

REVISTA STUDENȚILOR ECONOMIȘTI SIBIENI

Paper presented on the **21st International Economic Conference – IECS 2014**

"Prospects of Economic Recovery in a Volatile International Context: Major Obstacles, Initiatives and Projects"

ISSN: **1584-4366**

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Frecvency: 2 issue/year
Language: English

ISSN: 1584-4366

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A COMPARATIVE FACEBOOK CONTENT ANALYSIS BETWEEN ROMANIAN AND WESTERN EUROPEAN AIRLINE CARRIERS

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Abstract: *This research aims to investigate the different social media strategies adopted by the airline companies from two European regions. In the attempt to land more customers on their social media runway, drive more sales from social media content, increase customer satisfaction through a high response rate or increase their brand awareness, the airlines combine creativity and high-quality ideas to better promote their products and services to customers all around the globe. The paper analyses the content (number of fans, posts, number of likes, the dynamics of comments, response rate) on the Facebook pages of Tarom, Blue Air, Wizz Air, Lufthansa, Austrian Airlines, KLM International and Air Europa on a one week period (10th February – 18th February 2014) and successful practices on social media. The paper also aims to provide solutions for airlines to better connect with their passengers and effectively use the social media environment to increase sales and customer satisfaction.*

Keywords: customer satisfaction, loyalty, social media.

JEL classification: M11, M30, M31

1. Introduction

In the last 2 years, the fast-growing industry of technology has developed opportunities for companies to create and implement different communicational strategies by using social media networks. For an industry like aviation, communication is essential in establishing a win-win relationship for both the company and the customer, eventually increasing customer satisfaction and loyalty. The increase usage of smartphones, tablets or any other devices for communication, changed the way customers search for information, how airline companies promote their services or products and most important the way in which information is shared and how it gets to the customers. Social media is seen as an advantage for the aviation industry, mainly because information gets to the customers in short time and at low costs for the airline companies. Living in a tech-geek era, people tend to spend a huge amount of time on social networks in search for more information on their favourite topics and this includes following the airline companies for offers, latest news or even to take part in different competitions.

From the customer perspective, social media has created a link between them and the airlines. Time being precious, the customers want their problems to be solved in the less amount of time possible and with great accuracy, therefore increasing loyalty and trust for that particular brand. From the airline perspective, social media is a huge chance for getting real-time feedback from its customers, solve any question addressed to the social media team with the single purpose to differentiate the brand, building a profitable customer relationship. Also, from this perspective, social media can change the customers faith in the brand, creating a belief in their decision when choosing the airline. Credibility comes from taking part and interact with the customers on the social media page, speaking their language, and often including different games and competitions so that the customers get to know the service and finally create a positive desire for flying.

To achieve success, social media for airlines often implies active audience and engagement-worthy posts.

2. Literature review

Becoming a *modus vivendi* of the 21st century, social media has facilitated a strong growth interaction between companies and customers all over the world. To understand social media as a marketing tool, we must first acknowledge what Web 2.0 is, a term that describes a new way in which end users use the World Wide Web, a place where content is continuously altered by all operators in a sharing and collaborative way (Kaplan and Haenlein, 2010). Social media, also called consumer-

generated media are a sub-group of new media defined by three characteristics: (a) they integrate telecommunications, data communications and mass communications into a single platform, (b) their content is interactive and (c) they are available in a digital form (Van Dijk J, 2006). Xiang and Gretzel (2010) define social media as Internet-based applications that carry consumer –generated content which encompasses media impressions created by consumers, typically informed by relevant experience and archived or shared online for easy access by other impressionable consumers. Some authors divided social media into (a) virtual communities, (b) reviews, (c) blogs, (d) social networks and (e) media sharing sites. *Virtual communities* are online places where users share their knowledge and experience in fields of common interest, *reviews* are online websites focused on rating and reviewing places, products and services, *blogs* are personal online journals intended for general public, where authors analyze situations from their personal lives and present their opinions on various topics. *Social networks* are web-based services that allow individuals to construct public or semi-public profile with a bounded system, articulate a list of other users with whom they share a connection and view and traverse their list of connections and those made by other within the system. The last sub-group of social media are media sharing websites such as Youtube (Boyd and Ellison, 2007).

All of these media can be used for communications between airlines, customers and the public. Taking into account the direction of communications, three groups of social media can be identified (Grancay, 2013): (a) birectional social media, enabling mutual communications between airlines, customers and the public. Facebook and Twitter are social media that allow all users to add content and all users can reply. For example, airlines inform public about important latest news and other users can share the information and also comment it. In this case, all users can ask questions regarding their problems and airlines as well as other users can reply ; (b) airline-to-public social media, also know as A2P are those used for one-way communication from airline to the public, in which customers can not leave any feedback but can share, re-post or even email airline’s posts; (c) public-to-public social media, also known as P2P which is similar to A2P, but instead of an airline, the page is administered by a different user who can post airline-related content. In this category, blogs, virtual communities, airline rating websites and media sharing platforms can be included.

Kaplan and Haenlein (2010, 61) define social media as a „group of Internet based applications that build on the ideological and technological foundations of Web 2.0 and allow the creation and exchange of user generated content”. The unique aspects of social media and its immense popularity have revolutionized marketing practices such as advertising and promotion (Hanna, Rohm, &Crittenden, 2011). Social media has also influenced consumer behaviour from information acquisition to post-purchase behaviour and due to the disadvantages of social media in connecting businesses to end-consumers directly, in a timely manner and at a low-cost (Kaplan & Haenlein, 2010) in influencing customers perceptions and behaviour and in bringing together different like-minded people (Hagel & Armstrong, 1997 ; Wellman &Gulia, 1999) it has become the center of attention in different industries. The much higher level of efficiency of social media compared to other traditional communication channels prompted industry leaders to state that companies must participate in Facebook, Twitter, Myspace and other in order to succeed in online environments (Kaplan & Haenlein, 2010).

It is vital for retailers and marketers to be aware of the factors that affect consumer attitudes and motives because consumers are increasingly creating content about brands, something previously controlled solely by companies (Heinonen, 2011). Chu (2011) also found that users who are Facebook members maintain a more favorable attitude towards social media and advertising. Di Petro and Pantano (2012) found that the fun provided by Facebook, as well as the opportunity it provides users to ask for suggestions in an easy and entertaining way, motivates individuals to pay more attention to the products or services promoted on Facebook. Facebook promotes a consumer to consumer approach, exploited by consumers to share experiences and create a common knowledge on products and services, on the other it provides managers a direct channel for communicating with clients through a business to consumer approach. Companies tend to improve their Facebook pages appeal by adding games, contests and interactive applications, which attract more users.

3. Research/ Data/ Methodology

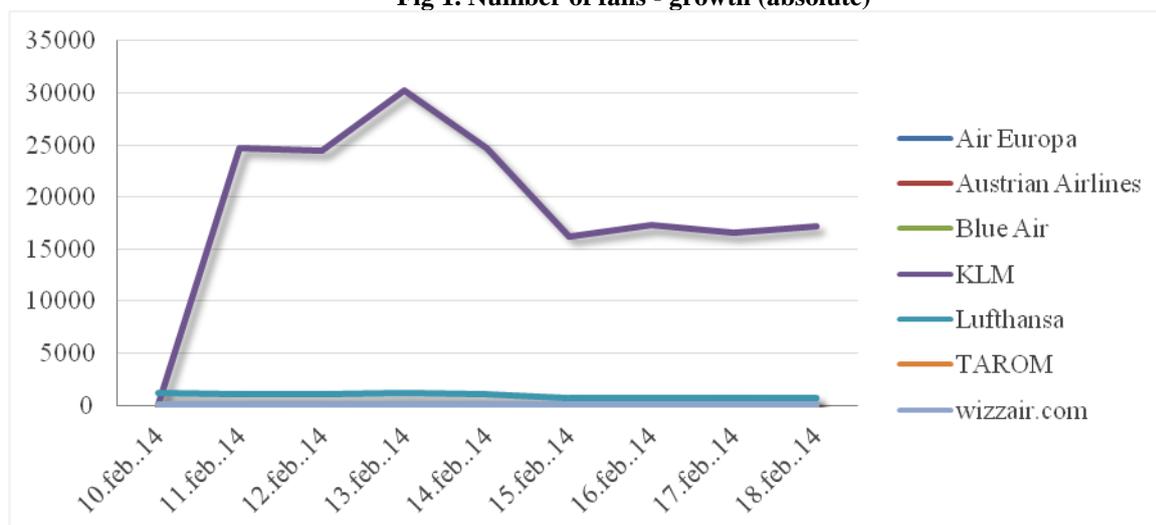
The purpose of this research is to analyse the comparative content of the Facebook pages of the romanian-based airline companies and western european carriers and the different marketing strategies adopted by each airline. For the romanian companies, there was no criteria established, proposing Tarom, Blue Air and Wizz Air for analysis. For the western european companies, two selected airlines must

operate on at least 2 airports in Romania with its branded-aircrafts and not being in the same airline alliance as Tarom, selecting Lufthansa and Austrian Airlines for analysis. For the last two western european companies, one company must operate on at least 1 airport with its branded-aircrafts, while being in the same alliance as Tarom, proposing KLM International for analysis and for the last company, it must operate in Romania through codeshare agreements, while being in the same alliance as Tarom, proposing Air Europa for analysis. The data was collected using own research, Socialbakers and Quintly website, on a one week period, from 10th of February – 18th of February 2014 and it aims at analyzing the number of likes, daily posts (category), average number of posts, average likes, comments and shares, response rate and wall posts.

Table 1. Total number of fans per page (10th February 2014 – 18th February 2014)

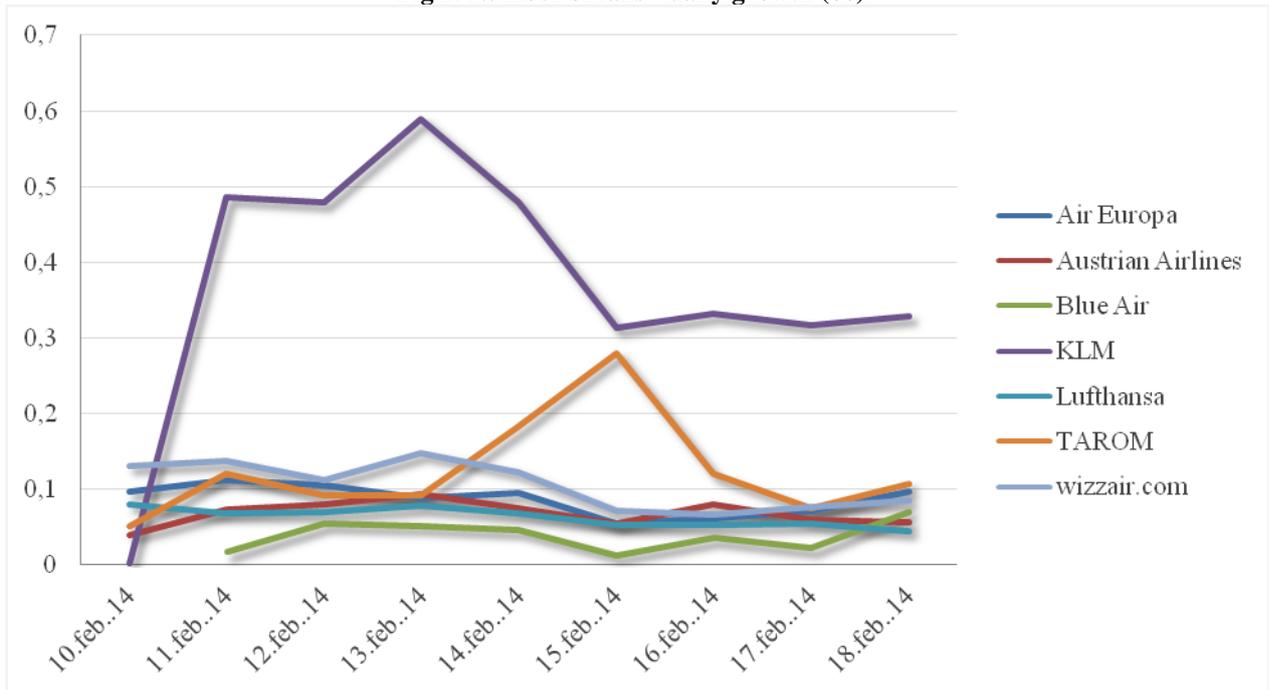
Airlines/ Date	10.feb	11.feb	12.feb	13.feb	14.feb	15.feb	16.feb	17.feb	18.feb
Air Europa	57361	57426	57487	57538	57593	57625	57661	57702	57758
Austrian Airlines	201945	202092	202254	202444	202595	202706	202869	202990	203103
Blue Air	36919	36925	36945	36964	36981	36986	36999	37007	37033
KLM	5095038	5119793	5144297	5174614	5199363	5215k	5232k	5249k	5266k
Lufthansa	1526457	1527506	1528562	1529744	1530777	1531k	1532k	1533k	1533941
Tarom	30547	30584	30612	30640	30696	30782	30819	30842	30875
wizzair.com	273715	274090	274395	274801	275137	275333	275517	275728	275959

Fig 1. Number of fans - growth (absolute)



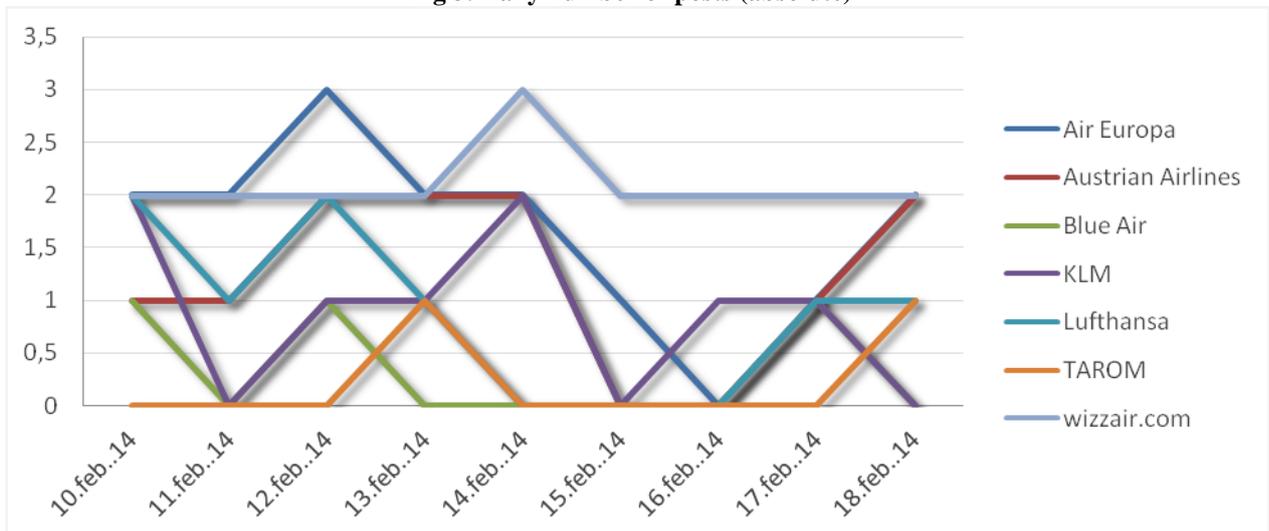
In the analysed period, Tarom recorded the lowest number of fans on Facebook while KLM recorded the highest number of fans, passing 5 million. Both romanian-based companies, Blue Air and Tarom recorded under 50.000 fans on Facebook while Wizz Air, with headquarters in Budapest, but strong operations in Romania recorded over 250.000 fans on Facebook. For the western european companies, KLM, Austrian Airlines and Lufthansa overpassed 200.000 fans, while Air Europa could be included in the same category as Romanian-based airline companies. The highest growth (absolute) of fans in the period was recorded by KLM on the 13th of February, 30.317 more fans, followed by Lufthansa on 10th of February, 1.229 more fans on Facebook. The other companies recorded around 100 more fans on their Facebook pages, with Blue Air being the lowest performer with just 5 more fans on the 13th of February.

Fig 2. Number of fans - daily growth (%)



The strongest performer based on the daily growth is again KLM with the highest growth recorded on the 13th of February, 58.93%. The weakest performers are Blue Air, Austrian Airlines and Lufthansa with a growth below 10%, while Tarom highest growth was 28.01% recorded on the 15th of February 2014.

Fig 3. Daily number of posts (absolute)



In the analyzed period, 66 posts were recorded on the Facebook pages. Air Europa gathered 15 posts with at least 2 daily posts, Austrian Airlines 11 posts, Blue Air 3 posts, KLM 8 posts, Lufthansa 8 posts, Tarom 2 posts with Wizz Air being considered the strongest performer with 19 posts. Again, there is a clear cut distinction between the usage of social media between romanian and western european airlines, the romanian airlines (except Wizz Air) are the weakest performers when the number of posts is taken into account.

