as it is actually economic obligation of the company to investors, it's very essence.

It is noted that, although there are slight differences of approach in philosophy, generally companies give the same importance to consumer. Differences appear as regards assuming responsibilities for employees and environment (priorities 2 and 3), and involvement in community issues seems to be the last priority, except for The Coca-Cola Company that pass these problems on the second place. The explanation is the fact that the community is seen as the main beneficiary of the company's products, but also the main supplier.

**5. Concordance of the concerns undertaken in statements and actions actually undertaken**

At a declarative level (in statements) companies analyzed are essentially aware of the social power they have and therefore seem to assume social responsibilities, the level of concrete actions, expenditure is as follows:

**The Coca-Cola Company:** Support local activities-26 million USD, Education-23 million USD, In-Kind Contributions-13 million USD, environmental actions-12 million USD, ActiveHealthyLiving-7 million USD, Disaster Relief-6 million USD, HIV/AIDS-1 million USD. Priorities and arguments for achieving the company's responsibilities are:

- Responsibilities to consumers refer to promote a healthy lifestyle (campaign “THINK, DRINK, MOVE”) but also to promote the widest possible range of products for consumers.
- Regarding " Advancing Energy Efficiency and Climate Protection" the company says: *“We are increasingly focused on energy efficiency and climate protection to help reduce costs and minimize our environmental impact. Due to the size and scale of our global system—more than 900 bottling plants, a fleet of approximately 200,000 delivery vehicles and more than 10 million vending machines and coolers—our efforts to improve energy efficiency and decrease carbon emissions can have far-reaching impacts”* and the examples could continue.
- *“Creating sustainable Packaging”* is another problem. *“With approximately 85 percent of our volume delivered in recyclable bottles and cans, we focus on those packages by creating more value with less material, using more recycled and renewable materials, and increasing community recycling. In 2009, we introduced our breakthrough PlantBottle PET package—the only recyclable bottle made partially*

from plant-based materials that can meet our stringent beverage quality requirements. PlantBottle packaging uses sugar-based ethanol to produce the same PET plastic used today, but with a smaller carbon footprint;

- ⊕ "Improving Our Water Use and Efficiency" is an issue addressed by Coca-Cola Company. "In 2009, the Coca-Cola system achieved its seventh consecutive year of improved water use efficiency. Across the system, 309 billion liters of water were used to manufacture 130 billion liters of product, with water use ratio of 2.36 liters per liter of product produced - a 13 percent reduction since 2004".

- ⊕ "Ensuring Workplace and Human Rights" can be demonstrated by the following example: "In 2009, we continued to implement our Workplace Rights Policy in our Company-owned facilities, achieving a 90% compliance rate, versus 67% in 2008."

**PepsiCo Corporation** orders its priorities and argues its actions as:

- ⊕ Responsibilities to the Consumer: "We will continue making our core snacks and beverages healthier through innovations in heart-healthy oils, sodium reduction and natural sweeteners, and through the addition of whole grains, fruits and vegetables, nuts, and low-fat dairy" ("healthy" oil-22 million pounds in UK). Also listed company concerns to reduce the calories (only for some products) and fair and honest consumer information about product content.

- ⊕ Responsibilities to the community and philanthropy: "PepsiCo Foundation also made a \$5 million commitment to Save the Children for a three-year program to help ensure the survival and well-being of children living in rural India and Bangladesh. A three-year, \$2.2 million commitment was made to the United Nation's World Food Programme" or 2,5 million USD used for Healthy Weight Commitment Foundation (2009-2011).

- ⊕ Environmental responsibility: "Frito-Lay has eliminated 150 square miles of packaging by reducing materials by 10 percent", "73,000 liters of fuel 105,000 kWh of electricity 2 million liters of water have been saved at a Gatorade manufacturing facility in Guadalajara, Mexico through a heat recovery project."

- ⊕ Responsibilities to employees, business partners: "In 2009, the Sabritas/FUNDAR partnership positively impacted the lives of farmers and provided 57,850 hours of education and training on good agricultural practices". Examples in this area can continue.