Fig 4. Type of posts

■ Pictures ■ Link ■ Status ■ Video

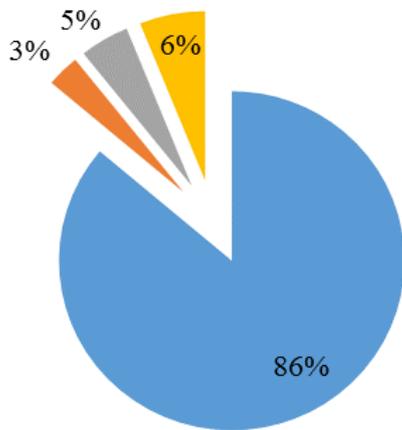


Fig 5. Number of posts in categories

■ Sales Steering ■ Customer engagement ■ General Knowledge

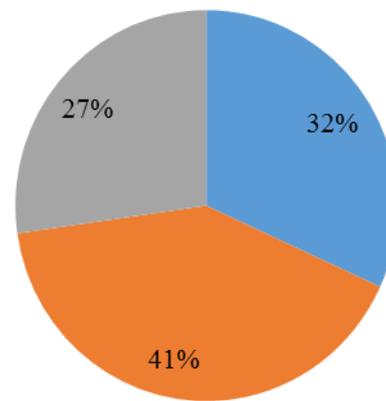


Fig 6. Type of posts – airline analysis

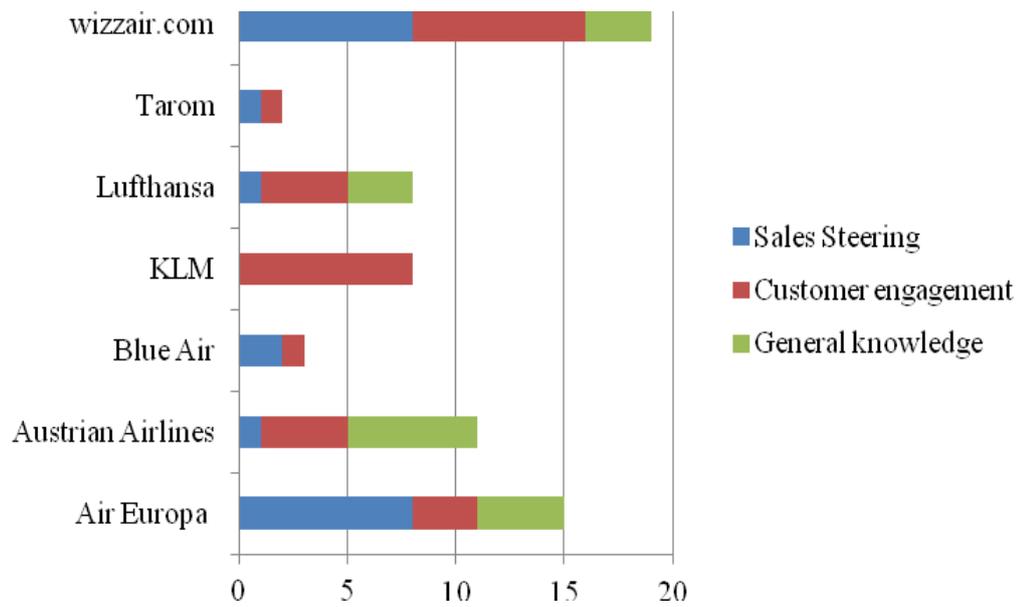


Fig 7. Number of comments

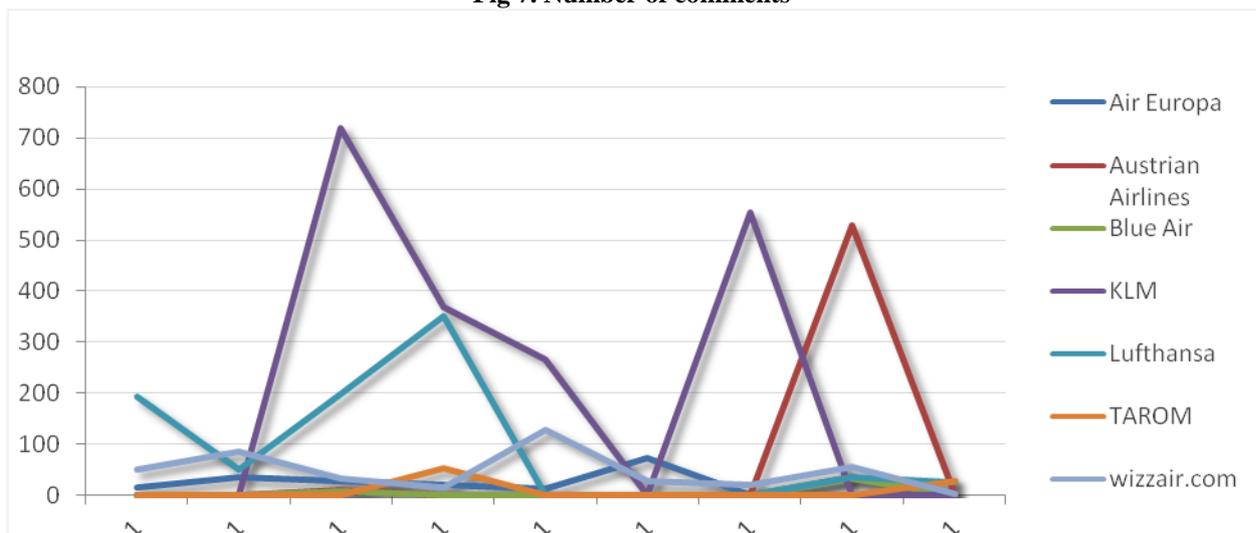


Fig 8. Number of likes

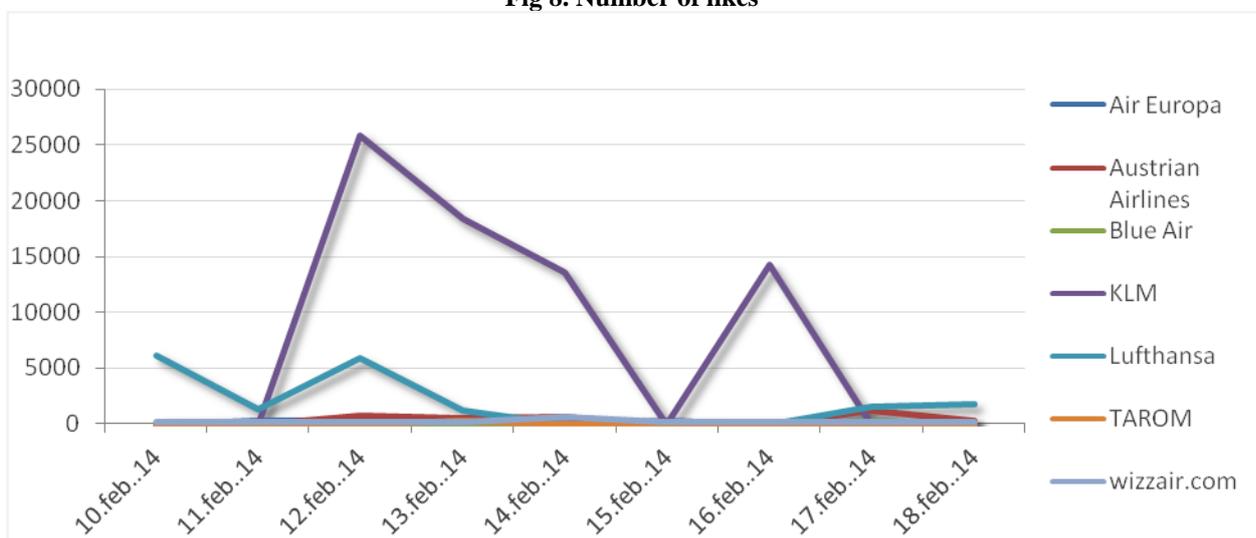
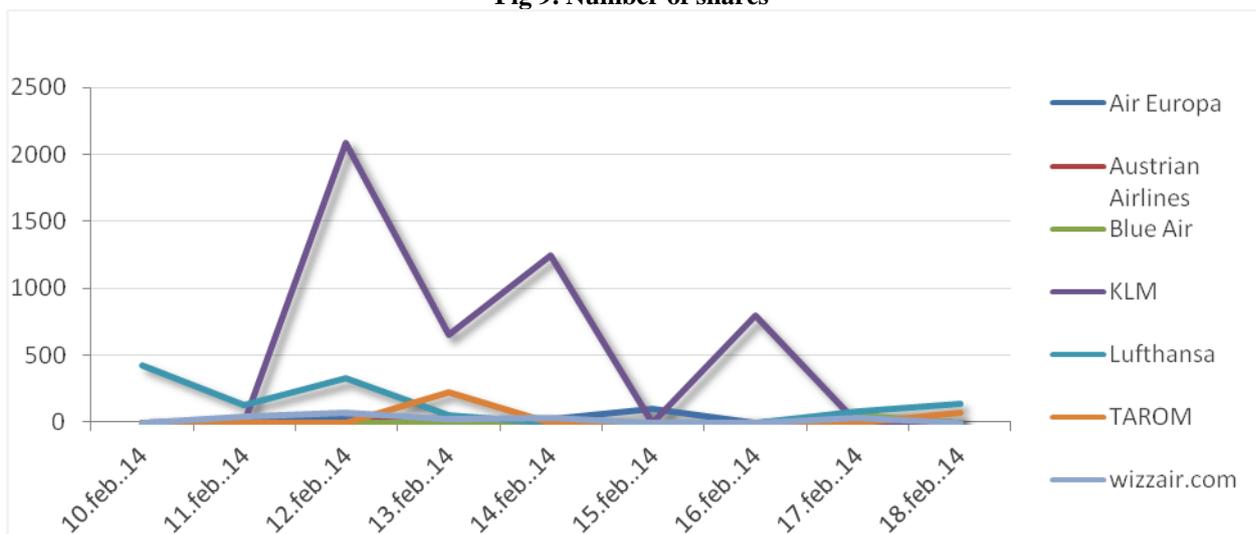


Fig 9. Number of shares



In the period analyzed, the airline companies in their Facebook online marketing strategies used photos (86%), videos (6%), status (5%) and lasty links (3%). The total number of posts were divided into 3 categories: sales steering (destination promotion, new route announcement, discounts) – 32% of the total posts; customer engagement (quotes, questions, fleet presentation, service promotion, prize competition) – 41% of the total posts; general knowledge (aviation facts, activity presentation, job offers) – 27% of the total posts.

Considering the type of posts by every airlines, Wizz Air strategy focused on sales steering and customer engament rather than general knowledge, Tarom strategy focused on sales steering and customer engagement in a balanced way, Lufthansa focused on customer engagement and general knowledge rather than sales steering, KLM only on customer engagement, Blue Air on sales steering and less on the other categories, Austrian Airlines focused on general knowledge and customer engagement and less on the sales steering and Air Europa on sales steering and general knowledge and less on the customer engagement.

Analyzing the number of comments, KLM and Austrian Airlines are the top performers with posts reaching over 500 comments, followed by Lufthansa with around 300 comments for its viral post. KLM is the top performer when likes and shares are analyzed, reaching over 25.000 likes and almost 2.100 shares on 12th of February 2014, considered a peak day for viral posts. Lufthansa is the next performer wih almost 5000 likes and rougly 400 shares on a top day. Even though Wizz Air has the highest number of posts, it reached only 75 shares on the 12th of February 2014 and 342 total shares on the same day. The romanian companies perfomed less than western european companies, Tarom reaching only 307 likes on the 13th of February 2014 and 230 shares on the same day while Blue Air reached only 355 likes on the 17th of February 2014 and 59 shares on the same day.

Fig 10. KPI matrix

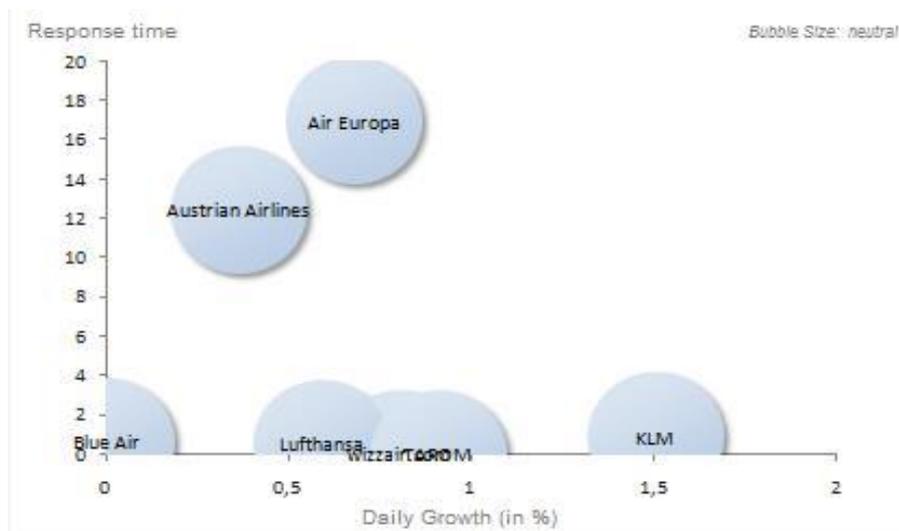
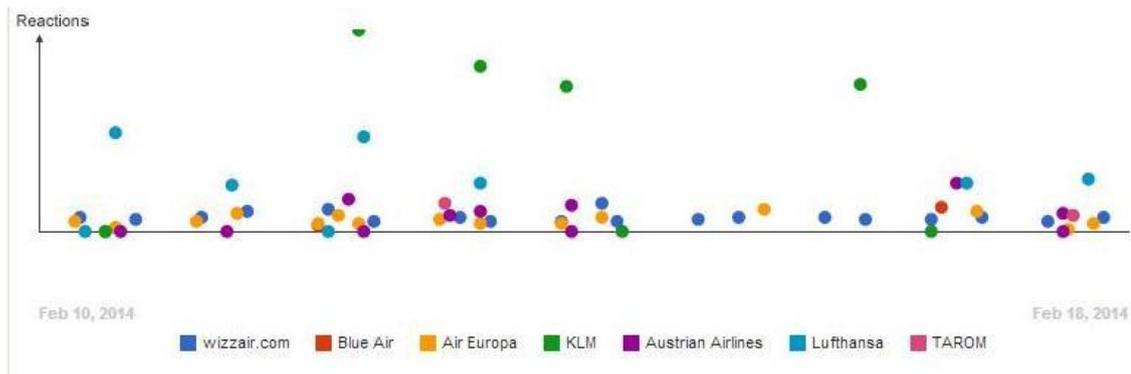


Fig 11. Engagement matrix



Fig 12. Posts reaction



The engagement matrix shows a higher usage of pictures, which triggers a higher customer engagement. The posts reaction clearly shows that KLM's and Lufthansa's posts triggered more reactions than any other company. The higher the dot, the more reaction the post triggered.

4. Results and Recommendations

Tarom's usage of Facebook is extremely low and doesn't have a specific strategy given the low number of posts. The company doesn't allow its customers to post on the page wall but rather comment the posts, which doesn't create any sense of loyalty and the brand doesn't deliver its promise to the customers. Given the high number of foreign travellers, the company posts are mainly in Romanian language and should focus offering in both English and Romanian languages. The response rates is extremely low, around 30% (Socialbakers analysis) and with a response time over 4 hours. The Facebook page offers application for online reservations, promotional offers and offers the possibility for customers to send private messages.

Blue Air usage of Facebook resembles to Tarom's page, offering posts just in the Romanian language, with a low response rate, around 30% (Socialbakes analysis) and a response time over 4 hours. The Facebook page offers application for online reservations, offers the possibility for customers to send private messages or write wall posts for a better communication.

Wizz Air, the company with the highest number of posts, is not offering the possibility to send private messages or write wall posts. However, posts are available in English and some customized posts

for regional areas such as Bulgaria or Serbia are written in the local language. The response rate is 100% (Socialbakers analysis) with a response time just under one hour to increase customer satisfaction. The page offers application for complaints or compliment, find an available job or prize competition.

Lufthansa usage of Facebook is well-organized, focused on customer engagement with no possibility to send private messages but offers the chance to write wall posts. The response rate in 100% (Socialbakers analysis) with a response time under 2 hours available only in English and German languages. The page offers application such as Ask Lufthansa, Flight track Collection or Prize Competition for a better brand awareness.

Austrian Airlines usage of Facebook is well-organized as Lufthansa, focuses more on general aviation knowledge with the possibility to write wall posts, send private messages, with a response rate of 100% (Socialbakers analysis) and a response time under 2 hours available in both English and German languages. The page offers applications for online reservations, newsletter subscription, red blog guide, reviews and prize competition.

Air Europa usage of Facebook is customer-oriented with at least 2 daily posts, with the possibility of sending private messages, write wall posts, with a response rate of 100%, but with a time response of over 4 hours. Posts are only available in Spanish, focusing on a single region, but with the possibility to receive feedback in both Spanish and English languages. The page offers application for complaints but no possibility to book a ticket via Facebook or subscribe to a newsletter.

KLM is probably the best airline company on Facebook when it comes down to innovation and creativity. With over 5.2 million fans, the page does not offer the possibility to send private messages but allows wall posts, with a response rate of 100%, a response time around 1 hour and a 24/7 online assistance.

The posts are only in English (the company has other regional pages) but responses are offered in 10 languages to assist as many nations as possible. The page offers applications such as book a trip via Facebook in under 5 minutes, flight status, KLM Trip Planner, Videos, KLM Passport or even application for reviewing Fly Magazine.

The difference between the romanian-based companies and western companies derives from high social media penetration in western Europe with more technology-oriented companies with a high desire to understand customers and a most deep understanding of the market and the desire for a fast communication.

Tarom and Blue Air, along with Wizz Air should focus on their customers desire for a high response rate, imcrease brand-awareness by adding mind-blowing posts which encourages customers to engage in certain conversations with the company and other travellers. Unlike the western based companies, Tarom and Blue Air lack creativity and should better connect with their passengers by adding value to their pages, involve passengers in different prize competitions, offer responses in at least 5 languages to meet fast-growing travel demand and review online strategy by adding daily posts to decrease insatisfaction, deliver the brand promise and finally have happy customers with a strong desire to fly with the company. Facebook strategies for romanian-based company should focus on sales steering, increase brand trust by promoting how the company works for the passengers, how safety is promoted and how flying with them will change perspectives. Contests and free tickets are no longer enough to drive engagement, and every airline with a desire to perform will have to stay ahead of the competition by identifying key business goals, like loyalty. A new bridge between social media and real-world relationship needs to be built as customers are more connected to social media than ever. Airlines should build a strong relationship with the connected traveler, especially when is comes to having in-flight wifi on-board the aircraft, meaning that travellers are well-connected throughout their journey. If a passenger experiences something unpleasant during the flight, he is likely to post it on Facebook, along with a photo and the social media team should be able to respond properly and be connected even during flight. In this way, customer service is delivered in a manner close to real-time in order to mantain brand affinity. Romanian companies should build face-to-face relationships with online users that they have been interacting with, mainly because real-world relationships can go a long way in buiding online advocates. For a successful strategy, social media should build a bridge between the company and the real-time travellers who want problems to be solved as quick as possible, while maintaining a strong and efficient interaction.

5. Conclusions

In a world that craves for better connectivity and fast communications, airlines try to adapt to the market changes and build a long-term relationship with its passengers on both online and offline environments. A highly competitive market such as the aviation industry where the switching cost between airlines is non-existent for the customers, requires a well-based social media strategy to create a favourable environment for communication. The base of success for every airline is a fast response rate on social media, creativity, mind-blowing ideas. Every front-runner adopts innovation in its strategies to make a difference on the market and allows its passengers to be a part of the company, an important key for better changes in the industry. Social media for airlines and passengers means efficiency, interaction and most of all emotional needs, states, attachment and aspirations.

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TRENDS IN ROMANIAN AND EUROPEAN SMEs MARKET AND FINANCIAL OPPORTUNITIES

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Abstract: *The development of the SMEs sector is the backbone of economic progress, therefore it is necessary to know the statistics and trends on national and European level. Because the main impediment in the SMEs development is the lack of financial resource , I have decided to present a series of programs and opportunities that offer support in this direction.*

Keywords: SMEs demography, SMEs trends, funding

JEL classification: F 3

1. Introduction

Given the prospect of the global economic crises and the influence of privatization, the regress of the national economies is having a major impact on the sustainability of the private sector. Since the financial crisis had stood out in relief in our country there were many negative effects that caused the involution of the private sector. The fact that our economy is based mostly on private sector (99.65 % in 2013) was creating an unsteadiness of the macroeconomic perspective. Analysing from this view, the idea of investing time and money in a new project becomes unsure, equivocal and too risky, beeing trained and justified by macroeconomic aspects. The number of SMEs (small and medium enterprises) decreased from 2008 to 2013 (from 504,581 to 474,416 companies).

2. The evolution of SMEs and direct investments

The number of SMEs decreased from 2008 with almost 30,165 companies, especially on the base of withdraw of foreign funds from our country. From 2003 to 2008 the foreign investement were having an ascendent course, from 1,946 mil euro to 9,496 mil euro , witch means a growth of almost 400 %. In the next 3 years, the foreign investements flux was regresing almost to the initial value, which means a decrease of 77 % (till 2 138 mil euro). Of course the final year sold was growing up, from 9,662 mil euro in 2003 to 48,798 mil euro in 2008 and to 55,139 mil euro in 2011. The first growth trained the development of the SMEs sector, but the next years represented a financial decline.

Another aspect of regression of the number of SMEs is the difficulty to find financing sources. Is well known that banks are analyzing a lot more in detail the financial profile of the companies, and decide more rare to finance a project . The personal sources of the entrepreneur are usually not enough to sustain their ideas, and the other sources are not very developed in our country (for example business angels or any other investors). The bureaucracy of credit procedures is stuffy and it takes time. Also, banks do not give big amounts of money. They take security measures and controls the activity of the firm.

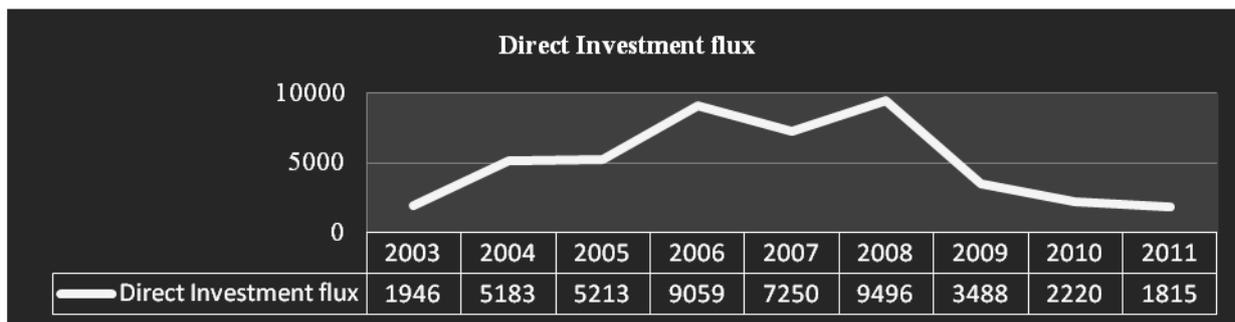
Another cause of the liquidations of the companies is the financial policy and the percent of the profit that needs to be handed in the shape of taxes and duties. Since 2009, there was introduced a minimum tax applied to profit (legalized by GEO no. 34/2009), which have discouraged more entrepreneurs who were in their first years of activity. Of course the measure had sifted the profitable and healthy companies from the weak ones, but also it has discouraged more young ideas .

Table 1: Number of SMEs/year

	Number of SMEs / year				
	2002	2008	2011	2012	2013
	326443	504581	435788	437126	474416

Source: Annual Report of European SMEs 2012/2013

Table 2: Direct investemnt flux in Romania



Source: www.bnr.ro

Distribution of SMEs on area of activity by turnover

The turnover achieved by SMEs exceeded the big company's turnover, with 28.17 %, representing more than 58 % of the volume of Romania turnover. The SMEs turnover was placed around 589,256 billion lei, surpassing the limit of 426,456 billion lei, that represents the big company's turnover.

By turnover, the first place is taken by industrial area, with a percent of 36.43 %, followed by services and constructions. The evolution of the industry sector is one of the most important for a healthy and growing economy, but for small business is not easy to survive. Usually here are medium or large companies, because of the big resources that this activity needs for its existence. The next sector, services (14.72%), is overtaken by all sized companies, one very various sector, which is very favorable for start-ups or small enterprises.

Table 3: Distribution of SMEs on area of activity, by turnover (2012) - mil lei-

Total	Industry	Constructions	Trade	Services rendered to the polulation	Services
1056562	384882	77547	36821	14886	155548
%	36,43	7,34	3,48	1,41	14,72

Source: FPP report on the SME sector in Romania

Distribution of SMEs on area of activity by the number of companies (2011)

The wholesale and retail trade is the sector chosen by most companies, especially for the quick profits that are showing up. The activity that needs to be provided is easier than the most, but uncertain and very fluctuant and dependent by the market. There are 163,781 SMEs that are operating in this sector, meaning 37.4 % from all SMEs. The percent of SMEs from the total number of the companies in this sector is 99.91 %, but this ratio is approximately equal for all sectors, because SMEs account somewhere around 99.7 % of private companies in the Romanian market.

Professional, scientific and technical area was chosen by 49,046 SMEs, meaning 11,2 % from all SMEs. The other areas that entrepreneurs have turned to be manufacturing, construction, transport and storage and hotel and restaurants. The other sectors own a smaller percentage than 4 %.

Profitability

At the end of 2011 a percentage of 54.5 % of SMEs declared profit in their balance, meaning that more than half of the SMEs were profitable, more specified 238,212 companies. The profit was somewhere around 5 % of the turnover, meaning 29,240 billion lei, bigger than the average annual profitability. Analyzing only by this ratio will provide us the idea that starting an SME is profitable, but we have to take in consideration all the issues, referring on annual turnover, the market, the company expenses, the workforce and so on.

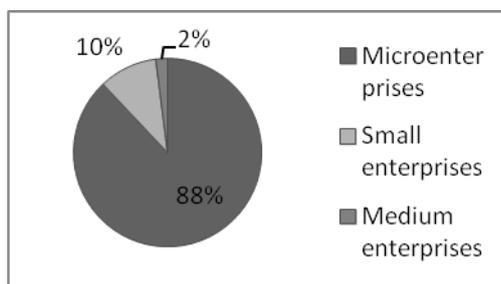
Profit/type of enterprise by size

As it can be seen in graphic 1.5., the most favourable type of companies are micro-enterprises (which are enterprises that have up to 9 employees including , and an annual net turnover or total assets up to 2 million €, equivalent in lei), due to the favourable large difference between the profit volume and the turnover achieved. The proportion of the profits from the total is 41.40 %, but we have taken into account the high proportion of 88 %, representing the percent of micro-enterprises from all SMEs. The advantages of micro-enterprises are fewer employees, more permissive fiscal conditions, easy adaptability to market conditions, lower costs, and the list can be continued. Despite the fact that the profit ranks 41.10 %, the turnover is placed only at 30.80 %. In a first analyze, the big difference between them is bringing up that the biggest profit is gained with the lowest effort leading a micro-enterprise . If we take into account the fact that micro-enterprises count 88 % of all SMEs, we should change our opinion. But this is the first step that every idea has to start with, so the comparison becomes irrelevant.

The small enterprises (enterprises that between 10 and 49 employees, and an annual net turnover or total assets up to 10 million €, equivalent in lei) are the most balanced type of enterprises, regarding to the parallel profit/turnover. The percentage of profit, is situated at 31.60 % of total profit obtained by SMEs, meaning more than a one-third of all, despite that fact that the number of them achieves only 10 % of all SMEs. This type of enterprises are the ones which have passed the test of the feasibility of the idea, and they are more stable than micro-enterprises. The percentage is bigger than the micro-enterprises one, but the profit is reduced , especially because of the expended costs.

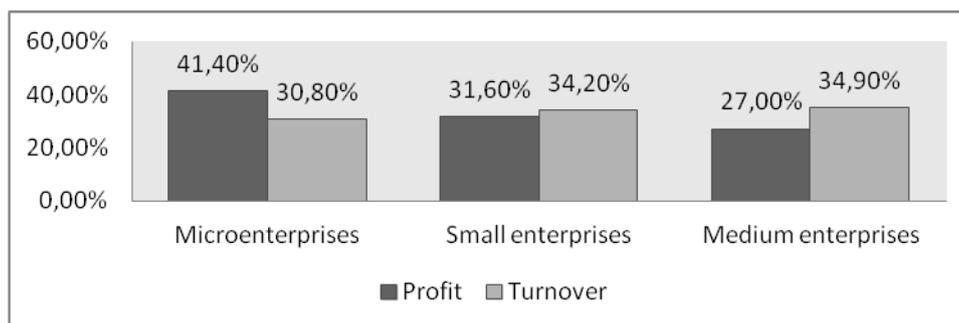
The third category of SMEs, medium enterprises (enterprises that between 50 and 249 employees, and an annual net turnover up to 50 million € , or total assets up to 43 million €, equivalent in lei), which achieves only 2 % of all SMEs, meaning 8,740 companies, reached a rank of 27 % from SMEs profit, and 34.9 % of SMEs turnover. Of course the fact that only this number of enterprises achieved so much profit is impressive, but this is justified by their size number of employees, size of turnover, the very qualities that has placed them in this category.

Table 4: Size distribution Of SMEs (2011)



Source: FPP report on the SME sector in Romania

Table 5: Percentage of profit/turnover by type of SMEs from total SMEs profit/turnover (2011)



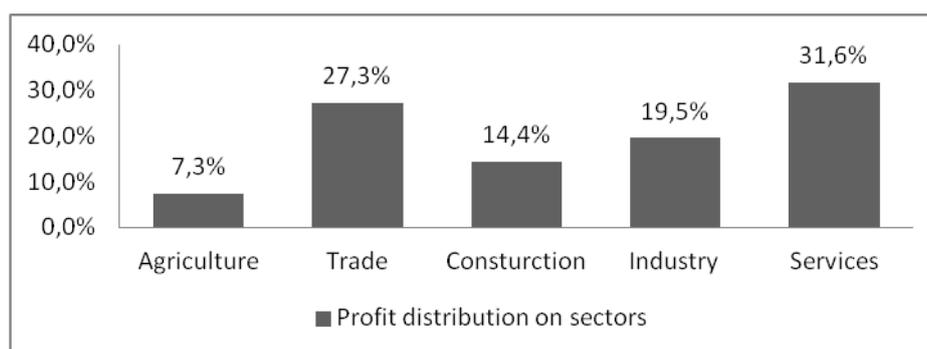
Source: FPP report on the SME sector in Romania

Profit/sector of activity

The sector which has the largest share of the profits, services, contributed to almost a third part of the profit of SMEs (31.6 %), especially because they have the largest share of the number of SMEs (39 %), but it stands out a negative difference between this percentage and the share of profit obtained. From my perspective this sector is one of those which offers the opportunity to gain profits quickly. Of course, for an entrepreneur who wants to start a new business the most attractive areas are trade and services. Trade would be the second sector with a rank of 27.3 % of SMEs profit, and with a proportion of 37 % of the total number of SMEs. The most wanted sector to set up an SME is services sector, followed closely by trade.

Industry profits achieves 19.5 % and the number of SMEs in this area reaches at 11 % of the total. The favourable discrepancy between the number of firms and profits earned is argued by the large profits that is obtained prolonged by companies operating in this field. In construction field the percentages are about the same, 14.4 % of profits are achieved in this area, and 10 % of the SMEs have chosen this field. Only 3 % of the companies turned to agriculture, because of the great effort needed to obtain profit, driven by the need for vast resources and high work capacity. Despite the small number of companies that operate here, the profit achieved is 7.3 % of total, but it is trained by government and European grants.

Table 6: Profit distribution on sectors (2011)



Source: FPP report on the SME sector in Romania

Demography of enterprises in Romania compared to Europe

Both the percentage of total SMEs in Romania are lower than the European one (99.62 % and 99.80 %) and the proportion of Romanian micro-enterprises from the European ones (87.05 % and 92.54 %). The cause is not the Romanian economic development in big enterprises but the instability and the funding deficit of the start-ups. The micro-enterprises represent an innovation, flexibility and adaptation pole for an economy, especially for a recovering economy. The other type of enterprises holds a larger share of the total, compared to the EU average. These aspects indicate that start-ups are not sufficiently supported in our country or that education in this sense is not sufficiently

developed . In this perspective the government has initiated some programs which I'll present in other chapters of this work.

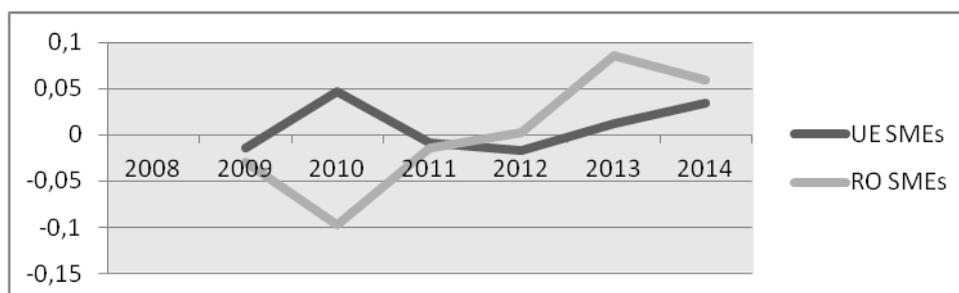
Table 7: Demography of enterprises in Romania compared to Europe -units-

2011	UE	RO	% UE	% RO
Microenterprises	20.448.910	356.008	92,54%	87,05%
Small enterprises	1.380.272	43.241	6,25%	10,57%
Medium enterprises	225.357	8.161	1,02%	2,00%
Big enterprises	43.817	1.541	0,20%	0,38%
Total	22.098.356	408.951		

Source: Annual enterprise statistics by size class for special available at aggregates of activities (NACE Rev. 2)

The annual growth rate is more fluctuating in Romania than in the rest of Europe. The crisis of 2008 had a major impact on foreign funds in our country, so the number of SMEs has collapsed, in disagreement with the rise of a European number of SMEs. The major impact that the economy crisis had on our SMEs development was the withdrawal of the direct investments which greatly influenced the SMEs activity. In the last 3 years the number of SMEs in Romania growth faster than the average number in Europe because our economy is a developing economy, emphasizing the innovation, change and dynamism in our country.

Table 8: Growth rate of number of Romanian and European SMEs -units-



Source: Annual Report on European SMEs 2012/2013

Financing programs and opportunities for young entrepreneurs

The European Union has published Small Business Act in 2011, which aims to improve the conception over the entrepreneurship and promote SMEs growths through recognising the important role they have in the economy and adopt a pro SMEs policy, starting with the "Think small first" principle.

Entrepreneurship 2020 Action Plan promotes an education oriented on entrepreneurial skills, starting with primary, then high school, university and different programs and courses focused in this direction. It's also promoting a friendly environment for SMEs and less rough administrative requirements along making entrepreneurs attractive for investors. The European Union is focusing on the need for a large number of entrepreneurs and solutions for funding the first phase of a company development.

Micro financing

One of the options regarding business financing is micro-loans provided by other businesses, individuals or various entities. Some companies specialized in this type of loans that operates in our country are Patria Credit , Rocredit, Opportunity, Express Finance, LAM (rural credit performer) , FAER (rural credit performer), ROMCOM, BGA Microcredit . These companies targets disadvantages groups, which are highly exposed to risk and offers smaller loans than banks, being oriented more on the social side of the financial issue.

There are some micro finance initiatives at EU level, such as Competitiveness and Innovation Framework Programme, which supports micro-enterprises to expand by guaranteeing loans. The European Progress Microfinance Facility offers loans to people who want to start-up a new business after losing their jobs or developing an existing business . JEREMIE (Joint European Resources for Micro to medium-sized Enterprises) supports small and very small businesses by EU structural funds and JASMINE (Joint Action to Support Microfinance Institutions in Europe) is an institution that helps the providers of the micro credits and classify them.

The European Microfinance Network is an international non-profit association which promotes micro finance, developing activities such as debates , workshop or trainings for members, information exchange , working groups, conferences , advocacy at the EU level, projects and access to publications.

Credits

The nonperforming low rate increased from 18.24 % in Dec 2012 to 21.87 % in Dec 2013, which, among other causes, generated a contraction of loans from 118,789.1 lei in 2012 to 112,342.3 lei in 2013. It seems that now, the trend is stable, the loans were somewhere around 112,283.2 lei in March 2014.

The construction sector is the sector with the biggest NPL rate (27.71 %) in 2012, but the fourth of gross added value (with a percentage of 5.2 %). Other sectors that are impregnated with a high NPL rate are Metallic construction and metal products, except machinery and equipment (23.42 %), Civil engineering (22.25 %), Specialised construction (21.01 %). The NPL rate for the credits taken in lei (20.45 %) exceeded the rate associated with foreign currency loans (18.96 %), taking in consideration the interests for this type of credits were under the interest limit for loans in lei. It seems that the debt recovery period is more extended for micro-enterprises (180 days) than for SMEs (123 days), but both dominate the average period, which is 103 days, for the total economy.

Bank credits are facilitated by guarantee funds, which help companies that hope to achieve a loan, but they don't own sufficient guarantee assets. These institutions that master such funds will guarantee for that type of enterprises in some limited established from the beginning. Such an institution, called „National Credit Guarantee Fund for SMEs”, was founded in 2001 especially for responding to SMEs needs and facilitating their access to financing. Another action in this direction was taken by founding the „Romanian Loan Guarantee Fund”, which support private entrepreneurs in Romania and promotes credit risk reduction. The Rural Credit Guarantee Fund and Eximbank are other two institutions that operate such types of guarantees.

Governmental financing programs

START program (Program to develop entrepreneurial skills among young people and facilitating access to finance - START -) aims to finance the ideas materialized in business plans, in descending order of scores obtained. The grant is offered in the following conditions: the grant has to achieve maximum 80% of the eligible costs of the project, but less than 100,000 lei/beneficiary; the own contribution needs to be at least 20 % of the project eligible costs. The beneficiaries must be SMEs which possesses entirely private capital, have no more than two years of existence and not benefiting from this type of financial allocations in previous years. The budget allocated touches 13,000,000 lei and it is designed for a minimum of 130 beneficiaries.

Arts and Crafts Program (Multiannual national program to support arts and crafts) was created for organising 8 Regional fairs for Arts and Crafts, supporting small artisans in promoting their products and wider local traditions. The budget allocated achieves 1,000,000 lei, oriented towards 200 participants, who will benefit from attending to seminars, round tables, workshops and presentations. The transportation costs (for beneficiaries and their products) and the accommodation expenditure will be reimbursed and the fee is zero.

Woman manager Program (Multiannual national program for the development of an entrepreneurial culture among women managers in SMEs sector) follows developing entrepreneurial skills among women manager through granting minimis aid to 12 beneficiaries , counting 500,000 lei. The beneficiary needs to manage an SME which has no more than 3 years of existence. The grant value is a maximum 90 % of total eligible expenditure and cannot exceed the amount of 41,500 lei/beneficiary.

Young debut Program : SRL-D (The program for stimulating the founding and development of micro-enterprises by young entrepreneurs) is a program that follows facilitating young entrepreneurs who want to start-up a business. It is materialised in grants offered by the Ministry of Economy, representing

at most 50% of total eligible expenditure, but no more than 10,000€, equivalent in lei. It also provides guarantees for loans contracted, but no more than 80% of the amount of loan requested or 80,000 €, equivalent in lei. Other benefits are exempt from social contributions for maximum 4 employees and exemption from registration fees from registration operations performed at the Trade Register Offices. The total budget achieves 21,000,000 lei/ 2014.

The Trade and Services Program (Program for development and modernization of the business of selling products and services) aims to provide grants for eligible beneficiaries in amount of maximum 80 % for micro-enterprises, 70 % of small enterprises and 60% for medium enterprises of total eligible cost, but less than 80,000 lei/ beneficiary. The budget approved for this program is 18,039,000 lei.

By implementing the Incubation Program (Multiannual national program for the creation and development of business and technological incubators) is expecting to grant financial allocations for a total of 100 SMEs , financing 5 new incubators and 10 existing ones. The budget achieves the amount of 6,000,000 lei.

The Innovation Checks Program is a subprogram of INOVATION Program, which aims to technological modernization and increased degree of innovation. The maximum value of an innovation check is 50,000 lei, of which a maximum of 45,000 lei is ensured by the state budget and it represents less than 90% of the total. Funded activities are: research, development, feasibility studies, protection of intellectual property, process or organizational innovation, procurement of support services and consulting for innovation. The total budget is 7,750,000 lei.

For the centre region, including our county, The Agency for Centre Regional Development publishes each month a Catalogue of Sources of Financing (Including companies). The catalogue from April 2014 (and most probably available even in May 2014) mentioned other financing sources, such as: Renewable Energy Program- RONDINE, “Promotion gender equality and the balance between professional life and privacy” Program or Energy Efficiency in Industry for SMEs (within this program there are available grants for SMEs which hopes to streamline their energy businesses, the grant being between 200,000 and 700,000 euro) .

Students who want to start a business have some benefit from exemptions from fees and charges, such as: costs of support services, fees for registration operations, for the operating authorization, for the authorization to conduct economic activities independently, the costs of publishing in “Monitorul Oficial” and stamp duty for notarial activity.

European Union financing facilities

In December 2013 The EU budget for 2014-2020 has been approved by the EU Council and the European Parliament along with the National Financial Framework 2014-2020, which relies on financing actions oriented on stable economic growth , developing the competitiveness and increasing job number.

The biggest program implemented by the European Union is Horizon 2020, with a budget of 77.17 billion €, taken to develop, among other things, innovation in SMEs , allocating a budget 17 billion € for „The Leading position in the industry Sector” Program and 0.6 billion € for „Innovation in SMEs program” . This Program follows financing the evaluation of the design and feasibility of the project, development and research along with demonstration and market replication and wants to facilitate the access to private capital. The participant must be an SME , which presents an eligible business plan. As a support pillar for this program there is a Guarantee Fund for the participants, which was established to cover the risk associated with non-recovery of the funds owed to the EU.

COSME Program (Program for the Competitiveness of Enterprises and small and medium-sized Enterprises) which is scheduled for 2014-2020 is the first program which targets exclusively the SMEs by promoting the start-ups,encouraging the entrepreneurial culture and facilitating the access to finance. The budget achieved 2.3 billion € which will be used for offering reimbursable grants for a number of 39,000 enterprises/year.

Common Agriculture Policy (CAP) was designed to help young people get started in farming (by offering grants to procure lands, equipment or machinery) and established and new farmers to obtain the newest technical production methods. Is focusing on food safety, efficiency and comply with market requirements production . The budget is divided in 312.7 billion € for direct helps and market costs and 95.6 billion € for rural development.

„Creative Europe” Program is continued till 2020 and it wants to encourage areas such as culture, performing arts, television, music , literature or media through its subprograms : „Culture”and „Media”. The total budget achieves 1.46 billion € for 2014-2020 and it will support tens; artists; performing arts, audio-visual or cultural operators; or any individual or legal person , including SMEs who operates

in the culture or the media sector to change experience across Europe, to develop digital skills or to reach new audience. The program will support 250,000 initiatives, most of them being individual projects.

Erasmus for Young Entrepreneurs offers the chance for entrepreneurs that manage small businesses to change experience with other entrepreneurs in participating countries, in an interval of 1-6 months. The program has a budget which achieves 4,650,000 € which is used in founding transportation, accommodation and subsistence costs. It is open for people who want to start-up a business, who wants to develop their ideas, but does not the experience to measure the risks or managers who want to expend their business and need fresh ideas.

3. Conclusions

After the sudden fall of the number of SMEs and direct investments in 2008 , this type of companies slowly began to recover, leveling a ground that is conducive for start-ups, trained also by the various governments and European programs and by the new EU policy orientations towards SMEs development. The most chosen sectors by SMEs distribution by number is trade, with a rank of 37.4 % of all SMEs, followed by professional, scientific and technical area. According to profitability, the most efficient sectors are services, which provides 31.6 % of SMEs profit, and trade with 27.3 % from the total.

Compared with the average of Europe, Romania holds a smaller percentage of micro-enterprises from total SMEs (92.54 % and 87.05 %), but the Romanian growth rate of SMEs number surpasses the European one, maintaining the upward flow. Considering that the Romanian economy is still in development, I believe that in short time the environment required for developing an SME will become a proper one and it will be studied by opportunities.

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THE ECONOMIC CRISIS, A NEW LESSON FOR MACROECONOMICS

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Abstract: *This paper is trying to point out the devastating effects that the economic crisis had on a global context while pointing out who is to blame, and how this catastrophically event could be prevented. Moreover, it gives the reader some insight details of how this event took place and how the domino effect reached all countries. On the other hand, the knowledge based society concept is explained, as well as some intriguing facts about the "Y" generation's characteristics, in comparison with the "X" generation. All of these are approached in order to find a way to overcome the crisis, to help the developing countries understand the impact that intangible assets have on their economies and realize the importance of intellectual capital.*

Keywords: crisis, knowledge-based economy, intellectual capital.

JEL classification: I

Introduction

As time passes by, we are more and more on the run, trying to achieve our goals and still enjoy every bit of life. But someone say that we cannot acknowledge the light without the dark, and vice versa.

The financial crisis unleashed a new realization that America's economic system was not only inefficient and unstable but also fundamentally unfair. Indeed, in the aftermath of the crisis (and the response of the Bush and the Obama administrations), almost half thought so, according to a recent poll.

It was rightly perceived to be grossly unfair that many in the financial sector (which, for shorthand, Joseph Stiglitz often refers to as "the bankers") walked off with outsize bonuses, while those who suffered from the crisis brought on by these bankers went without a job; or that government bailed out the banks, but was reluctant to even extend unemployment insurance for those who, through no fault of their own, could not get employment after searching for months and months; or that government failed to provide anything except token help to the millions who were losing their homes.¹

What happened in the mist of the crisis made clear that it was *not* contribution to society that determined relative pay, but something else: bankers received large rewards, though their contribution to society—and even to their firms— had been *negative*. The wealth given to the elites and to the bankers seemed to arise out of their ability and willingness to take advantage of others. Americans, Europeans, and people in other democracies around the world take great pride in their democratic institutions. But the protesters have called into question whether there is a *real* democracy.²

However, the crisis effects are still present in many developed and developing countries, leaving scars on all the generations. Some may say that intangible assets are the key of overcoming this situation. Most of them believe that the knowledge based economy is what the today society actually needs. An environment where the intellectual capital is put in value, and where the new generation can come with their creativity and knowledge and put them in practice for changing the society into a better one.