**McDonald's Corporation** orders its priorities as follows:

- ⊕ Sustainable supply chain: "In 2008, more than 98% of our fish was sourced from fisheries with favorable sustainability ratings. 97% of the 500 approved abattoirs in our supply chain were audited for animal welfare in 2008, and 99% of those passed their audits. McDonald's suppliers of beef, poultry, pork, potato, and bakery products in our nine largest markets will be using the Environmental Scorecard by the end of 2009".

- ⊕ Nutrition & well-being is the second priority of the social responsibility report. Some areas of involvement are enumerated:

- Giving customers what they want - Choice and regional variety at the right price: "McDonald's has continued to develop new menu offerings to meet the needs of our diverse markets around the world. For example, McDonald's India has a menu with vegetarian selections to suit local tastes. No beef or pork items are offered, but there are chicken and fish choices" and other actions like this in Israel, France, U.S., UK and Germany.

- Listening and responding to consumers - reducing and eliminating trans fats: "In response to customer requests, and as part of our ongoing dedication to offering quality products and balanced choices, McDonald's restaurants in several markets have effectively eliminated - or substantially reduced - the trans fatty acids (TFAs) in our cooking oils". Are presented examples of USA, Australia and Europe, but without evidence.

- Consumers nutrition information: "Consumers want nutrition information, and we're happy to provide it: The resulting format enables customers to grasp, at a glance, how our food can fit into a balanced diet. For example: The format focuses on the five elements experts agree are most relevant to consumer understanding of nutrition - calories, protein, fat, carbohydrates and sodium/salt. For each of these elements, the percentage of the daily recommended intake the product provides is indicated."

- Communication with consumers: "Committed to communicating in a clear and responsible manner" say company representatives. In this section are given many examples around the world (Europe, USA, Australia, Brazil, Canada) about how the company meet legal obligations and even comes with a step ahead of them using, in ads for products intended for children's fruit, vegetables, juices and milk.

- ⊕ Environmental responsibility the third presented in the report. The main actions concern:

- Reducing the quantities of packaging used *“In 1990, we formally established our Global Environmental Commitment and forged a groundbreaking alliance with the Environmental Defense Fund. During the 1990s alone, we eliminated 300 million pounds of product packaging by redesigning and reducing materials.”*
- Energy Efficiency: *“McDonald’s Europe has completed a carbon footprint of the business along the entire value chain. This significant effort incorporated data from across our 39 markets in Europe, as well as data from suppliers of food, beverage, packaging and operating supply chains to cover more than 80% of supply into the System based on spend”* and many examples from around the world about the use of new energy-saving technologies in restaurants.
- Regarding sustainable packaging and waste: There are many examples of waste recycling (Corrugated cardboard and cooking oil), converting used cooking oil to biodiesel etc. or very many examples of carbon reduction.
- Regarding "Greener confines" restaurants are examples of "green", open all over the world.
- ⊕ Employment responsibility –with numerous examples in the following sub-fields:
  - *“McDonald’s is committed to its people”*. In this section, the report presents different employment laws that company must face, and that it complies with all fundamental human rights; *“Embrace, empower...excel”*: presents numerous training programs dedicated to employees; *“At the front counter – Engaged and committed employees”*: company's concern for "Family and Friends", "Flexibility" and "Future" as well as competitions between employees worldwide with substantial prizes; *“Foundations for success”*: *“... continuous investments at our own learning academy, Hamburger University, to the creation of accelerated development programs and the McDonald’s Leadership Institute.”*
- ⊕ Community. This section highlighted the amounts donated by the company for various humanitarian causes, among which the following areas of involvement:
  - "Healing and Hope for Kids" project that the Foundation Ronald McDonald House Charities has raised 25 million dollars;"Global reach, global impact: supporting the Olympic Games, contests, athletic world, World Cup;" McDonald's Employees give back ": examples of employees at all hierarchical levels, which donates money for charity; "Providing a Helping Hand in the Face of Disaster" are the company's efforts to help earthquake victims in China.

**Burger King Corporation** presents its social responsibility action as follows:

- ⊕ Responsibilities to consumers are limited to: providing information to consumers about the company's products adapt to the local product mix, etc. to promote a healthy menu, all of which are presented in statements without being supported by figures, facts, expandable campaigns over recent years.
- ⊕ Responsibilities to employees through: training, rewarding the best employees, promoting a safe working environment in statements submitted again without being substantiated by figures.
- ⊕ Environmental responsibility is linked to: saving energy, recycling, using environmentally friendly packaging, water conservation, CO<sub>2</sub> emissions or chemicals, concern for quality raw materials, environmental. Data and concrete actions are completely absent from the report of responsibility.