The greed from Wall Street and the mirage of easy money

¹ Joseph E. Stiglitz (2012), *The Price of Inequality*, How today's divided society endangers our future, pp. 11-13

² *Ibidem*, pp. 13-14

The global economic crisis of 2008 cost tens of millions of people their jobs, their savings and their homes. It started in 2000 when Islands government began a broad policy of deregulation that would have disastrous consequences. First for the environment and then for the economy.

They started by allowing multinational corporations to build giant aluminum melting plants and exploit Islands natural geothermal and hydroelectric resources. At the same time the government privatized Islands three largest banks (Islandsbanki, Kaupthing and Glitnir). The result was one of the purest experiments in financial deregulation ever conducted.

In a five year period these three tiny banks which had never operated outside of Island borrowed 120 billion dollars, ten times the size of Islands economy. There was a massive bubble, stock prices rose and house prices more than doubled. Islands bubble gave rise to people like Jan Oskar Johannessen. He borrowed billions from the banks to buy in high end retail businesses in London.

Accounting firms like KPMG, audited the islanding banks and investment firms and found nothing wrong. American rating agencies said Island was wonderful.

In February 2007, the rating agencies decided to upgrade the banks to the highest possible rate, AAA. It went so far that the governors traveled with the bankers as a PR show. When Islands banks collapsed at the end of 2008, unemployment tripled in six months. A lot of people lost their savings. The government regulators who should protect the citizens of Island had done nothing. One third of Islands financial deregulators went to work for the banks.

In September 2008 the bankruptcy of the U.S. investment bank Lehman Brothers and the collapse of the world largest insurance company AIG triggered a global financial crisis. The result was a global recession which cost the world tens of trillions of dollars and doubled the national debt of the United States. According to Nouriel Roubini, this crisis was a hugely expensive crisis. This crisis was not an accident. It was caused by the out of control industry.

Since the '80, the rise of the U.S. financial sector has led to a series of increasing severe financial crisis. Each crisis caused more damage while the industry made more money.

After the Great Depression, the U.S. had 40 years of economic growth without a single economic crisis. The financial sector was tightly regulated, most regular were local businesses and they were prohibited from speculating with depositors savings.

Investment banks which handled stock and bond trading were small private partnerships. In 1980 the financial industry exploded. The investment banks went public giving them huge amounts of stockholders money. People on Wall Street started getting rich.

In 1982 the Regan administration deregulated savings and loan companies allowing them to make risky investments with their depositor's money. By the end of the decade hundreds of savings and loan companies had failed.

During the Clinton administration, continued under Alan Greenspan and Treasury secretary Robert Roubin, the former CEO of the investment bank Goldman Sachs and Larry Summers a Harvard economic professor.

The financial sector Wall Street, being powerful, having lobbyists, lots of money step by step captured the political system, both the Democratic and the Republicans.

The financial sector consolidated in few gigantic firms. Each of them was so large that their failure could threaten the whole system. In 1998 Citicorp and Travelers merged to form Citigroup, the largest financial services company in the world. The merger violated the Glass – Steagle act, a law passed after the Great Depression which prevented banks with consumer deposits from engaging in risky investment banking activities. It was illegal to acquire Travelers. The Federal Reserve gave them an exemption for a year and then they got the law passed. Congress passed the Gramm-Leach-Bliley Act known to some as Citigroup Relieve Act.

Deregulation and advances in technology led to an exploitation of complex financial products called derivatives. Using derivatives, bankers could gamble on virtually anything, they can bet on the rise or fall of the oil prices, the bankruptcy of the company and even the weather.

By the time George W. Bush took off as in 2002, the U.S. financial sector was vastly more profitable, concentrated and powerful than ever before. Dominating this industry, were five investment banks (Goldman Sachs, Morgan Stanley, Lehman Brothers, Merrill Lynch, Bear Sterns), two financial conglomerates (Citigroup, JP Morgan), three security insurance companies (AIG, MBIA, AMBAC) and three rating agencies (Moody's, Standard & Poor's, Fitch).

Linking them all together was the securitisation food chain, a new system which connected trillions of dollars in mortgages and other loans with investors all over the world. In the new system lenders sold the mortgages to investment banks, the investment banks combine thousands of mortgages and other

loans including car loans, student loans, and credit card debt to create complex derivatives called collateralized debt obligations or CDO. The investment banks sold the CDO's to investors. Now when home owners pay their mortgages, money went to investors all over the world. The investment banks paid rating agencies to evaluate these CDO's and many of them given a AAA rating which is the highest possible investment rate. This made CDO's popular with retirement funds.

During the bubble the investment banks were borrowing heavily to buy more loans and create more CDO's. The ratio between borrowed money and the banks own money was called leverage. The more the banks borrowed the higher their leverage. In 2004, Henry Paulson the CEO of Goldman Sachs, helped lobby The Securities and Exchange Commission (SEC) to relax limits on leverage, allowing the banks to sharply increase their borrowing.

AIG the world's largest insurance company was selling huge quantities of derivatives called credit default swaps (CDS). For investors who own CDO's, CDS worked like an insurance policy. An investor who purchases CDS paid AIG a quarterly premium, if the CDO went bad, AIG promise to pay their investors for their losses. But unlike regular insurance, speculators could also buy CDS from AIG in order to bet against CDO's they didn't own.

The financial industry turns its back to society, corrupted the political system and plugged the world's economy to crisis. At enormous costs we've avoided disasters, but the men and institutions that caused the crisis are still in power and that needs to change. They will tell us that we need them and what they do it's too complicated for us to understand, they will tell us that won't happen again, they will spend billions to fight against the reforms, it won't be easy but are things worth fighting for.

The knowledge based economy – a growing solution

Knowledge and innovation are a few of the most important tools in the 21st century economy but, as other instruments, financial or educational related, these one are very destructive if they are not used properly, or with bad intentions.

Therefore, it can be acknowledged the importance of intellectual property and its rights. Intellectual property (IP) refers to creations of the mind, such as inventions; literary and artistic works; designs; and symbols, names and images used in commerce.³

IP is protected in law by, for example, patents, copyright and trademarks, which enable people to earn recognition or financial benefit from what they invent or create. By striking the right balance between the interests of innovators and the wider public interest, the IP system aims to foster an environment in which creativity and innovation can flourish.⁴

Nowadays, the knowledge-based economy is a subject of big importance, well known and applied from the perspective of developed countries, and crucial for the developing countries. The knowledge based economy" is an expression coined to describe trends in advanced economies towards greater dependence on knowledge, information and high skill levels, and the increasing need for ready access to all of these by the business and public sectors.⁵

The "Y" generation, as it is known the generation borne between 1980's and the 2000's, is an important part of the human resources of the knowledge based economy because it has the necessary education, and knowledge, the need to continuously overcome themselves, as well as the boldness of contesting and improving rules.

This new generation, has grown in the same time as the internet has, being very close to technology, having supportive parents, being able to choose what they want to do, and having a lot of free time on their hand. This is why they are putting more price on a flexible job than on their income, they want to be able to express themselves more than the security of their jobs, and they are motivated beyond money. This is the product of the "X" generation, we are what our parents wanted to be: free, creative, intelligent, bold and having the courage of assuming risks.

As a paradox, it seems that the "Y" generation has enter a conflict with the "X" generation, our parents and/or grandfathers generation, that are still living in a capitalist economy, based more on fixed production assets, neglecting information, creativity, knowledge, etc. This creates a gap between the two

³ World Intellectual Property Rights, <http://www.wipo.int/about-ip/en/>, accessed at 1st of May 2014.

⁴ World Intellectual Property Rights, <http://www.wipo.int/about-ip/en/>, accessed at 1st of May 2014.

⁵ Organization for Economic Co-operation and Development, <http://stats.oecd.org/glossary/detail.asp?ID=6864>, accessed at 1st of May 2014.

types of different economies, as well as among the two generation which can easily come in contradiction, therefore obtaining the reverse of the synergy effect.

The cause of this paradox is the fact that those from the “X” generation are having two total different reactions when they are put in the situation of being a parent, respectively an employer. As parents, they want that their children to have everything on their disposal in order for them to grow, and as employers they want the young to be discipline, hardworking and, most of the time, to swallow their ideas.

Therefore, the young leave in various countries after their dream job, not only because of the salary and a flexible schedule, but first of all because of the environment in which they can develop, advance, overachieve themselves on the basis of their creativity, intelligence and their nerves. This environment is actually the knowledge based economy, which is present in the developed countries, countries that are benefiting of this “brain exodus”. Meanwhile, the developing societies are reluctant of their creativity and innovation, while the unsubordinated “Y” generation cannot integrate in the old capitalist economy.

Thus, it is not only a loss of workforce, but of money for the constant training of these young people, as in this new type of economy the intellectual capital is very important, and it is lost in the same time with the employer or the recent graduated, as we are no longer talking about fixed assets. Moreover, the intangible assets are those priceless strategic pawns: know-how, competences, abilities, knowledge, skills, etc.

The “Y” generations motivation is rather the negative example given by their parents working styles: not having a true choice on what filed they want to perform, working over schedule and having an inflexible program, not being paid on their performance, not being able to let the creativity flow in their work, more precisely, being forced to follow the rules of their superior and never contradict them, and not being able to develop to their potential. Maybe this is “why” they are always questioning everything.

In order to overcome the economic crisis it must be acknowledged the importance of the intellectual capital, of the human resources as well as the valorization of the differences among the “X” and “Y” generations, therefore passing towards the knowledge based economy, where these generations can bring out the best in them and blossom into a stronger and innovative society. Maybe this is why our parents raised us like they did: they, somehow anticipated the future, or created it.

Conclusions:

Markets, by themselves, even when they are stable, often lead to high levels of inequality, outcomes that are widely viewed as unfair. Recent research in economics and psychology has shown the importance that individuals attach to fairness.

More than anything else, a sense that the economic and political systems were unfair is what motivates the protests around the world. In Tunisia and Egypt and other parts of the Middle East, it wasn't merely that jobs were hard to come by but that those jobs that were available went to those with connections.⁶

In the United States and Europe, things seemed more fair, but only superficially so. Those who graduated from the best schools with the best grades had a better chance at the good jobs. But the system was stacked because wealthy parents sent their children to the best kindergartens, grade schools, and high schools, and those students had a far better chance of getting into the elite universities.

Real democracy is more than the right to vote once every two or four years. The choices have to be meaningful. The politicians have to listen to the voices of the citizens. But increasingly, and especially in the United States, it seems that the political system is more akin to “one dollar one vote” than to “one person one vote.” Rather than correcting the market's failures, the political system was reinforcing them.

The failures in politics and economics are related, and they reinforce each other. A political system that amplifies the voice of the wealthy provides ample opportunity for laws and regulations—and the administration of them—to be designed in ways that not only fail to protect the ordinary citizens against the wealthy but also further enrich the wealthy at the expense of the rest of society⁷.

The economic crisis struck all, the strong and the weak, the rich and the poor, and some of them did not even see it coming. Like all mistakes, it was a human error, which destroyed economies and revealed the weaknesses of our society.

⁶ Joseph E. Stiglitz (2012), *op. cit.*, pp. 10-11

⁷ *Ibidem*, pp. 14-15

Likewise, our parents did not realized that they have created a new economy, based on knowledge, information, creativity, innovation, skills and a lot of opportunities, while they just wanted free, creative children that can fulfill their dreams, thus, revealing weaknesses of the capitalist society.

All these phenomena's bring something extremely important: change. Changes are not always good from some perspectives, but they bring us innovation, they make us get off our routines, challenge ourselves and go beyond our limits. Only by cooperation among generations, societies and countries can the 21st century economy override the 2008 financial crisis.

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THE EVOLUTION OF DEFENCE, PUBLIC ORDER AND NATIONAL SECURITY EXPENDITURES IN ROMANIA

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Abstract: *The study is focused on the evolution of the military, public order and national security expenditures in Romania. In the content of the study there will be presented the institutions that are funded for activities involving national defence, public order and national security, such as Romanian Army, Ministry of Internal Affairs (Police, Gendarmerie, Fire Dept.) or the secret services. Also, there will be discussed the causes of budgets' modifications, like financial crisis that affected Romania, or other macro-economic involvings. As an interesting element, in the study will be presented the military expenditures in the world and a comparison between the European Union's Armies (European Defence Agency) expenditures and United States' Army expenditures.*

Keywords: expenditures, defence, order, security

JEL classification: H5

1. Introduction

Defence expenditures, together with those relating to public order and national security are very important for any state, the institutions engaged in this system having allocated significant resources (both human and financial).

Regarding defence expenditures' evolution in the world, these present an ascending trend in the past decade, while in Romania the evolution is not constant, the defence, public order and national security expenditures knowing both increases and decreases.

In the study there will be presented the modifications regarding allocations of financial resources for defence expenditures in the world, towards the causes that led to these modifications, and in Romania's case, there will be presented the evolution of defence, public order and national security expenditures, and also, the cause that determined the budgets' modifications.

2. Approaches regarding defence, public order and national security expenditures

Public expenditures reflect the second phase of the distribution function of public finances, namely the distribution of financial resources to different destinations.⁸

Public spending is a financial concept whose content is the expression in cash of socio-economic relations arisen between state (on one hand) and the society (on the other) on the use of financial resources of the state.⁹

The defence, public order and national security expenditures are supported from the State's Budget.

The national budget is not just a technical tool that summarizes revenues and expenses, but is the most important political statement made by the executive during the year reflecting the fundamental values underlying national policy.¹⁰

⁸ F. Macarie, *Finanțe și bugete publice*, (Cluj-Napoca: curs online Facultatea de Științe Politice, Administrative și ale Comunicării, Universitatea Babeș-Bolyai, <http://fspac.ubbcluj.ro/>), 13

⁹ Radu Stroe, D. Armeanu, *Finanțe, Ediția a II-a*, (București: Biblioteca digitală a Academiei de Studii Economice București)

Defence, public order and national security's system is one of great importance for the Romanian state, involving many institutions and an important number of employees. In this system activate 239 724 people (according to the Ministry of Public Finances), with different professions: military personnel (including gendarmes, fire-fighters, intelligence officers), police officers (from Romanian Police and Romanian Border Police), public servants with special status from Department of Corrections or magistrates (judges or prosecutors).

According to functional classification of public expenditures, these are grouped by different spheres of activity. The expenditures for defence, public order and national security are found at "Part 2 DEFENCE, PUBLIC ORDER AND NATIONAL SECURITY" in State's Annual Budget.

In the State Budget Law, the fields are treated separately. *Defence* is found independently on a budget chapter and *public order and national security* can be found in another chapter.

In the budget chapter regarding defence, there are subchapters for *national defence* and *participation in missions outside the state* and in *public order and national security* chapter, there are more specific budget subchapters for public institutions specialized in certain areas, like: Public Order (Police, Gendarmerie, security and border surveillance), national security, fire protection, judicial and prison authorities.

According to the ministries' budgets¹¹ in Romania are nine main credit administrators whose work is contained in *public order and national security*, namely: Ministry of Interior, Ministry of Justice, the Public Ministry, the Ministry of Defence, the Romanian Intelligence Service, Foreign Intelligence Service, the Protection and Guard Service, the Special Telecommunications Service and the High Court of Cassation and Justice.

Ministry of Defence is the only institution funded for defence. Institutions funded from *public order and national security* budget chapter are: Romanian Police, Romanian Gendarmerie, Romanian Border Police, Fire Department (from the Ministry of Internal Affairs), National Administration of Penitentiaries, Trade Register, the courts (from the Ministry of Justice), intelligence (SRI, SIE, SPP), the High Court of Cassation and General Prosecution Office, the Special Telecommunications Service and Ministry of Defence (military courts, Directorate of Defence Intelligence).

3. The evolution of defence expenditures in the world

In the period 2000-2012, global defence spending showed an increasing trend from year to year, ranging from \$ 1120 billion in 2000 to \$ 1741 billion in 2012¹².

This increase is mainly due to international military interventions of the United States of America, whose military budget represents 40 % of the total defence expenditures in the world.

Regarding the continents, during the last 12 years, Africa had doubled its defence spending, rising from 19.3 billion dollars from 39.2 billion dollars. An explanation of this phenomenon may be the increasing the number of civil wars in African countries.

American continent holds 44.6 % of the total military spending worldwide. They increased 1.7 times between 2000 to 2012, the absolute maximum was reached in 2010, that was 817 billion dollars. The continued growth is due, as mentioned above, the military intervention of the U.S. military, mainly in countries like Iraq or Afghanistan, especially after 9/11, and ongoing modernization of the U.S. Army. For Asia and Oceania, treated under one dome by SIPRI, the military budgets have increased from year to year, leading to an increase of 93% in 2012 compared to 2000 (from 202 billion dollars to 390 billion dollars).

Europe is the the most constant continent from this point of view, only increasing the defence budgets by 13 % during the studied period, ranging from 360 billion dollars in 2000 to 407 billion dollars in 2012. The absolute maximum was in 2009: 428 billion \$. This constancy is because European countries do not intervene very heavily in international conflicts as U.S.A. do.

¹⁰ E. Florișteanu, *Finanțarea apărării: abordare din perspectiva globalizării securității*, (Sibiu: Editura Universității „Lucian Blaga” din Sibiu, 2007), 59

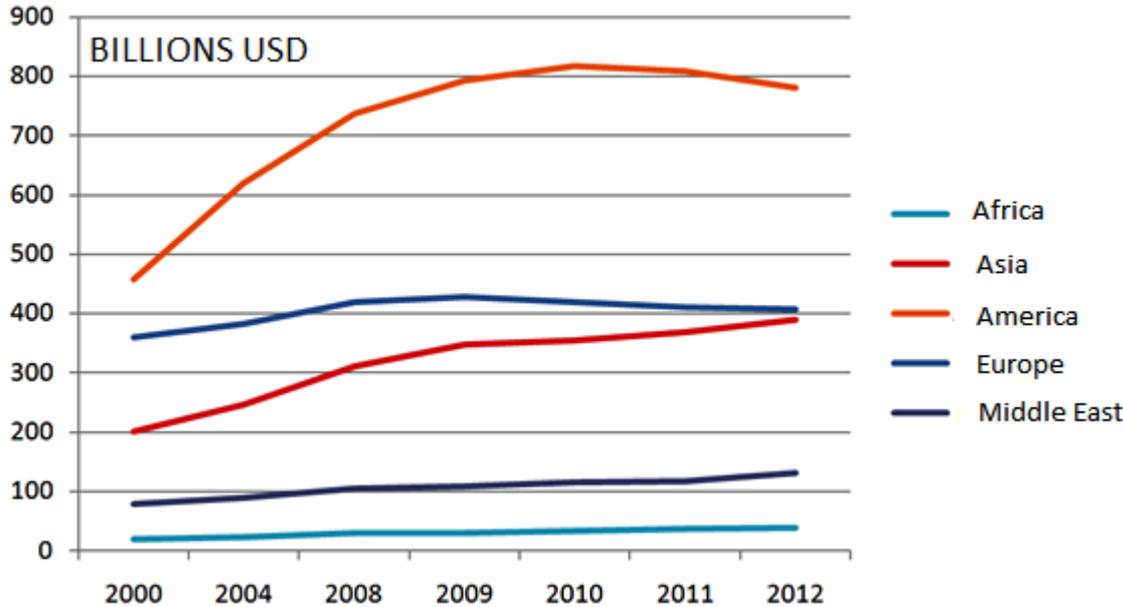
¹¹ Anexa 3 a Legii bugetului de stat pe anul 2013, „Bugetele ordonatorilor principali de credite” <http://www.mfinante.ro/bug2013.html>

¹² SIPRI Military Expenditure Database© SIPRI, Stockholm International Peace Research Institute, http://www.sipri.org/research/armaments/milex/milex_database

SIPRI treats independently the Middle East, namely Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Yemen, Syria, Qatar, etc. The defence budget in this area increased from 69 billion dollars in 2000 to 132 billion dollars in 2012.

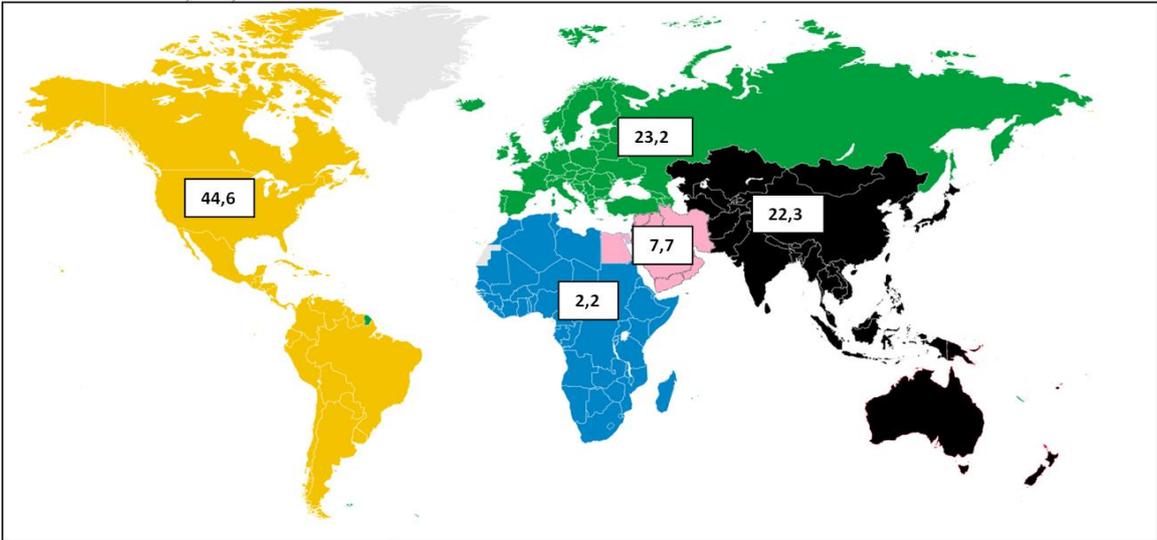
One important thing to note is that the military budgets of American and European continents show a decreasing trend in America from 2010 to the present, and in Europe in 2009. The decrease was 4.8 % America and 4.9 % in Europe. This is largely due to the financial crisis, so that developed countries have not allocated large funds to modernize their armies.

Figure 1: The evolution of defence expenditures in the world



The contribution (as percentage) of the regions to the worldwide defence budget is shown in the figure below:

Figure 2: The contribution (%) of the continents to the worldwide defence budget



4. The nominal evolution of the defence, public order and national security expenditures from 2009 to 2013

From the processed data, it can be seen that for *public order and national security*, the budget allocations are much higher than in the *defence's* chapter, because from the budget chapter regarding *public order and national security*, there are financed much more institutions (9 institutions) than in the case of defence, Romanian Army being the only institution that get money from *defence* budget chapter.

During the 5 years of study, the amounts allocated to defence, public order and national security vary, the biggest difference being between 2011 and 2013, meaning that 2013 were allocated with 15.44 % more resources than in 2011.

In 2009 and 2010, the budget is constant, the changing being under one percent, from 15,802,498 to 15,756,360 thousands lei. The defence got in 2010 with 15 % fewer resources than in 2009, while public order receives 5 % higher funds in 2010. A possible explanation of this phenomenon, namely decreasing the defence budget and increasing the budget for public order, would be the need of getting additional funds for the modernization of the Border Police for it to align to the standards required for accession to the Schengen Area, the well-known fact that Romania has made considerable efforts in this regard.

The most dramatic decrease in the budget for defence, public order and national security was in 2011, a budget by 7.3 % lower than a year earlier, down from 15,756,360 thousands lei to 14,604,872 thousands lei. Budget for defence drops 8 % to 3,785,789 thousands lei, and the public order's by 7 % to 11,644,629 thousands lei in 2011.

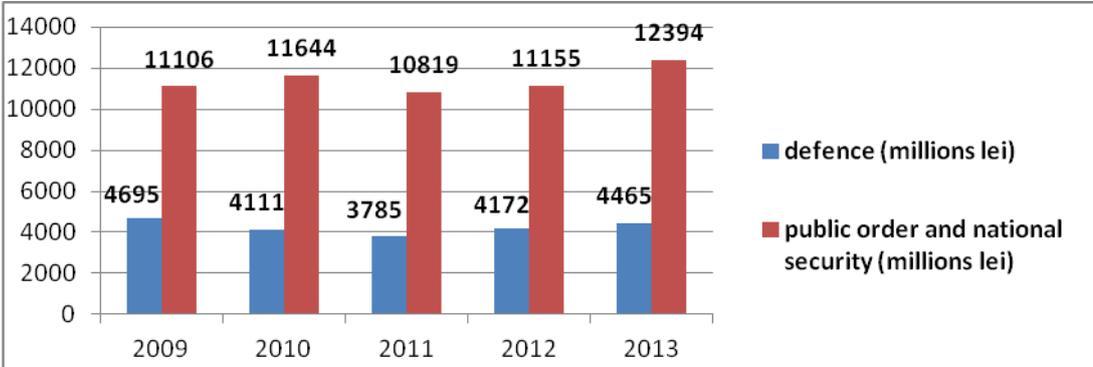
The most plausible cause of this decline is that the peak of the financial crisis in Romania was in May 2010, when the government cut public sector wages by 25 %. Besides this extreme measure, the VAT (Value Added Tax) increased by 5% in the same summer.

These measures were taken based on weak revenue collection to the state budget. Because of this, the 2011 budget was drawn more cautious, defence and public order expenses decreasing by 7-8 %. In 2012, this system's money allocations returned more or less to normal, reaching a value of 15,327,511 thousands lei.

The defence budget has increased by 10 % since 2011, while public order and national security budget increases only by 3 %. Greater growth of the defence budget is because in 2011 the funds were very low, leading to a minimum of five years turning both low. The measure of increasing the budgets was taken because in 2011 were very small allocations, but also because of the fact that Romania had begun to emerge from the crisis.

Year 2013 represents the maximum budget allocations for defence, public order and national security, being the highest in the years covered by the study - 16,860,288 thousands lei, 9% higher than in 2012. This increase is due to the fact that in 2012 there was economical growth and this was expected and provided in the State budget.

Figure 3: The evolution of defence, public order and national security expenditures (2009-2013)



5. The comparison of defence spending between European Union and United States of America

Regarding defence, Americans give more importance to this area to Europeans, the following comparisons are relevant:¹³

- Total Defence Expenditure: EU (European Union): € 194 Bln / U.S. (United States): € 498 Bln
- Defence Expenditure as % of GDP: EU: 1,67% / US: 4,90%
- Defence Expenditure as % of Total Government Expenditure: EU: 3,3% / US: 11,7%
- Defence Expenditure per Capita: EU: € 392 / US: € 1.622
- Military Personnel: EU: 1.668.537 / US: 1.418.142
- Civilian Personnel: EU: 426.335 / US: 738.872
- Defence Spend per Military: EU: € 166.264 / US: € 351.353
- Investment (Equipment Procurement and R&D) per Military: EU: € 24.522 / US: € 108.920
- Personnel Expenditure: EU: € 98,4 Bln / US: € 104,3 Bln
- Operations & Maintenance: EU: € 44,2 Bln / US: € 194,1 Bln
- Investment (Equipment Procurement and R&D): EU: € 40,9 Bln / US: € 154,5 Bln

As can be seen from the above, the United States allocates funds much higher both nominally and as a percentage of GDP on defence than the European Union. Being almost equally armed personnel, comparisons are relevant.

Strengths of the U.S. military is that it is given very high sums for investments exceeding European Union at this chapter.

6. Conclusions

In recent years there is a very significant allocation of funds for military expenditure in the world, giving special importance for endowment and development of the Army.

In Romania, there are allocated significant resources for defence, public order and national security, even if these allocations to a system as important for the state have been affected by the global financial and economic crisis. But it is appreciated that there is a tendency to increase allocations for defence, public order and national security expenditures, especially now, in the new security context, when the situation is quite "hot" at the country's borders.

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BUSINESS TOURISM – HOW TO GRAB NEW OPPORTUNITIES

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Abstract: *This paper analyses the developments of the business tourism market in the current economic environment. Business tourism stands out as one of the most dynamic sectors of the economy, the trend being sustained as a result of the expansion of international relations in all fields and especially due to globalization of economic life. Internationally, business tourism has reached new and impressive levels. The World Tourism Organization estimated it at over 14 % of the tourism movement and nearly 20 % of all tourism revenues. Given the close connections with diverse areas, business tourism was marked recently by an increasing trend closely related to the overall economic development manifested worldwide, with the opening of new markets, the intensification of international relations and contacts of all kinds.*

Keywords: business tourism, events industry, business model

JEL classification: F

Tourism is the biggest business of the new millennium, both worldwide and in the European Union. Business tourism - part of the tourism activity - is the most dynamic form of tourism, accounting for about 20 % of all international travel and nearly 25 % of total tourism receipts, being one of the most "demanding" and more "expensive" activities.

Tourism in general and business tourism in particular emerged with modern human society, even though this term was not defined until only in the late-nineteenth century.

Business tourism involves generally moving to another town, at a distance greater than 50 km from the place of origin of the business tourist, travel driven purely by a business, an event or an educational purpose. There are many kinds of business travel: individual trips, group trips, travel at events (Meetings, Incentives, Conventions, and Exhibitions (M.I.C.E), team building and training trips.

Forms of Business Travel

- Congresses and conventions
- Conferences and meetings for associations, companies, institutions
- Training
- Exhibitions and trade fairs
- Product launches, incentive travel
- Individual Business Travel
- Travel for business officials in state institutions.

The business tourism market is the meeting place of the suppliers of these specialized services and their users. The main suppliers of the industry meetings and conferences are those that provide specific services for this market. Great conference centers are the best supporters of business meetings, but museums, theatres, castles, boats and even theme parks are able to be venues for events that need a special place to be memorable. Hotels also have their important place in the business meetings market, due to the possibility of hosting a large number of small and medium sized events.

The dominance of hotels in this market is clouded by other types of locations. Even though today there are few suitable locations for large conferences, these events can bring important benefits to the destinations where they occur. Conference centers are built mostly with public funds because few of them bring large profits but instead contribute significantly to the local economy when hundreds of delegates arrive in town for a few days. The best examples are major universities that have invested in accommodation units and meetings in order to increase their income.

On the other side of the business tourism market are the beneficiaries. They can be classified into three categories: corporate sector, associations and public sector.

The corporate sector is represented by companies whose main interest in organizing the meetings is one strictly related to commercial purpose: conferences to discuss strategies, launching new products and conducting training sessions for employees. Leisure activities that usually accompany conferences allow participants to create a better team spirit and to increase their attachment for the company.

Associations can be local, regional, national or international. Although their members are dispersed, they should meet regularly to provide the latest trends or developments in their field of activity. The biggest competition between destinations is mainly focused on conferences of international associations that involve a large number of delegates, last longer and, as a rule, are less common. Fortunately for travel agents involved in such events, the number of international associations increases due to increasing professional specialization.

The public sector - local and central authorities - acquire services from the business tourism organizers both for delegations, and especially for organizing events at local, national or international scale. Education and health sectors are at the same time the largest consumers and organizers of such activities.

M.I.C.E. Tourism (Meetings, Incentives, Conferencing, and Exhibitions) represents the most well adapted sieve to obtain tourism products which can grow and sustain the influx of business tourism. It capitalizes on the existing economic dynamics and it creates around it a touristic offer composed of professional meetings, incentives, conferences and fairs which can create their own audience becoming less dependent on the local economic fluctuations. In addition to the above, this source of tourism has two very interesting aspects which are equally important to tourism in general and to the economy of a specific destination: the first one is that the budget allocated to business tourism is usually a very generous one. The second aspect is that as a side effect, a business trip might lead to the "discovery" of a destination and consequently to the possibility of a return on a family trip. As an added bonus, M.I.C.E. tourism allows young local professionals to get in touch with trends and news from across different fields of business and also personally meet recognized experts in these fields. Therefore M.I.C.E. represents an important tool which can be used to develop and improve the human resources characteristic of a specific destination.

Worldwide, the United States maintained the first place in the top MICE destinations (as of May 15, 2013 by evisionadmin) United States hosted 833 congresses and conventions of the International Congress & Convention registered Association (ICCA) in 2012, compared to 759 events in 2011.

Table 1: World ranking of M.I.C.E destinations

Number of meetings per country			Number of meetings per city		
Rank	Country	Meetings 2012	Rank	City	Meetings 2012
1.	U.S.A	833	1.	Vienna	195
2.	Germany	649	2.	Paris	181
3.	Spain	550	3.	Berlin	172
4.	United Kingdom	477	4.	Madrid	164
5.	France	469	5.	Barcelona	154
6.	Italy	390	6.	London	150
7.	Brazil	360	7.	Singapore	150
8.	Japan	341	8.	Copenhagen	137
9.	Netherlands	315	9.	Istanbul	128
10.	China – P.R.	311	10.	Amsterdam	122
11.	Austria	278	11.	Prague	112
12.	Canada	273	12.	Stockholm	110
13.	Australia	253	13.	Beijing	109
14.	Switzerland	241	14.	Brussels	107
15.	Sweden	233	15.	Lisbon	106
16.	Republic of Korea	229	16.	Bangkok	105
17.	Portugal	213	17.	Helsinki	100
18.	Argentina	202	18.	Seoul	100
19.	Belgium	194	19.	Buenos Aires	99
20.	Denmark	185	20.	Budapest	98

Source: International Congress & Convention Association (ICCA), 2013

Events tourism is the tourism that connects the corporate world and organizations with the travel world (tour operators, DMC, hotels). There are many corporations in various fields coming at MICE international fairs such as IMEX and EIBTM and are actively seeking tourism companies to cooperate with, destinations where they can organize events.

The events industry is a very important business but, unfortunately, Romania lacks some important features to be truly present in this market. For example, in order to accommodate large events, Bucharest needs an exhibition and conference center with a capacity of at least 7000-8000 seats, about 25 meeting rooms with a capacity between 50 and 300 seats and adjacent exhibition spaces, but costs for such an investment are about 60-80 million euros.

In terms of hotel infrastructure, Romania is likely to generate significant revenues from the events industry because the number of 4 and 5-star hotels is much higher than those of 2 and 3-stars. However, Vilnius organizes for instance more events than Bucharest. Moreover, Romania ranks 26th out of 35 European countries in terms of organizing international events, while Serbia is ranked 24th. Also, Bucharest ranks only 51st out of 178 European cities organizing events. Sibiu, Cluj, Timisoara, Arad and Iasi are a few other cities designated by M.I.C.E. representatives as having the potential to become destinations for the events industry.

Business tourism in Romania is a growing market in recent years, because of the need of companies to use this tool to develop their business in the current economic context. In Romania, although there are no statistics on the value of this business travel market, operators estimate it somewhere around 150-200 million euros annually, with growth prospects in the coming years.

Currently, over 60 % of the overnight stays in hotels of higher-end in Romania are represented by business travel. The percentage increases to 75% of all overnight stays in major cities in Romania and 93 % in hotels in Bucharest. Happy Tour, the largest travel agency in Romania according to its turnover, announced an increase of 16 % in revenue from corporate events (M.I.C.E.) in 2013.

In 2013 the M.I.C.E. team (Meetings, Incentives, Congresses, Exhibitions) of Happy Tour managed over 1.500 events attended by over 45.000 people, having a rich experience in organizing business trips in the incentive system. 70 % of these events were held in Romania and 30 % abroad. The company's strategy is to continue to focus on the corporate and M.I.C.E. area, aiming to make event organizing represent 20 % of the total activity of Happy Tour in the next three years. Happy Tour developments in recent years in M.I.C.E. area brought them the award "Best Travel Agency in Romania" and the award for the "Best Business & M.I.C.E. Agency in 2013", awarded at the gala Hotel Tourism & Leisure Investment Conference 2013. The M.I.C.E. division (Meetings, Incentives, Congresses, and Exhibitions) is a growing business line for Happy Tour, currently totaling 8 % of the overall activity of the travel agency. The turnover for the Happy Tour group in 2012 was over 57 million euros.

Perfect Tour Travel Agency recorded an increase of 88 % of the total turnover, from 25 million euros to over 47.9 million euros in 2013, due to the contribution of cruise sales and business segment of the company.

Eurolines Romania Group, which includes 20 companies from Romania, Germany and Republic of Moldova, achieved in 2013 a turnover of 76.74 million euros, up 30% compared to 2012.

Danubius Travel, the tour operator of Eurolines group specialized in incoming and business travel, will have an increase of about 35% in turnover in 2014 compared to 2013, up to about 8.6 million euros. The number of foreign tourists who come to Romania by Danubius Travel is estimated to grow by 55 % this year, representing over 100.000 people.

Romania has the necessary qualities to become one of the most popular countries of Eastern Europe in terms of overall tourism and business tourism in particular. Elements favoring this form of tourism are related to several aspects such as:

- ✓ unique destination with natural landscapes
- ✓ placed in the European scenery and easy accessible by aircraft from all over the world
- ✓ millennia of culture, history and traditions that are reflected in the cultural heritage of Romania
- ✓ the well-known hospitality of the Romanians, with an advanced stage of implementation of international standards in the hospitality industry
- ✓ appearance on the market of new centers of business and new hotel chains: Marriott, Hilton, Crown Plaza, Intercontinental, Howard Johnson, Sofitel, Best Western, Ibis, Ramada, Golden Tulip, Novotel, which are expanding from year to year;
- ✓ dedicated infrastructure, in the process of expansion and modernization;
- ✓ professional specialization of Romanian companies that are constantly increasing their ability to take over organizing of more large-scale meetings;
- ✓ civil and political stability as well as a member of the European Union starting 2007

Table 2: The targets on foreign visitor arrivals in Romania, according to the source (country) during 2006-2026

Origin	2006 ref. (th.)	2011 (th.)	Growth 2006-2011 (annual %)	2016 (th.)	Growth 2011-2016 (annual %)	2021 (th.)	Growth 2016-2021 (annual %)	2026 (th.)	Growth 2021- 2026 (annual %)
UE	2803	3777	+6,15	4990	+5,73	6569	+5,65	8642	+5,64
- C/E	1547	1974	-5,0	2402	+4,0	2852	+3,5	3307	+3,0
- N	544	781	+7,5	1121	+7,5	1610	+7,5	2311	+7,5

- S	611	877	+7,5	1259	+7,5	1808	+7,5	2595	+7,5
- V	101	145	+7,5	208	+7,5	299	+7,5	429	+7,5
Europe non -UE	2886	3428	+3,5	4022	+3,25	4663	+3,0	5340	+2,75
North America	164	235	+7,5	337	+7,5	484	+7,5	695	+7,5
Israel	62	89	+7,5	128	+7,5	184	+7,5	263	+7,5
Japan	14	23	+10,0	37	+10,0	60	+10,0	86	+7,5
Rest of the world	108	155	+7,5	222	+7,5	319	+7,5	459	+7,5
Total	6037	7707	+5,0	9736	+4,8	12279	+4,75	15485	+4,75

Source: Master plan for tourism development in Romania

Looking at the data in the above table we can see that comparing the European Union and those countries outside of it will show that the growth of the number of tourists that visit Romania will be faster for countries inside the EU as opposed to those that are not. In the first two categories of countries (EU and European but non EU) the increase will be about 5.5 % and 7.5 % a year, while in non-European countries this would be only 3.1 %. This data include all arrivals, including daily visitors and tourist stays. The basis of this target is represented by the analysis of the market potential from various market research reports conducted in 2006 by various research centers in 14 countries. Of course, the data are aiming a trend period and should be corrected due to the negative impact of the financial crisis in recent years.

Table 3: Estimates of the total revenue from tourism as a percentage of GDP in Romania during 2005-2026 (%)

Time Indicators	2005	2011	2016	2021	2026
The value of GDP in Romania (billion Euro)	79,3	106,1	142,0	181,3	231,3
Total revenue from tourism (billion Euro)	2,755	4,561	7,005	10,712	16,069
Revenue as a percentage of GDP	3,5	4,3	4,9	5,9	6,9

Source: National Bank of Romania, Ministry of Finance and the Master Plan for tourism development in Romania

The above table shows once again the significant and permanent contribution to the GDP of Romania made by tourism, from about 3.5 % in 2005 to double this figure in 2026. The inclusion here of the estimated expenditure related to domestic visitor nights spent in accommodation, unregistered number of nights spent in accommodations not included in official data collection systems, can be considered unorthodox, but it still indicates a more real contribution of tourism to the national economy than the one made with current measurement methods. If operators would give up unrecorded income, the contribution of tourism to the GDP would actually fall somewhere around 2.1 % in 2005 and 4.9 % in 2026 representing a reduction of 30-40 %, due to a probable increase in prices and as a result a decrease in client numbers. The total contribution to Romania's GDP by tourism is projected to grow to 6.9 % by 2026.

The positive macroeconomic impact of tourism is that of a better positioning of the Romanian GDP, as a result of the contribution of tourism to the local and central government revenues. Actually, taxes, through the various forms in which they appear, are the most important source of the contribution of tourism to the authorities, the most significant of which are: VAT (sales tax), personal income tax, company income tax, airport boarding fees, aircraft landing fees, entrance charges to museums, municipal taxes, import duties and so on.

Conclusions and recommendations

I believe I have proven that M.I.C.E Tourism is on an ascending trend nowadays. Competition between companies and also destinations will become more intense in the context of globalization and the level of customer requirements will increase. Therefore, there is an increasing pressure on the event tourism industry, to continually seek new ways and technologies to reduce costs, increase sales and improve the traveller's experience. In order to survive in this market, hotels as well as companies that are specialized in organizing events, must be really careful in choosing their strategy as well as be quick to adapt to the changing conditions of the market. They should keep in mind some important aspects, such as:

- The value proposition that the company brings to their potential customers, that special thing that they offer, or their own competitive advantage. This is the most important aspect in my opinion because it would be impossible to survive such a strong competition without having something to differentiate you from your main competitors. This value proposition results in the bundles of products and services carefully designed and fine-tuned for each customer segment
- The key activities that are in a strong connection with the value proposition and that could influence the well-being of the company. One such activity could be the creativity of managers striving to find new ways to achieve customer satisfaction and thus improving their value proposition. Another key activity could be the focus on finding new ways to improve the relationship with customers.
- The relationship between the company and their key partners. It, should be motivating for both parties and it should lead to constantly finding new ways to optimize their physical, intellectual, human and financial key resources
- The establishment of a solid basis for customer segmentation. Only well-defined customer segments can lead to strong customer relationship by differentiating according to the segments that the company targets along the way
- The advertising channels that the company uses. Potential customers are constantly exposed to all kinds of advertising, so the company should also pay attention to this aspect. The used channels should be carefully integrated and selected based on the client segments that the company wants to reach
- The cost structure. Companies should decide if their business model is rather cost driven (leanest cost structure, low price value proposition, maximum automation, extensive outsourcing) or more value driven (focused on value creation, premium value proposition)

- The revenue streams. A company should be flexible regarding its services and try to establish as many revenue streams as possible. This flexibility would allow the company to survive potential downfalls in certain markets and also positively influence the overall public image of the company making it look dynamic and open to new things, both characteristics being highly regarded in the public eye.