Based on analysis of the four companies, effectively assumed responsibilities and priorities are as follows:

**Table 3: Companies order of priorities (at declarative level) vs. effective actions taken**

Areas of involvement	The Coca-Cola Company		PepsiCo Corporation		McDonald’s Corporation		Burger King Corporation	
	1	unfulfilled	1	unfulfilled	1	unfulfilled	1	unfulfilled
Corporate responsibilities to consumers	1	unfulfilled	1	unfulfilled	1	unfulfilled	1	unfulfilled
Environment responsibilities	3	2	2	2	2	1	3	Can not be ranked because of the lack of accountability data in the report of responsibility
Corporate responsibilities to employees, associates	4	4	3	3	3	2	2	
Corporate responsibilities to community	2	1	4	1	4	3	4	
Other charities	-	3		1		3		

The way in which the data in these reports of social responsibility are presented, differs from company to company. If Coca-Cola Company has very clearly sums invested in 2009 in each of the areas of involvement, other companies are rather a kind of promise and present a strategy for 3-11 years. It is a

strategy rather than a report. Ambiguity or lack of certain chapters to support the claims figures are techniques used by companies to mask the lack of interest in those areas of involvement.

## 6. Conclusions

Responsibilities towards consumers are most important, and in statements all companies assume and give them a top priority. But if we look at concrete actions, we can observe that practically these responsibilities are not covered by the facts. What companies consider responsibilities to consumers - the provision of consumer information to substantiate the decision to buy or not those products, offering a wide range of products (depending on the local specific) or reducing unsaturated fat or calories (only for certain products) - are not included among the true responsibilities: accurate information about the negative implications caused by the consumption of these products, promoting healthy menus with organic materials, although they claim that do these things: *"We have a responsibility to provide consumers access to ingredient nutrition information for our products and so they can make informed choices for themselves and their families"* says Pepsi. It is true that in analyzed companies menus can be found some green products, healthy (fewer in number and as a percentage of sales) but right now the highest revenues are made of "problem" products.

Companies do not assume any serious problems that their product can cause, including obesity (especially to young people): *"Since many people eat different foods and beverages, no single food or beverage is responsible for being overweight or obese people"*, Coca-Cola claims. Moreover, the irony is that these companies promote consumers a "healthy lifestyle", determining them to consume their "problem" products. To convince the "benefits" of these products, some companies resort to specialist doctors: *"My patients often forget that beverages play a very important role in managing body weight. Lower- and no-calorie beverages are a good way to conveniently lower calorie intake without feeling deprived. A balanced diet, including portion control and beverage awareness, and exercise are the best ways to help you keep a healthy body and healthy weight"* says Dr. John Foreyt, Director, Behavioral Medicine Research Center, Baylor College of Medicine quoted in the Coca-Cola report of social responsibility. Same spirit is found in McDonald's case: *"There continues to be concern about obesity rates and related risks to human well-being among consumers, governments, NGOs, and health and nutrition experts. We take these issues seriously, and we are working to do what we can to positively influence the situation. We know we cannot address this problem alone, but we are committed to being part of the solution"*. The irony is even greater as, companies analyzed have solid business partnerships for selling products: Coca-Cola with McDonalds and Burger King, Pepsi with Burger King and KFC (in certain regions).

On the other human health problems caused by the consumption of such products, companies do not mention anything though as we demonstrated in this paper, reports and studies undertaken show that many diseases and malfunctions of products like fizzy drinks or fast food causes.

Companies with environmental concerns, to community or to employees are fully made, many campaigns stand out and show significant amounts invested in these three areas. The same applies to the charitable activities undertaken by their foundations.

Ethical behavior of these companies basically does not exist. Companies assume many responsibilities, investing large sums of money in areas not related to secondary or even their economic activity. The real responsibilities (to consumers) are treated only in words without a really concern for the problems they cause. Owning a significant social power, these companies behave ethically only if they abandon the products considered "problem" for consumers and this example will be followed by competition.

The dilemma of sacrificing profits in favor of ethical behavior is resolved: the profit will always win, and ethical behavior will be manifested only by statements, promises or other areas of involvement than those required by ethics.