In conclusion a company which wants to be active in this changing market environment should be entrepreneurial and have the force and courage to constantly re-invent itself. A tough job to constantly question yourself and be willing to change your business model!

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INITIATIVES TO OVERCOME THE ECONOMIC CRISIS IN EUROPE

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Abstract: *The purpose of this paper is to take a close look on the effects of the financial crisis and to try to discover several initiatives that are taken to overcome its effects. In order to do that we tried to analyze the initiatives from different sectors of the E.U. economy.*

Keywords: economic crisis, crisis effects, infrastructure

JEL classification: F

1. Introduction

The present global financial crisis has been attributed to the subprime mortgages which originated in the US housing mortgage sector six years ago. Because of the booming housing market, when low interest rates were popular and the housing prices were in a continue raise, offering financial assistance to subprime borrowers was considered a lucrative proposition by some financial institutions ignoring the inherent risk involved in such activities.¹⁴

The situation got complicated when some investment banks used some complex financial instruments based on the underlying subprime mortgages and marketed these instruments to investors across the globe. However, the situation changed dramatically when the property prices started falling sharply, leading to significant rise in default in mortgage loans and foreclosures. In September 2008 the collapse of Lehman Brothers almost brought down the world's financial system. To save the industry, it took huge taxpayer-financed bail-outs. However, it quickly become the worst recession in 80 years.

One of the latest international surveys reveals that the top three reasons for this financial crisis are inadequate risk management practices at banks, increased complexity of financial instruments and speculation of financial market. GDP is still below its pre-crisis peak in many rich countries, especially in Europe, where the financial crisis has evolved into the euro crisis. The effects of the depression are still spreading through the world economy: witness the wobbles in financial markets as America's Federal Reserve prepares to reduce its effort to sustain growth by buying bonds.

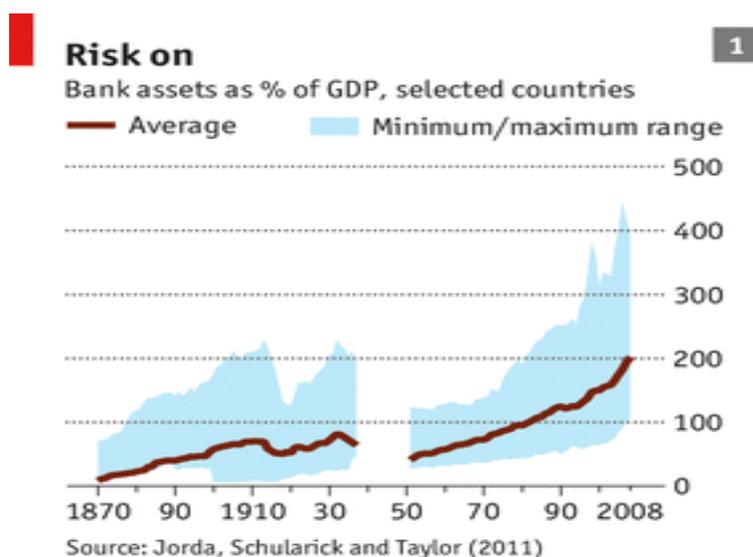
When America's housing market collapsed, a chain reaction has exposed fragilities in the financial system. Pooling and other clever financial engineering did not provide investors with the promised protection.

Mortgage-backed securities dropped in value. It became difficult to sell suspect assets at almost any price or to use them as collateral for the short-term funding that so many banks relied on. Fire-sells prices in turn, instantly dented banks capital, thanks to "market-to-market" accounting rules, which required them to revalue their assets at current prices and thus acknowledge loses on paper that might never actually had incurred.

Trust, the ultimate glue of all financial systems, begun to dissolve in 2007 - a year before Lehman's bankruptcy - as banks started questioning the viability of their counter parties. Complex chains of debt between counter parties were vulnerable to just one link breaking. Financial instruments such as credit-default swaps that were meant to spread risk turned out to concentrate it. AIG, an American insurance giant buckled within days of the Lehman bankruptcy under the weight of the expensive credit-risk protection it had sold. It was revealed that the whole system has been built on flimsy foundations:

¹⁴ Subhasish Roy (2009), *Managing global financial Crisis*, The Economic Times, Available at: http://articles.economictimes.indiatimes.com/2009-03-12/news/27659879_1_financial-crisis-risk-management-subprime-mortgages

Chart 1



banks had allowed their balance-sheets to bloat, but set aside little capital to absorb losses. In fact they had bet on themselves with borrowed money, a gamble that had paid off in good times but proved catastrophic in bad. (See chart 1).

Europe had its own internal imbalances that proved very significant. Southern European economies racked up huge current-account deficits in the first decade of the euro while countries in Northern Europe ran offsetting surpluses. The imbalances were financed by credit flows from the euro-zone core to the overheated housing markets of countries like Spain and Ireland. In this respect, the euro crisis has been a continuation of the financial crisis by other means, as markets have agonized over the weaknesses of European banks loaded with bad debts following property busts.

Central banks could have done more to address all this. The Fed made no attempt to stem the housing bubble. The European Central Bank did nothing to restrain the credit surge on the periphery, believing that current-account imbalances did not matter in a monetary union. This was a wrong decision. The Bank of England, having lost control over banking supervision when it was made independent in 1997, took a mistakenly narrow view of its responsibility to maintain financial stability.

In conclusion, the financial crisis was caused not only by central bankers but also by political pressures not to disturb the balance of the economy. The long period of economic and price stability encouraged risk taking and created a collective delusion that last in prosperity could be built on ever-bigger piles of debt.

2. Current situation of the economy¹⁵

An experience like an economic crisis forces the society to reevaluate its priorities and values. The crisis revealed not only the flaws from the economic model, but also the flaws of the society. Before the crisis the society as a whole and the economy were ruled by materialism. Thus the fast growth that was created was unnatural.

One of the lessons that this crisis teaches us is the need of collective action, in which the state must have a role. But there are other lessons such as the need to reevaluate the way the markets influenced the economy, and indirectly the society, and the need to truly value the rarest resource - the human talent. The society needs to appreciate both money and social rewards and to reconsider our ethics and what we value.

2.1. The effects of the financial crisis on the global market

Almost 4 million jobs were lost in the euro zone area between the start of the economic and financial crisis in 2008 and early 2010. Employment began to rise again in the first half of 2011, but

¹⁵ Stiglitz Joseph (2010), *Freefall: America, Free Markets, and the Sinking of the World Economy*, Penguin Press

declined once more at the end of that year and remained at around three million workers below the pre-crisis level. In 2012 the world was facing a cruel reality: one in three workers in the labor force was unemployed. International Labor Organization predicted a deterioration of the employment for the youth. In 2012, there were 75 million young people seeking employment in the entire world.

While production in the European Union rose by only 0.9% in 2010 from 2% in quarter 3 and 4.1% in quarter 2, unemployment remained at 9.6 for the fourth consecutive quarter in 2010.

Chart 2: GDP and the unemployment rate (2007-2011)



Source: International Global Organization

In the European Union, the intra-regional trade that accounts for a large part of the trade among the member states has suffered as a result of the economic recession of the region. The trade volume of member state since 2006 had almost stagnated in the first months of 2012. Therefore, E.U. exports were only 8% higher and imports were approximately at the same level. Faced with weak external demand from developed countries and increased global uncertainties, export growths in developing countries and of economies in transition reached 7% and 6% in 2011. However, such slowdown had continued in 2012 due to near to 0 growth in imports in Europe.

Table 1: Export and import volume of goods 2008-2011 (annual change in percentage)

Region	Export Volume				Import Volume			
	2008	2009	2010	2011	2008	2009	2010	2011
E.U.	2.4	-14.3	12	6	0.8	-14.2	10	3.2

Source: United Nations Conference on Trade and Development

The sovereign debt crisis in the euro area arises from the bankruptcy shock of the Lehman Brothers financial institution originally propagated through the channel of interbank market, then going toward the financial markets and finally reaching the real economy. The amplification of the distrust of the investors has been sent also in the European emerging countries. At this shock, firms and households have responded by postponing investments and spending.

The main features of this period are the increasingly larger concerns of the governments on the recession issue and on the deterioration of global financial stability due to the increase of the risk aversion and the diminishing of the international liquidity.

2.2. Current situation in Europe¹⁶

In Europe the situation seems to get better, although not every country succeeded to overcome the effects of the economic crisis.

¹⁶ P.W., A.C.M., and L.M., (2014), European Economy Guide. Taking Europe’s pulse, Available at: <http://www.economist.com/blogs/graphicdetail/2014/03/european-economy-guide>

Despite setbacks to emerging markets in early 2014 and the crisis in Ukraine, the European recovery still looks intact. Across the 28-strong European Union, GDP will expand by 1.5% this year and by 2.0% in 2015, according to new forecasts from the European Commission on February 25th. Across the 18-strong euro zone GDP will rise by 1.2% in 2014 and by 1.8% in 2015.

Easily the worst performer this year will be Cyprus, whose output will continue to tumble, with GDP falling by 4.8%. The only other country going backwards will be Slovenia; and its GDP will only marginally contract, by 0.1%.

In contrast with these southern sluggards, two Baltic States continue to race ahead. Latvia will grow by over 4% a year in both 2014 and 2015. Lithuania, which is expected to join the euro area next year, will grow by 3.5% in 2014 and 3.9% in 2015. The main impetus behind the euro zone's recovery this year will be Germany, which makes up nearly 30% of the currency club's collective output, and which is predicted to grow by 1.8%. The strengthening of the upturn in 2015 comes as the other three big economies, France, Italy and Spain, do better though growth in all three, especially Italy, will be below the euro-zone average of 1.8%. Outside the euro area, Britain is at last experiencing a robust recovery and GDP will expand by around 2.5% a year in both 2014 and 2015.

Chart 3: European Union countries' currency status

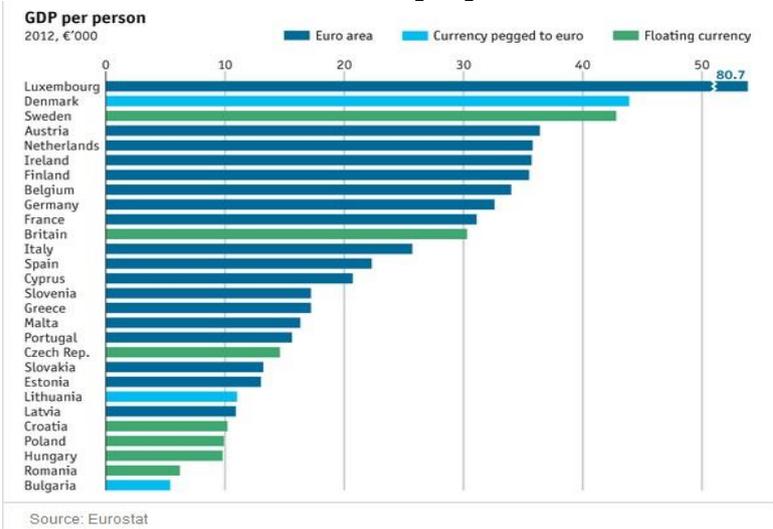


Source: The Economist

The crisis since 2008 has deeply affected EU industry with major loss of employment (about 3.8 million industrial jobs lost) and production levels remaining more than 12% below the pre-crisis levels. The situation is differentiated between sectors, with high technology ones like pharmaceuticals coping better than mid and low technology ones, and between Member States, with some performing remarkably (like Poland and Slovakia) and others facing difficulties like Greece and Spain.

There has been a relative decline in the role of industry in the EU economy over the last couple of decades and that, if Europe does not take the lead in the "new industrial revolution" now taking place globally, there might be a long-lasting damaging impact on growth and jobs prospects. Indeed, manufacturing remains the main driver for productivity, R&D expenditure, and exports.

Chart 4: GDP per person



Source: Eurostat

3. Initiatives to overcome the economic crisis in Europe

After the financial crisis, some initiatives were taken in order to overcome the crisis effects. The initiatives were aiming different sectors such as industry, services and so on.

3.1. Industrial initiatives¹⁷

Europe has learned a precious lesson after the crisis: it needs a strong industrial sector in order to resist downturns. Currently, the European Commission focuses on the need to reverse the current decreasing trend of the evolution of industry in the E.U., pointing out the role of manufacturing industry as an engine of growth. For example, Europe tries to coordinate industrial policies in a partnership approach involving E.U. and national players as well as industry and enterprises. The importance of the manufacturer industry for growth, jobs, productivity, research and exports is now widely recognized. European Commission had made a blueprint for raising industry's contribution to E.U. GDP from 15.2% to 20% by 2020. To succeed this Europe must build policies upon its strengths:

- ☑ E.U. industry remains a global leader in a range of manufacturing sectors including chemicals, machinery, metals and automotive sectors.
- ☑ The E.U. share of global exports has diminished these last few years, but overall, has remained remarkably resilient in the face of strong growth of China and other emergent economies.

The Industrial Policy Communication Update of October 2012 outlines a strategy to reverse the declining role of industry in Europe from 15,6% of GDP (in 2011) to as much as 20% by 2020. The Communication announces actions in four main areas: 1. Investments in new technologies and innovation; 2. Access to markets; 3. Access to finance and capital markets; 4. Human capital and skills. In all four areas the Commission is currently implementing concrete measures.

Boosting industrial investments, especially those in technologies and innovation that will give Europe the lead in the New Industrial Revolution currently taking place worldwide, requires a coherent and consistent set of policy initiatives in areas such as innovation, access to finance, the internal market and international trade, energy and environment, skills and employment.

For example, Europe will not be an attractive location for new industrial investments if the gap in energy prices with other regions of the world continues to grow. Following a request from the European Council of 22 May, the Commission will return to this issue by the end of the year. Attract investment from third countries is crucial to help Europe exit recession.

Opportunities for sustainable (green) growth exist in all industry sectors. Benefits can be obtained from export and in the Internal Market, including in Member States which are more in difficulty. The four main areas emphasize activities to better exploit the potential in, e.g., sustainable production, cleaner cars or smart grids (see below). A public consultation on a green entrepreneurship action plan will be launched soon. The plan should contribute to reinforcing the EU's efforts for sustainable growth.

3.1.1. Achievements until present

A. Investments in innovation with enormous potential for growth and jobs

Investment in innovation in new sectors of high growth and in more traditional sectors is important to improve the competitiveness of EU firms. Six Commission task forces are taking actions to foster innovation in the following fields:

- ✓ markets for advanced manufacturing technologies for clean production,
- ✓ markets for key enabling technologies,
- ✓ bio-based product markets,
- ✓ sustainable industrial policy and construction and raw materials,
- ✓ clean vehicles and vessels,
- ✓ smart grids.

¹⁷ European Commission (2012), Moving forward to an industrial renaissance to overcome economic crisis, Available at: http://europa.eu/rapid/press-release_MEMO-13-505_en.htm

Dedicated Commission task forces have been set up and defined roadmaps for each action line. The Commission will report on the progress achieved by the task forces in September. The first results of the mapping show the need:

- ✓ to focus actions on establishing public-private partnerships,
- ✓ cooperating with EIB (discussing with EIB dedicated financing facilities),
- ✓ defining standardization needs,
- ✓ reviewing public procurement rules,
- ✓ preparing sector skills councils,
- ✓ gathering and promoting best practices from Member States.

In this respect, the Commission is finalizing the strategic annual Union Work Programme for European standardization (to be adopted before summer break) and preparing implementation of then research framework programme Horizon 2020. Moreover, the Commission signed an agreement with EIB for breakthrough of Key Enabling Technologies to ensure improved access to finance for investments in key enabling technologies.

Reducing administrative burden

At the end of 2012, the Commission launched a new Regulatory Fitness and Performance Programme (REFIT) to screen the entire body of EU law and identify burdens, gaps and inconsistencies in order to correct them. Wherever this is appropriate, the Commission will suggest corrections and improvements. The screening results of the REFIT programme will be published in the summer of 2013. The REFIT programme will also provide the follow-up to the concerns raised by businesses in context of the Top10 consultation.

Competitiveness proofing, i.e. analysis of the impact on competitiveness of all policy proposals: Cutting red tape and listening to the voice of businesses have been firmly embedded in the Commission's work for several years. As much as possible, the Commission takes the impacts into account when designing legislation and simplifies the existing regulatory environment. For this purpose, the Commission is implementing policy instruments and initiatives:

The Commission's impact assessment system systematically assesses all significant costs and benefits of every proposal made by the Commission. The Commission introduced a scoreboard to cover regulatory initiatives with a significant SME impact. The scoreboard will show how exemptions and lighter regimes proposed by the Commission are followed-up by the European Parliament and the Council and how they are implemented by Member States for the benefit of SMEs.

The needs of SMEs and good administration in the implementation of EU legislation in the Member States will be a main focus for the advice provided to the Commission by the High Level Group on Administrative Burden ("Stoiber Group").

B. Better access to internal market and international markets

Globalization and the good achievements of EU industry in this respect, calls for better market conditions – improvements in the functioning of the Internal Market and opening up international markets.

The Product Safety and Market Surveillance package was proposed in February 2013 to improve product safety and help national market surveillance authorities to cooperate better and ensure a level playing field for companies and safer products for consumers. Better coordination of product safety checks, especially at the EU external borders, will eliminate unfair competition from dishonest or criminal rogue operators.

In the internal market blockages in the trade of industrial products still exist. Taking the results of a public consultation concluded in April (IP/13/77) into account, the Commission will present this year a strategic initiative to enhance the quality and efficiency of the internal market legislation for industrial products, eliminate remaining trade barriers, in particular for products with high-growth potential, ensure more consistency in the application of the legislation, and simplify its management and implementation.

The need to make entrepreneurship an attractive and accessible prospect for European citizen, the Commission launched in January 2013 the Entrepreneurship 2020 Action Plan to unleash Europe's entrepreneurial potential and remove obstacles.

Several studies have shown that the level of productivity in business services is substantially below that of the U.S., explaining a large part of the productivity gap between the EU and the U.S. at the

macroeconomic level. Since March 2013 a High-Level Group on Business Services examines the obstacles to a well-functioning single market in this field.

The Commission is implementing an ambitious trade and investments agenda, including the launch of negotiations with Japan and with U.S. for a Transatlantic Trade and Investment Partnership.

C. Access to finance and capitals

Access to finance of industry business, in particular of SMEs, remains difficult and is one of the main reasons for the current economic downturn. Therefore to improve lending to the real economy by better mobilizing and targeting public resources, including those of the EIB, the Commission intends to enlarge our loan guarantees covering lending to SMEs under the new COSME and Horizon 2020 programmes as of 2014.

Two recent proposals to attract investors through more visible SME markets and more visible listed SMEs:

- A proposal for the Markets in Financial Instruments Directive (MiFID) to sustain the development of stock markets specialized in SMEs.
- A proposal for a modification of the Transparency Directive to give better information on listed SMEs.

D. Human capital and skills

Jobs for highly-qualified people are expected to rise by 16 million between now and 2020. This means equipping labor force for industrial transformations, notably by better anticipating skills needs and mismatches. In this area, the Commission will in particular further promote cooperation of employers, workers and relevant authorities.

For instance, a Grand Coalition for Digital Jobs has been launched (IP/13/182), to address up to 900 000 job vacancies expected to exist in Europe in Information and Communication technologies by 2015, and the Commission has put forward a strategy to "Rethink education" including targeted recommendations to Member States for modernizing education and training systems and ensuring in particular a much stronger focus on developing transversal skills and basic skills at all levels, especially entrepreneurial and IT skills.

Beside horizontal initiatives, the Commission continues to develop and implement tailor-made sectorial actions, for instance including automotive, construction, steel, shipbuilding and refining. Member States' and industry's active role and engagement is crucial.

It is now key to further explore and develop synergies between EU and national-level initiatives. In order to face competition from large economies such as the United States or China, the EU must further reinforce consistency in its overall industrial policy.

Developments in the area of economic governance could pave the way for better coordination of micro-economic and competitiveness policies.

Industry must seize the opportunity to play its part in carrying out the necessary investments to give a competitive lead to Europe. Industry has welcomed the new orientation in EU policies but it is necessary to know what steps are being taken by the private sector and about their expectations on European and national policies.

There is an urgent need to re-launch investments in technologies and innovation. The Commission's actions are devised to improve the investment climate and restore confidence by private actors.

3.2. Investments in infrastructure¹⁸

Large infrastructure projects are at the core of the European plan to drag the 'old continent' from one of the most profound periods of crises in modern Europe. According to the European Commission, in order to meet its Europe 2020 objectives, the European Union's infrastructure investment needs could

¹⁸ Elena Gerebizza and Antonio Tricarico (2013), Large infrastructure to overcome the crisis, The hidden risk of the Europe 2020 project bond initiatives, Available at: <http://www.counter-balance.org/counterbalance-eib.org/wp-content/uploads/2013/06/Infrastructure-briefingOK.pdf>

reach as much as EUR 2 trillion in the sectors of transport (TEN-T), energy (TEN-E) and information and communication technology (ICT)

The Commissioner for Economic and Monetary Affairs said, “we need to make the EU a more dynamic and competitive place by meeting the physical infrastructure challenge. [...] All this requires huge upfront investment at a time of tight public budgets and balance-sheet consolidation in the banking sector”.

For decades large infrastructure has been at the core of plans to re-launch the economy. From a Keynesian perspective, public intervention to stimulate the economy is necessary, and infrastructure is the key to restart production. Roosevelt’s New Deal in the thirties and forties was based on infrastructure and military expenditures, and it drove the United States from the Great Depression. Similarly in the devastated Europe after World War II, infrastructure financed by the public sector was the engine of growth in the “golden age” of capitalism until the 1970s. Since then, while large infrastructure projects have remained popular, the role envisioned for public and private sectors in constructing and managing infrastructure. Project has changed dramatically.

The World Bank, the European Investment Bank (EIB) and the other multilateral and national development finance institutions (DFIs) have financed for decades the construction of large dams, gas pipelines, coal power plants, electricity transmission lines, highways, harbors and airports in the Global South (as well as in Europe in the case of the EIB). Large infrastructure was considered strategic by these institutions and governments controlling them, with its construction and financing often linked to broader politics.

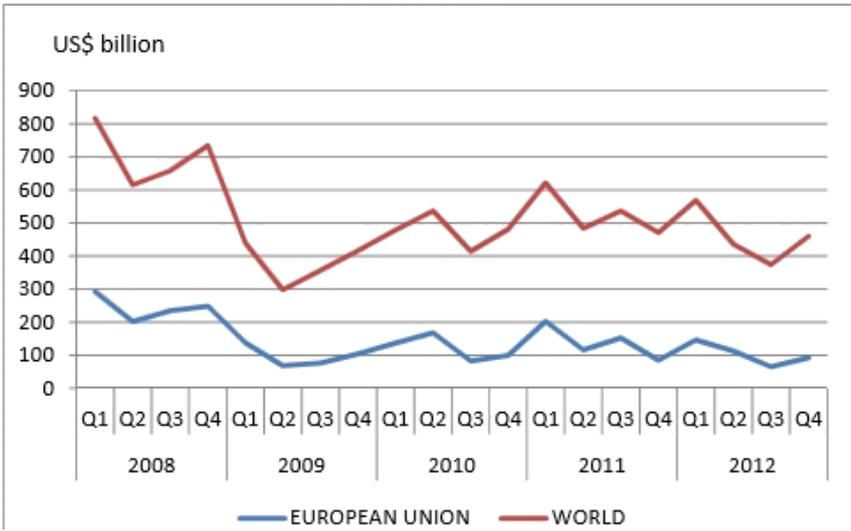
In October 2011 the European Commission communicated its plan to re-launch investments in the construction of large infrastructure in the energy, transport and digital communication technology sector. The “Connecting Europe Facility” (CEF) is an integrated process with an initial announced budget of EUR 50 billion – reduced to EUR 29.3 billion in February 2013 – into which the Commission is attempting to blend key investment decisions in areas that were previously separated. The aim of the initiative is to finance the infrastructure that will build the “backbone of Europe” in energy, transport and digital data transmission, which according to the Commission will make Europe “more green, reduce energy dependence and complete the construction of the internal market”.

3.3. Encouraging foreign direct investments¹⁹

Foreign companies are attracted by the dynamic regions with a good market access. The international economic crisis that has unfolded since 2008 caused strong fluctuations in the E.U.’s investment activity.

During the 2008-2012, FDI flows in the E.U. have varied considerably from one quarter to another. In general, FDI flows have increased during periods of rapid economy growth while this investment phenomenon was found during periods of economic recession.

Chart 5: FDI outflows (2008-2012)

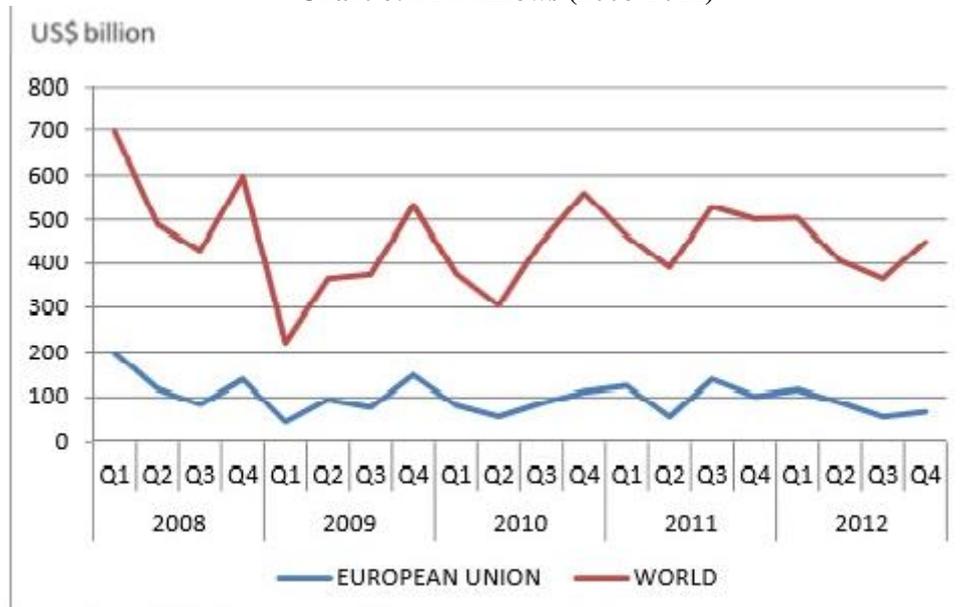


Source: OECD, International Direct Investment Database

¹⁹ Daniela Pîrvu and Anca Cojocaru (2013), Foreign Direct Investment, economic crisis and the European Union, The Romanian Economic Journal, Available at: <http://www.rejournal.eu/article/foreign-direct-investment-economic-crisis-and-european-union>

Global FDI outflows and E.U. FDI outflows had a similar trend during the period between Q1 2008 and Q4 2012. The growth global FDI outflows in Q3 2008, 2009, 2010 and 2011 was higher than the growth of E.U. FDI outflows. If the third quarter of 2011 to the present, the volume of the global outflows appears to have stabilized at about \$ 300 billion, the E.U. FDI outflows continue to have significant fluctuations.

Chart 6: FDI inflows (2008-2012)



Source: OECD, International Direct Investment database

Compared to global FDI inflows, E.U. FDI inflows have had less extensive oscillations. Periods of E.U. FDI inflows with a reverse trend compared to global FDI inflows can be seen (e.g. Third quarter of 2009, first and fourth quarter of 2011 and first quarter of 2012).

The E.U. remained a major player in the field of investment even under the economic crisis conditions. During 2008-2012 global FDI outflows were 7374 US\$ billion and E.U FDI outflows were 2830 US\$ billion. During the same period, global FDI inflows were 7038 US\$ billion and E.U. FDI outflows were 1978 US\$ billion. The E.U. was the largest investor because the source of about 50% of world FDI was this region. At the same time, the E.U. has attracted more than half of global FDI. The developed countries were the driving force for investment process in the E.U. FDI flows were supported partly by cross-broader mergers and acquisitions. They were less supported by investments in productive assets through green-field projects. In addition, many of these mergers and acquisitions were determined by the restructuring and focusing on core operations, especially in Europe.

4. Conclusions

- The effects of the financial and economic crisis are still being felt in emerging economies, as well as in the developed countries;
- Changes need to be made in order to overcome the effects of the financial and economic crisis; changes in the way humanity treats market economies and in the way that society faces the obstacles;
- In order to re-launch Europe's economy, the governments need to focus on industry and on investments in technology and innovation (to create "the new industrial revolution");
- Initiatives have been taken in order to improve the function of the internal market of Europe and in order to open new international markets (e.g. China);
- To boost the E.U. economy there are initiatives to encourage the Small and Medium Enterprises by improving lending to the real economy, mobilizing and targeting public resources. In this purpose, the European Commission launched the new COSME and HORIZON 2020 programs;

- There is a need to anticipate skills that people will need in order to match with the new industrial revolution. To achieve this, there has been launched a Grand Coalition for Digital Jobs and a strategy to “re-think education”;
- Investments in infrastructure are needed to initiate transition towards a different economic model based on the respect for territories and the environment, capable to respond to the needs for local jobs for an entire generation of young people;
- “What is built today will mark the decades and economy of tomorrow”;
- E.U. plays a significant role in the field of investment; therefore the evolution of the FDI in the region has a decisive impact on global investment process. The situation in the E.U. prints the trend of global FDI. This is demonstrated by nearly identical evolution of global and E.U. FDI flows;
- The spirit and initiative of entrepreneurial people will be the key to overcoming the current crisis and paving the way for Europe to become a dynamic and competitive economy.

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THE THEORY OF PLANNED BEHAVIOR AND KNOWLEDGE SHARING

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Abstract: *The research conducted in this study seeks out the combined theoretical aspects of Marketing Management and Knowledge Management in order to understand the Theory of Planned Behavior applicability in a very known soda drink product consumption. The questionnaire was developed for the purpose of this research and the data will be analyzed in correlation with the TPB model. The results can allow for future marketing activities based on the TPB model and modern knowledge sharing strategies.*

Keywords: *Theory of planned behavior, Knowledge sharing, Consumer attitude, Intention Behavior*

JEL classification: M3

1. Literature review

The purpose of our study presented in this article was to analyze the theory of planned behavior, also known as TPB, in order to assess the factors contributing to Coca Cola consumption, and to predict the intention of the consumer to drink regularly this type of drink.

The general objective of this study is the assessment of consumer's attitudes and nutrition knowledge regarding soft drinks, mainly Coca Cola.

The main purpose of this study was to use the Theory of Planned Behavior as a framework to identify those factors which influence regular soft drink consumption. This study utilizes Azjen's Theory of Planned Behavior to predict intention to drink regular soft drinks.

The findings obtained from the study will also be useful for food industries and companies to formulate new products and / or to modify existing products of soft drinks based on consumers' preference. The findings can also help make the purchasing environment more convenient to consumers. (Sau: The aim of our reseearch is the determination/evaluation of consumer's attitudes and nutrition knowledge regarding soft drinks, mainly Coca Cola.

Given this, it is important to understand the psychological factors leading to drinking regularly Coca Cola. In order to understand drinking related-behaviour we used Azjen's Theory of Planned Behaviour.

The data obtained from the study will help also food industries and companies to develop new products and adjust/reshape actual products of soft drinks based on consumers options/choices.)

In order to demonstrate how Coca Cola consumption is influenced by behaviour we used the theory of planned behaviour (TPB).

According to this theory behaviour is anticipated by intention and intention is determined by three elements;

(1) Consumers's attitude in adopting a certain behaviour.

(2) Subjective norm which is influenced by social environment or pressure surrounding a person who is performing a certain behaviour, this involves consumers who may accept or not the behaviour and

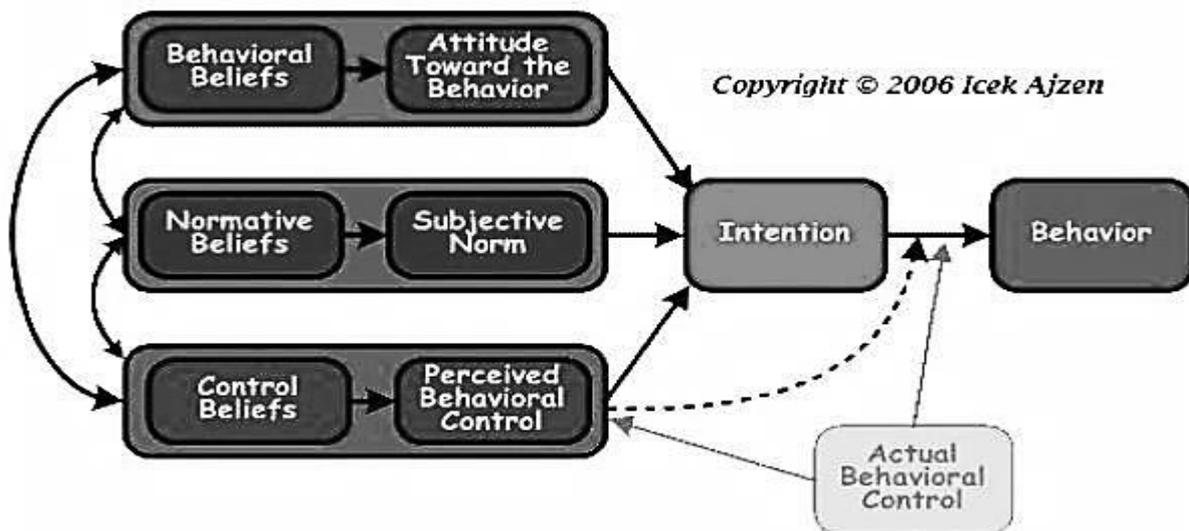
(3) Perceived behavioural control which is the consumers's belief in their capability to manage behaviour. Additionally, behavioural beliefs and determination influence attitude. Normative beliefs and motivation influences subjective norm. Control and perceived power influences perceived behavioural control (Zoellner 2012).

Theoretical model

According to Ajzen Icek, the human behavior is influenced by three kinds of considerations: beliefs about the likely consequences of the behavior (behavioral beliefs), beliefs about the normative expectations of others (normative beliefs), and beliefs about the presence of factors that may facilitate or impede performance of the behavior (control beliefs).

Behavioral beliefs produce a positive or negative attitude toward the behavior/actions; normative beliefs result in perceived community pressure or subjective norm; and control beliefs relates to perceived behavioral control.

The combination of attitude toward the behavior, subjective norm, and perception of behavioral control lead to the development of a behavioral intention. As a general rule, the more positive the attitude and subjective norm, and the larger the perceived control, the solid should be the consumer's intention to execute the behavior in question. Lastly, given a satisfactory extent of actual control over the behavior, people are expected to carry out their intentions when the opportunity appear. Intention can be defined as the immediate antecedent of behavior. However, because many behaviors may be difficult to be executed that can lead to the limitation of voluntary control, it is necessary to take in consideration perceived behavioral control in addition to intention. To the extent that perceived behavioral control is authentic, it can have the role of an intermediary for actual control and add to the prediction of the behavior in question. The following figure is a schematical figure of the theory.



Behavioral beliefs connect the behavior of interest to expected outcomes. A behavioral belief is the subjective probability that one behavior will produce a specific outcome. Although a person may hold many behavioral beliefs with respect a single behavior, only a relatively small number are readily accessible at any given moment. It is assumed that these accessible beliefs (in combination with the subjective values of the expected outcomes) determine the prevailing attitude toward the behavior. Specifically, the evaluation of each outcome contributes to the attitude in direct proportion to the person's subjective probability that the behavior produces the outcome in question.

Attitude toward a behavior represents the degree to which the performance of the behavior is positively or negatively valued. Once the expectancy is calculated the attitude toward a behavior is determined by the total set of accessible behavioral beliefs linking the behavior to various outcomes and other attributes. Specifically, the strength of each belief (noted with “b”) is weighted by the evaluation of the outcome or attribute (noted with “e”), and the products are added up, as shown in the following equation:

$$A \propto \sum b_i e_i$$

Normative beliefs refer to the perceived behavioral expectations of such important referent individuals or groups of individuals such as the person's spouse, family, friends, and (depending on the population and behavior studied) teacher, doctor, supervisor, and coworkers. It is assumed that these normative beliefs (in combination with the person's motivation to comply with the different referents) determine the prevailing subjective norm. Specifically, the motivation to comply with each referent contributes to the subjective norm in direct proportion to the person's subjective probability that the referent thinks the person should perform the behavior in question (see subjective norm).

Subjective norm is the perceived social pressure to engage or not to engage in a behavior. Drawing an analogy to the expectancy-value model of attitude, it is assumed that subjective norm is determined by the total set of accessible normative beliefs concerning the expectations of important referents. Specifically, the strength of each normative belief (noted with "n") is weighted by motivation to comply with the referent in question (noted with "m"), and the products are added up, as shown in the following equation:

$$SN \propto \sum n_i m_i$$

Control beliefs have to do with the perceived presence of multiple factors that may facilitate or impede performance of a behavior. It is assumed that these control beliefs (in combination with the perceived power of each control factor) determine the prevailing perceived behavioral control. Specifically, the perceived power of each control factor to impede or facilitate performance of the behavior contributes to perceived behavioral control in direct proportion to the person's subjective probability that the control factor is present (see perceived behavioral control).

Perceived behavioral control refers to people's perceptions of their ability to perform a given behavior. Drawing an analogy to the expectancy-value model of attitude (see attitude toward the behavior), it is assumed that perceived behavioral control is determined by the total set of accessible control beliefs, i.e., beliefs about the presence of factors that may facilitate or impede performance of the behavior. Specifically, the strength of each control belief (noted with "c") is weighted by the perceived power of the control factor (noted with "p"), and the products are summed up, as shown in the following equation. To the extent that it is an accurate reflection of actual behavioral control, perceived behavioral control can, together with intention, be used to predict behavior.

$$PBC \propto \sum c_i p_i$$

Intention is an indication of a person's readiness to perform a given behavior, and it is considered to be the immediate antecedent of behavior. The intention is based on attitude toward the behavior, subjective norm, and perceived behavioral control, with each predictor weighted for its importance in relation to the behavior and population of interest.

Behavior is the manifest, noticeable response in a given situation with respect to a given target. Single behavioral observations can be summed up across contexts and times to produce a more broadly representative measure of behavior. In the TPB, behavior is a function of congenial intentions and perceptions of behavioral control. Conceptually, perceived behavioral control is expected to moderate the consequence of intention on behavior, such that a favorable intention produces the behavior only when perceived behavioral control is strong. In practice, intentions and perceptions of behavioral control are often found to have important effects on behavior, but no significant interaction.

Actual behavioral control refers to the extent to which a person has the skills, resources, and other prerequisites needed to perform a given behavior. Successful performance of the behavior depends not only on a positive intention but also on a sufficient level of behavioral control. To the extent that perceived behavioral control is authentic, it can serve as an intermediary of actual control and can be used for the prediction of behavior.

Implicit measures of preference for cola brands (Coca-Cola versus Pepsi) significantly anticipated brand choice, product usage, and even brand recognition in a blind taste test. Moreover, although explicit self-report measures of attitude were also powerful predictors of these variables, the implicit measures predicted the variables even after the explicit ratings.

Knowledge sharing and use of nutrition information on Coca Cola label

Knowledge sharing influences the understanding of information concerning nutrition and decision making in general (Grunert, 2012). Although it is necessary to make the difference between subjective and objective knowledge. Subjective knowledge depends on how a consumer attribute the meaning to the present label information and what he believes to understand. Objective knowledge implies that the meaning consumers attach to the information on nutrition labels for example is in line with the meaning the sender intends to communicate about it. Subjective and objective knowledge presuppose that people do not recognize precisely how much or how little they know.

A specific level of knowledge, and namely subjective and objective are needed, in order for the consumer to utilize reliable information to influence in a positive manner their foods choices. Hence, people with a higher level of knowledge are disposed to use food labels.

The management of the knowledge was initially defined as the process of applying a systematic approach to the capture, structure, management, and dissemination of knowledge throughout an organization in order to work faster, reuse best practices, and reduce costly rework from project to project (Nonaka and Takeuchi, 1995; Pasternack and Viscio, 1998; Pfeiffer and Sutton, 1999;

A good definition of knowledge management incorporates both the capturing and storing of the knowledge perspective.

Many knowledge management efforts have been largely concerned with capturing and sharing the knowledge held by consumers in a specific market. Most organizations are now more customer-focused and use knowledge-based strategies to reach out to their customers. Knowledge management's overall goal is to build an organization that can 'see' the customer, for it is the customer that drives any business. Peter Drucker views marketing as a philosophy or way of doing business and in its importance in focusing on the customer.

Marketing strategies have been based on greater understanding gained from the existing marketing knowledge and are an important source of information influencing the adoption and use of products and services.

In this context knowledge-sharing refers to the customers reviewing products and advising each other while exchanging their knowledge in terms of a product among people, friends, families or communities.

This is why managing and sharing knowledge effectively can affect the intention of the customer, because consumers are influenced by perceptions of what others think and do.

The normative and subjective beliefs have significant associations with intention because these are significant predictors of intention to drink regular soda.

Example:

First, a person assesses his attitude and namely behavioral beliefs in order to identify his feelings towards Coca Cola soda. The person in question is not satisfied with his/her weight and has heard from doctors, nutritionists or referents that drinking so many Coca Cola sodas daily can [lead](#) to various affections and of course he wants to avoid these outcomes. As the case may be the wife/husband is trying to make him/her give up drinking so many Coca Cola sodas per day because she/he wants him/herto be healthier. She/he may not be exclusively behind the idea, but his partner's influence over him may be more powerful than his own possible reluctance to give up soda, represented by the normative belief.

2. Research methodology

The data used for the validation or the not confirmation of the developed hypothesis was collected during the time period of 05.05.2014 – 12.05.2014, through an online survey.

The targeted respondents were soda drink consumer within the area of Sibiu city, Romania.

A total of 215 responses were valid and used for further analysis.