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## THE POWER OF WORDS IN BUSINESS LIFE

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**Abstract:** *Communication and language are tools for business people to use in order to motivate people. Words become potent and they can move the action forward or backward. Their meaning can be the action they produce and they must give clear and direct messages, they should raise interest, not be confused, they must make sense, express ideas clearly. They get a power in business and the result must be the desired one because businesspeople must stay ahead of the action, they must use time and energy, must work through an intricate maze of how others filter, interpret, add personal meanings to messages. In this way they are different and their language through words will inspire positive actions.*

**Key words:** *business, customer, encouragement, message, trust*

**JEL classification:** *M21*

Our world is a competitive one is, now more than ever before tougher and tougher as years go by. So many businesses find themselves thriving one day and in trouble the next one. There are many reasons for that but people will always have to be taken into account because they are the ones who make things happen. Very important and needless to say how imperative has communication become as a tool for businessmen! Businessmen can use language to harness the energy of people towards some focused business outcomes. The language they use must take into consideration the use of words which help and give information and their meaning might be the action they produce. About every decade words have changed in the business world. One decade the focus may be on quality, the next on reengineering, therefore, words come and go. But when introduced, they have specific meanings; they must not be unnecessary thoughts or phrases to bury a message but on the contrary they must carry out correct meanings in order to get the desired results. Words become powerful by entailing impressions and images in our minds suitable for what we want to accomplish. Words create impressions, images and expectations. They build psychological connections. They influence how we think. Since thoughts are those that determine actions, there's a powerful connection between the words we use and the results we get.

Let us think about these two words: spend and invest. Would you like your bank to spend your money or invest it? Since spending implies the money is gone, you probably want a bank that invests. Now if we apply the same words to corporate budgets we see how that influences thinking. We saw budgets as allocated company money we had permission to spend. And we did spend it. we never thought of budgets as investing in the company's future until we were given profit and loss accountability for a new department and discovered our flawed thinking. We learned that in order to grow the department, we needed to budget with an investment mentality. Shifting words changed our thinking and our results.

We may try the following words: problem and challenge. Would you rather a boss see your mistakes as a problem or as a challenge? It's more than semantics. Problems are fixed; challenges are met. Different words can evoke different feelings. We have a more positive frame of mind meeting a challenge than fixing a problem.

I realized the words we use to think and talk about our workload, our goals, our projects and the people we worked with influence our thoughts and actions about them. So, we can change our words. If we say I work "for" someone I have a different vision about my work-life than if I work "with" them; same with my staff working with, not for me. Poorly chosen words can kill enthusiasm, impact self-esteem, lower expectations and hold people back. Well chosen ones can motivate, offer hope, create vision, impact thinking and alter results.

In this area of the relationship with businesspeople we consider some keys to use words accountably and thus they get the power we expect:

- talk straight with the impact that this raises trust and credibility
- inspire positive actions by communicating in an uplifting manner, entailing positive outcomes and leave people encouraged to make things happen.

- collaborate with others as this is a competitive advantage on the market
- build ownership as people become accountable for results and their impact on others.
- commit with integrity as authentic commitments are taken into account. Words carry out real meanings, people make commitments they keep and renegotiate promises whenever necessary
- hold people accountable with attention to accountability for high standards, promises, agreements...
- recover quickly because mistakes are used as learning experiences.

In this world and taking into consideration the relationships among people, it is important to know that we have moved beyond the knowledge economy into one in which the key differentiator is the application and extension of knowledge to deliver wisdom. Consideration of the right questions by the right people at the right time and the right answers is the key to wisdom and with their business cycle that is spinning ever faster. The survival of the fittest has become the survival of the wisest.

It is well known that successful transactions ask for using questions very attentively. Words are important as parts of a question as there are different kinds used in commercial negotiations for example. Some ask for information, to get acquainted with the problems and opinions of the partner, then some are being used to avoid answers, others can ensure partial success along negotiations and determine the partner to confirm that he agrees with whatever has been presented. Eg: Would you agree so far? In case of some objections formulated by the partner there are questions that can entail the unblocking of discussions. Eg: Are you sure that we have quoted too high a price or is it only an impression? May I give you some figures to prove how attractive our offer is? There are questions that can determine the partner to ponder: do you think you could really afford not to buy this equipment?

If we ask the right question, problems can be solved easier, opportunities can be exploited at their best and success can come with no hesitation. We speak of:

Yes, no questions as being dangerous because the answer is seldom complete and can be misleading.

- interview questions which uncover the truth behind every candidate, questions about career stability, questions to identify high performance candidates...In this context, real information has to be provided, job offers can be negotiated, challenges are being posed by the up and coming millennial generation. Eg: What aspects of your job do you consider crucial? What area of your skills do you need to improve upon in the next years?
- managers find useful progress test questions and we must take responsibility for the so called transfer of meaning Eg: Have I made that clear enough?

Questions arise from researches to make them meaningful to company today Eg:How can we use our advantage to set the rule by which others have to play? If we manage to get ahead how will we stay ahead? Do we want to be better than the best?

Questions can challenge the top team's thinking or every member of management. Eg: Do our people share our vision, ignore it or are they simply unaware that it exists? Do we have and believe in a real vision of our future?

We have questions that invite individuals to think about their contribution. Eg Have we or are we building the skills, knowledge and competencies that we will need to fully exploit the most profitable markets of the near future?

In business life words in general need to be powerful, regardless if they are used in advertising, or in finance, in management...

For instance, it is difficult to help small business owners survive in an extremely challenging commercial lending environment, so a concise overview of several complex small business finance issues by describing commercial loan difficulties in several words are ready to be taken into account. There are finance options by describing commercial loans and business lending problems and we may use very few words.

After we hear an almost endless number of reports about commercial lending difficulties, what small business owners might need most is a more concise explanation about these problems and the resulting impact on their business financing options.

Small business finance options are often more complicated than anticipated by many business borrowers, and we want to emphasize this point before proceeding. We are definitely not attempting to characterize business loans and working capital financing as either straightforward or simple. Actually, we are making the opposite case. The unfortunate reality that most business financing processes have always been excessively complicated and that meaningful improvements are not on the way, became one of our ongoing observations. We nevertheless feel that it is critical for every small business owner to have an

absolute and total understanding of the entire commercial finance process in the face of the prevailing commercial lending complexity.

"Banks are saying no more often" is our first example of words describing business financing options. A series of candid conversations with other business borrowers will probably remove all doubts for any small business owner still unaware of this tough reality and who might doubt this observation. The failure of banks to provide an adequate level of business loans on a widespread basis is the main point to remember. When they hear their bank say no to some routine requests for commercial financing, it is important for small businesses to realize that they are not alone.

"Commercial property values have decreased dramatically" is another observation. There are very few exceptions. Commercial refinancing situations will probably entail the biggest business financing impact. Many banks are aggressively recalling existing commercial real estate loans and this literally forces a borrower to seek business refinancing even if a business owner has no interest in refinancing their commercial mortgage. Business refinancing will be a challenge for most small businesses in view of decreasing commercial real estate values.

"Lines of credit are disappearing fast" is another word description of commercial financing. This situation is especially serious if a business cannot replace bank financing when it suddenly disappears because even the most successful businesses need a reliable source of working capital financing. On a widespread basis, banks are reducing and eliminating business credit lines with almost no advance notice, and this must be realized even if a business still has an adequate line of credit.

"Business financing is in intensive care" can be another observation. Extreme measures such as firing their banker and finding alternative commercial funding sources will need to be anticipated by small business owners in many cases. Nobody should expect that bankers will publicly announce that they are in any kind of financial trouble after recalling that they have not been sufficiently candid about commercial lending problems in the past. In a contrary viewpoint, banks seemingly maintain that they are lending normally to small businesses. When dealing with any commercial lender, commercial borrowers will need a healthy amount of skepticism.

Words become more and more powerful in business life as they attract prospects and the relationship with customers need to be precise and sincere.

XRemember the value of 'you'. The recipient of your advertising is only interested in the potential value you will receive from your product or service. 'You' should be used often and followed by a realistic benefit for the customer.

Try to use 'new' as often as possible to create a sense of urgency. Consumers want to get something 'new' before everyone else has it. Reinforce 'new' with 'improved' to create a powerful statement for advertising.

Use the word "how' to answer questions consumers have. How the product will solve a problem consumers have, how to look nice, how to save money, and how to get more for your money are all things consumers want to know.

Create a sense of curiosity by using 'secret'. Consumers want to know vital information that, until they read the promotional copy, was not known by many others. Add additional words such as 'little known' or 'just discovered' and the copy will appeal to, and be read by, many consumers.

Make the product 'easy' to use or the service 'easy' to get. 'Easy' is a word that creates the sense of saving time for the potential customers, and that is a commodity everyone finds necessary.

Suggest to the reader that the product is 'remarkable' or 'amazing'.

These power words appeal to consumers when used to talk about the price of the product or service. This will make the curious consumer to look further into the advertisement to find what the price is. Make sure that the product is priced low and is on the copy!

In another context, any company can stay on top or go through a difficult time. Unfortunately, this happens and then the effort to find solutions is imperative. Why not be more attentive to words as they might be of help in this context? There are some words of encouragement as guidelines on how to achieve this problem because

- a) the environment is changing and so we need to keep ahead with such changes within the minds of the customers. We must not make the mistake to think that our product or service is too good and it cannot be improved. Then we come with.....
- b) We get informed as accurately as possible. We must find out about our competitors, what they are offering to the customer that we are not...
- c) We encourage our employees if we want them to be effective....

Then, I consider that there are some “Deadliest” words and phrases commonly found mostly in business writing and we must take care of them as we realize how important it is to make them clear, concise, and appropriate to a new Millennium because very often they can get you into trouble if not used properly.

By eliminating them we can make a company’s documents significantly better. Also, we will improve our company’s image, gain productivity, get information quicker, and cut thousands of wasted words.

1. “Yours very truly” (also “Sincerely yours” and “Very truly yours” I find myself using “Sincerely” almost all the time.
2. “Respectfully” - This closing has a solemn aspect . I see it used in letters all the time. It just adds a somber tone and won’t make the reader any happier about having his or her claim denied.
3. “Please be advised ...” - Usually you are not so much giving “advice” as you are “telling” or “informing.”
4. “Kindly” - “Please work better than this old fashioned word.
5. “I have forwarded...” “I am forwarding” - In e-mail, “forwarding” does have a specific meaning: the sending of materials from someone *other than the writer* to the reader. In other cases (e.g., I am forwarding my business card to you), just use “send.”
6. “Please do not hesitate to contact me.” - now, like most clichés, it pays a price for its popularity. When you use a cliché, you subtly send a message to your reader that you think in clichés. It does shape its writer as blandly impersonal. Use: “please call me,” polite with out the cliché connection.
7. “Please note that...” Again, here’s a phrase that has, for me, a rather stodgy tone (“N
8. “Enclosed please find.” - This phrase, more than any other in the world of business writing, epitomizes the lawyer-like way people start to write when they are either desperate to avoid using a pronoun like “I
9. “Under separate cover” - When you write, “I am sending you this “under separate cover,” you are perpetuating a formalistic and old fashioned phrase
10. “ASAP” (“As soon as possible”) - ASAP is the blandest, vaguest term in business writing. It does imply quickly, but just *how* quickly is a matter of interpretation. If you need a document within two weeks, write: “If possible, please send it me by [name a date two weeks from the date you on your document].”
11. “Finalize” - Every businessperson’s all-purpose hedge word. But what does it really mean? If you say you are going to “finalize” my contract next week, what are you saying you’ll do? Agree to it? Sign it? Complete writing it? Be specific: “I’ll sign your contract next week.”
12. Thank you in advance for your cooperation. (Your cooperation is appreciated) - Here’s a radical idea: Do *not* thank people for what they will do for you in the future. That’s presumptuous. Just thank them for what they’ve done in the past. If you are asking something that is no big deal, just say “please.” If, on the other hand, you are trying to motivate your reader to do something he or she doesn’t want to do, thank you won’t help. You’ll have to motivate the reader, just as you’d have to motivate a child when trying to get action. “Thank you” may be polite but it hardly is a motivator.

### Conclusions

Words have power over our thoughts and actions. They also impact and influence people we speak them to. If you want to be winning at working, learn to harness your word power to work for, not against you; select words that create a visual of the desired outcome; and choose each word as if it mattered. You might be surprised how much it does. Want better results? Check your words, eliminate the difficult ones, do not ask for interpretation, use those words that improve your businesses.

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