3. Conclusion

As a conclusion for the research, the questionnaire was built appropriately to analyze the behavior of consumers based on the TPB model and we can also observe the importance of knowledge sharing in the intention process. Knowledge combined with marketing analysis can lead to improvements to the marketing activities in the future as well as increasing revenue and brand image. The data acquired in the first phase of the research will prove to be of great value in the post-study analysis which will be conducted in the second phase of the research.

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ANNEX

1. What types of drinks do you regularly consume?
 - a. Water;
 - b. Natural juices;
 - c. Soda drinks.
 - d. OTHER_____

2. How frequent do you drink?
 - a. On a daily basis;
 - b. On a weekly basis;
 - c. On a monthly basis;
 - d. On occasion;
 - e. Never.

3. What soda drink brand do you mostly prefer?
 - a. Pepsi;
 - b. Coca-Cola;
 - c. Sprite;
 - d. Seven-Up;
 - e. Schweppes;
 - f. Fanta;
 - g. Mirinda;
 - h. Other_____

4. Supposedly, 100% represents the soda drinks you consume in a specific period, what would the part of Coca-Cola be?
 - a. 0%;
 - b. 0 % - 25%
 - c. 26% - 50 %
 - d. 51% - 75%
 - e. 76% - 100%

5. I would drink Coca-Cola if my spouse would suggest I should drink it.
 - a. Total disagreement
 - b. Disagreement
 - c. Neutral
 - d. Agreement
 - e. Total agreement

6. I would not drink Coca-Cola if my doctor told me it is not healthy.
 - a. Total disagreement
 - b. Disagreement
 - c. Neutral
 - d. Agreement
 - e. Total agreement

7. I would not drink Coca-Cola if my nutritionist / sports instructor suggests I should not drink it.
 - a. Total disagreement
 - b. Disagreement
 - c. Neutral
 - d. Agreement
 - e. Total agreement

8. I would stop drinking Coca-Cola if my friends suggested I should stop.
 - a. Total disagreement
 - b. Disagreement
 - c. Neutral
 - d. Agreement
 - e. Total agreement

9. I would drink Coca-Cola if some of my friends are drinking it when we are hanging out and I want to fit in.
 - a. Total disagreement
 - b. Disagreement
 - c. Neutral
 - d. Agreement
 - e. Total agreement

10. I would drink Coca-Cola if my spouse finds a bonding factor in this. (very funny!!!)
 - a. Total disagreement
 - b. Disagreement
 - c. Neutral
 - d. Agreement
 - e. Total agreement

11. I would drink Coca-Cola if my friends find it unhealthy and I want to stand out in the group.
 - a. Total disagreement
 - b. Disagreement
 - c. Neutral
 - d. Agreement
 - e. Total agreement

12. I would stop drinking Coca-Cola if it would integrate me in a social group. (aici este would sau wouldn't?)
 - a. Total disagreement
 - b. Disagreement
 - c. Neutral
 - d. Agreement
 - e. Total agreement

13. How likely are you to buy Coca-Cola if your friends drink it during a party?
 - a. Very unlikely;
 - b. Unlikely;
 - c. Neutral
 - d. Likely;
 - e. Very likely.

14. How likely are you to buy Coca-Cola if it would help your work relationships with your colleagues?
 - a. Very unlikely;
 - b. Unlikely;
 - c. Neutral
 - d. Likely;
 - e. Very likely.

15. How likely are you to buy Coca-Cola if it would integrate you into a new social group?
 - a. Very unlikely;
 - b. Unlikely;
 - c. Neutral
 - d. Likely;
 - e. Very likely.
16. How likely are you to buy Coca-Cola if it would boost your public image in relation to your social groups?
 - a. Very unlikely;
 - b. Unlikely;
 - c. Neutral
 - d. Likely;
 - e. Very likely.
17. What is your sex:
 - a. Male
 - b. Female
18. What is your age group?
 - a. Under 10 or 10;
 - b. 11-20;
 - c. 21-30;
 - d. 31-40;
 - e. 41-50;
 - f. 51-60;
 - g. 61 or above.
19. Where is your place of residence?
 - a. Urban
 - b. Rural
20. What is your monthly netto income level?
 - a. Under 300 EUR;
 - b. Between 300 and 600 EUR;
 - c. Between 600 and 900 EUR;
 - d. Above 900 EUR.

THE CHANGE, THE CHALLENGE. TALKING ABOUT CHANGE MANAGEMENT

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Abstract: All people are affected by change. In the same way organizations are affected by change. It is a fact, widely studied by psychology, that change is not an easy process; it is a process that requires a lot of energy. This paper is the result of my investigation about how changes affect the companies, and what companies should do to manage these change according with their desire to survive. The exposed here is a summary of my conclusions. It is just an introductory guide for those who want to have a general knowledge of the management of change in organizations.

Keywords: Change management, Organizational change, Change process.

JEL classification: L29

1. INTRODUCTION:

The change is everywhere. The change is the only constant thing. Through history there has been talk at length about this question. Heraclitus (c. 535 BCE – c. 475 BCE) said: “Nothing endures but change”. The change will happen, so people have to cope with the change.

According Oxford Dictionary to change means to make or to become something different. A change is an alteration or modification, is a substitution of one thing for another. Therefore change is a process in which someone or something goes from the current state to a future state through a transition state. According with the model of Kurt Lewin (1940), is necessary to defreeze the current reality, breaking existing inertia and thinking in the future, to think in a new desire scene; move it to a new level of conduct and refreezing behaviour at the new level, to stabilize and normalize the new way of doing.

If people are affected by change, regardless of their circumstances, their culture or origin, how could not the companies be affected by change? In the same way that a person needs to learn managing change to develop, the companies also need to learn it. Their survival depends how managers properly manage organizational change. This is even truer when organizations thrive in the current environment, characterized by globalization, the crisis, the speed with which technology changes and the influence and accessibility of information occur in all society.

2. THE ORGANIZATIONAL CHANGE PROCESS:

Organizations are open systems that operate in one certain environment. Every strange element that appears in the environment produces changes and a new reality. Then, environment changes and evolves. Thus, according to the laws of evolution, every company in every environment needs change to survive.

Organizations are complex systems composed of multiple fundamentally interdependent parts. These parts interact to obtain some common goals, they need a structure, more or less complex, that allows and encourages these interactions necessary for their survival as organization.

Every organization seeks equilibrium. As ecosystems look for the balance and regulate their self, organizations move toward a state of balance. Organizations create a rules and behaviour system to obtain and to maintain certain social equilibrium.

Thinking about that it is simple to conclude that there is no universal best design, no universal best way, no universal best rules and behaviour system. The environment and internal forces that operate on organizations produce the need for each company chooses a singular structure with a specific set of behaviour rules. These structures must be strong enough to maintain balance over time, but flexible enough to enable the organization to adapt in the best possible way to environment and internal changes. In these terms we can't understand equilibrium like something static, but a pendulous motion around a more or less stable design. The need to maintain balance with the external and internal forces that threaten it produce the need for constant organizational changes.

We can find a lot of literature about organizational systems and organizational structures. However, reading all these theories we can deduce that in practice all organizations are based on three fundamental levels; Management level, Team level, and Individual level.

2.1. MANAGEMENT LEVEL:

Management level takes decisions which affect the whole organization. At this level the strategic plan is designed. As planners, they are responsible of analyzing the current status, opportunities that the environment can offer and the skills to achieve the goals and objectives set by the strategic plan. They look ahead thinking how and where they want or need that the organization be.

2.2. TEAM LEVEL:

Team level is composed by each work-team that exists in the organization. Within organization, teams are the ones must implement operational strategies, focusing on achievement of specific objectives. Both formal teams like informal groups should be considered and treated as entities with their own characteristics, rules and behaviours. Proper organizational management needs to identify these groups and work-teams and understand the motivations and interactions that exist within the group and with other entities.

2.3. INDIVIDUAL LEVEL:

The individual level it up each and every one of the people who belong to the organization, regardless of their position in the formal hierarchy. They are the last unit in which an organization can be divided, and therefore are the fundamental base of any entity. Do not forget that an organization can be defined (one of many definitions) as a group of people who interact and work to achieve common goals.

Generally we structure the implementation of a plan as a top-down process in which management designs and individuals running. This makes sufferers individuals in the plan. Although, there are styles that encourage an active participation, not passive, of all individuals affected by the plan. When we talk about human resource management (with any name we use to call it) the individual becomes the centre of the process or plan. This characteristic is most evident when we are talking about change management.

The change is a recurrent process in an organization. What managers need to achieve the future state they have planned? How the transition state phases are implemented as planned? It is not possible if the team level doesn't implement the operative plan as planned. And how that is achieved? Only if the people, each and every one of those affected by the plan, working at all levels of responsibility or hierarchy, execute the change process as planned. So managers need to work on the individual level first, to allow teams to implement the operating plan, which is necessary to achieve the future state that managers defined in the strategic plan.

In practice, the implementation of a change process in an organization starts at individual level. Therefore, the cooperation of all individuals is needed to succeed with the change process. The individual will decide whether the plan will succeed or not. They can make the process easy or difficult, expensive or cheap. In fact, they can finally decide whether the plan will be implemented or not.

3. THE INDIVIDUAL CHANGE PROCESS:

When I was a child and did not understand something, I used to ask my mother. She always tried to find the simplest possible example. Since then, when I want to explain something I also usually start with the simplest possible example.

In November 17, 2003, Microsoft launched Office 2003. We all learned to use it, we become familiar with its features, and learned management interface. For four years we used this tool, we felt comfortable with it. Was the version of Microsoft Office that have used longer without substantial changes. In January 30, 2007, Microsoft launched Office 2007. This version had an entirely new graphical user interface, referred as the Fluent User Interface. We should have been happy with the new version, revised, improved, and designed for user comfort. Isn't it? In many cases, I have to say it on my own too, at first struggled to find the functions that for four years we drove quickly, we found the appearance of the screen so strange. Many of us resisted change, waited to receive documents written with the new version before definitely change our version. It is because change is not easy.

The current state is where we are comfortable, our locus of control. It is the present, where we know the rules and what is expected of us. It is the state in which we know how things are done. People generally prefer the current state, because that is where they live.

The future state is unknown. It could be better or worse than current state, it is full of doubts. The future is beyond our control, we have no control over future conditions. We can imagine a scenario, but uncertainty.

Normally the people don't want change. Even if they want to change is hard to change old habits and practices. The transition state creates stress and anxiety. Then, the resistance to change appears.

3.1. THE TRIANGLE OF RESISTANCE:

There are many models and theories about the change and the resistance to change. I will do a mix of them without any precedence over the other, because they all are valid from different points of view. It's about making a statement of the most important aspects that any manager will face when managing change in the individuals of the organization. I've wanted to call the triangle of resistance because it reflects the three basic questions that everyone asks when faced with change.

3.1.1. SHOULD I?

This question is about the rational aspect of change. To change we have to break the status quo. To do this we must break the conventional mind-set and create a picture of the future. The manager must generate awareness of need for change and the desire to support the change in individuals. The manager must answer questions like these; why is this change happening? What is the nature of change? What is the scope or depth of change? What is the risk of not changing? Do we have organizational drives to support the change? Should we try it? Can we succeed? The way to answer all of these questions is managing information transparently. Managers should provide as much information as possible and create a climate of transparency.

3.1.2. CAN I?

Nobody changes feeling unprepared. People will need to change their behavior and that is not easy to do. Doing things differently often requires developing new competencies, abilities and capabilities. First, people need knowledge on how to change; people must understand how to change, the details of what to do. Second, a good training program with a good design tools give them sufficient abilities to implement new skills.

3.1.3.WANT I?

People don't change if they don't want. Any process of change, as it will be a hard process that will require a lot of energy and go through times of stress and uncertainty, should start with high doses of motivation. Managers need to create in individuals the desire to succeed. Recognition, rewards and incentives are part of negotiation and motivation techniques that managers have to implement to deal with the reactions of loss that will emerge in the most conflictive steps and minimize these reactions.

4. THE TEAM CHANGE PROCESS:

At the team level there can be multiple types of groups according to their size and formal or informal structure, and in turn, within each organization, depending on the size of it, there may be many teams, more or less interconnected or related. Each team will be delimited by its members, the interactions that occur between them, their goals, objectives and responsibilities, and interactions with other teams.

As mentioned, each person must carry out the change process individually; therefore within the team will be individuals with different readiness for change and with different attitudes and skills to tackle the proposed change. I have grouped the members of a team in terms of these two parameters into three main groups. The team members can be re-active, neutral or pro-active towards change. Moreover, regardless of their attitude toward change, we have people who have the attitudes and skills to tackle proposed change and which do not.

Among those who support change, will appear the change leaders, those who will become the activators of change in the team. It is vital that the manager locate and identify these individuals because their motivation and readiness for change put pressure group towards the implementation of the change process at the team level. The manager must trust them, and for those who do not have enough tools to accept the proposed change, design training and tools to become active change agents.

Team members who are neutral toward change, and have the skills and abilities sufficient or not, and those who are reluctant to change mainly because of lack of skills to take the proposed change must be provided with the necessary tools and training, and should be motivated to accept the challenge. The

managers should invest on them most effort and resources. There are four communicative approaches for change that must be combined to increase in these individuals their willingness to change.

- **Cognitive approach:** Using objective data to convince the “rationalists”.
- **Formative approach:** Provide training and guidance to convince those who want or need to learn.
- **Conversational approach:** talk and interact to convince “predisposed”.
- **Coercive approach:** to convince those who actively resist change and the reluctant.

Finally, those who actively oppose change and do not have the attitude and skills to change; should not be the target of the resources that managers invest in the change process. These members cannot nor want participate in the process of the proposed change. Predispose them toward change and provide them the tools and training necessary would overspending of resources, time and energy. However, managers should not make the mistake of not identifying and minimizing group pressure against change that can have. And on the occasions when it is necessary and effective, managers must allow the group pressure pro-change positively influence them, and even can use coercive techniques.

5. THE CHANGE IN ORGANIZATIONS:

Changes in organizations are caused by a set of external and internal forces acting on them. But the origin of the changes may be grouped into four main groups; be it economic, technical, social or political change. We normally think on these changes on its external aspect, i.e., we consider that there have been changes to the exterior, which affects the environment of organizations and force them to change. But you can not despise the economic, technical, social and political changes originating within the organization and that can lead to the need to adjust or change aspects stable until that time.

The ultimate and primary goal of any organization is its survival. Beyond profits, fulfilment of its mission and vision, to implement the policies of corporate social responsibility, or any other objective or goal that has the organization; none of this is possible if the organization does not survive.

Obviously, there is no universal single and correct way for implement a process of change in an organization. But we can find examples of good practices that can guide us. Many times the business literature seeks examples in nature that serve to illustrate situations, processes or ideas, which serve to explain effective and efficient practices.

So, I suggest the reader to think of a group of migratory birds. In contrast to them, the organizations do not have a genetically inherited program that allows them to accept, manage and achieve change intuitively. But looking at the way in which migratory birds move their habitat once or twice every year (and it's not an easy change), we can learn many things.

Migratory birds recognize changes in the environment; interpret them and feel the need to fly in search of a better climate. Before the trip, when the signals are subtle, they prepare themselves for the challenges they will encounter, are overfed and gather for the journey. They fly in a V formation, a formation that is created exclusively for travel and is tremendously effective and efficient for this purpose. Allows monitoring among individuals, the care of each other, mutual support, saving energy and fly in the same direction. Once the journey begins they adapt the course of their flight depending on the conditions they encounter. They are aware of his need to eat and set stops. If weather conditions they change slightly alter its course or seek shelter. When they arrive at their final destination, their new habitat, they undo the transitional structures that have been set for the trip.

Organizations make a change process consciously, in rational and planned way, based on the interests of people that form them. But as in the example, they analyze the environment, identify opportunities for change and design a plan. Then, managers create transition structures, train, inform and motivate the people to implement the plan in stages, gradually. Finally, managers must check the execution of each phase and value de success of the change process. To conclude the change process, all individuals in the organization must sustain the change.

If managers do not join individuals and teams to ensure that every step and phase has been executed, implemented and sustained; the plan will fail. And consequences of failure, is not only about this change, but future changes; the resistance to future changes will increase. In the same way new objectives could be more complex. Further, final results can be worse than pre-change, individuals could return to old practices; resources, time and energy will be lost; and individuals can suffer leadership crisis, confusion and loss of credibility.

6. THE “CHANGE-FRIENDLY” ORGANIZATIONS:

I call “change-friendly” to an organization that is aware that, as an open system, is influenced by the environment, and can influence it. An organization that does not only accepts the changing

environment, but causes changes in it. An organization that makes the process of change in a continuous process.

If managers do not expect changes in the environment to begin change process, when organization has to change? In the words of Claus Moller, "We must change before it is necessary." When the organization has all the resources, when only depends on itself to change, when managers can build the future they want.

To convert a company in "change-friendly" is necessary to review and modify the culture of change. Individuals in the organization must internalize the change and make it part of how to do in the organization. While it is true that this requires even more energy and enthusiasm than simply accept the change in the frantically changing world in which we live, this further step can make a big difference. But managers can not leave alone individuals. Managers need to provide the tools necessary for this new culture to develop.

In short, what managers should look for is a greater involvement of individuals; we can call it employeeship approach. Communication between each part of the organization should be fluid and not be structured vertically downward. Communication should be transverse, horizontal and vertical and upward; should go in all directions. Thus, individuals are not simple communication receivers, but can be in turn communication transmitters. It is important that managers recognize and reward loyalty and commitment, as a way for employeeship.

7. CONCLUSIONS

Convert the organization in change agent of environment can be and is risky, but can also produce higher profits; not only economic, but in terms of productivity, satisfaction and quality.

Change is inherent to the dynamic character of the organizations, it is necessary to survive. Change is not a threat but an opportunity. And it is the people who manage change. As change is a difficult process for individuals, managers need to try that transition has the minimum possible impact. The processes of change, even if they are major, must be keeping them as simple as possible. To achieve this, communication is the key.

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THE CREDITWORTHINESS ANALYSIS OF SNTGN TRANSGAZ SA MEDIAS FOLLOWING THE MODEL OF ROMANIAN COMMERCIAL BANK

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Abstract: Granting loans is one of the most important operations performed by commercial banks. The existence of the risks involved in this operation determines the bank institutions to analyze the creditworthiness of clients in the assessment of the economic and financial performances and of the credit reimbursement capacity. During the approach of the creditworthiness of SNTGN Transgaz SA, the following economic and financial indicators have been taken into consideration: liquidity, solvency, return on equity, current assets turnover, as well as the dependence on supply – sales markets. According to the rating of the Romanian Central Bank, the Romanian national gas transmission company is included in category B with a 20 points score, which grants it high credibility in contracting bank loans.

Keywords: creditworthiness, credit score, financial indicators

JEL classification:

1. Introduction

Creditworthiness represents the assessment performed by commercial banks upon enterprises when these enterprises apply for a bank loan. The assessment of the capacity to reimburse the loan is performed based on the business plan prepared by the business enterprises, or based on the feasibility study for the greater projects²⁰. The creditworthiness of the economic entity is assessed according to the following categories of indicators: liquidity, solvency, return on equity and current assets turnover.

2. Research methodology

In order to determine the clients' creditworthiness, one must prepare a data matrix which includes on the horizontal line the clients who applied for the bank loans, and on the vertical line, the economical – financial information determined based on the annual financial statements, as well as the information on loan reimbursement. The matrix comprises quantitative variables (economic and financial indicators) and categorical variables (possible problems in reimbursement of certain previous loans). The measurement scale of the quantitative variables is a continuous one, considering numeric values from a range within the minimum limit and the maximum limit. The categorical variables include two or several value levels.

Clients are divided in two classes: clients who have previously had trouble in reimbursing the bank loans and clients who had no such problems. There are used binary variables, of type 1 – for those who have had reimbursement problems and type 0 – for those who had no problems reimbursing the loans.

By using the analysis and discrimination techniques, clients will be characterized according to the financial attributes of each class, which will enable banks to make predictions on creditors' behavior²¹.

3. Categories of indicators meant to assess the creditworthiness of an economic entity

a) Liquidity (current ratio)

Current ratio measures a company's ability to pay its short-term obligations by using its current assets and their quick transformation into liquid assets. Liquidity ratio shows the quality of the short-term financial balance of the economic entity. The current assets turnover is assumed to exceed the short-term

²⁰ Angelescu Coralia (coord), „Economics Dictionary”, Ed.Economică, Bucharest, 2001, p.65

²¹ Spircu Liliana, „Data analysis: Economic Applications”, Ed. ASE, Bucharest, 2005, p.15

debts turnover, considering the certain chargeability of debts, determined by contracts, as opposed to the uncertain stock liquidity²².

The liquidity of a company is favorable when the assets arising from operating activities supply sufficient cash in order to pay the debts due within one year, keeping the company from imminent bankruptcy²³.

The calculation of the liquidity ratio is done by obtaining the current assets to current liabilities²⁴.

b) Solvency

Solvency shows the ability of a company to generate sufficient liquid assets to maintain its production capacity and to pay its medium and long-term debts²⁵. An enterprise is considered solvent when its actual assets allow it to pay for all its debts. For that, it is necessary to correlate the cash collecting rhythm by transforming the assets on maturity into cash to the rhythm of paying maturing debts²⁶. A company is considered effective if it manages to pay all its due debts on time, including the long-term debts. In order to ensure solvency, the company is required to perform an efficient profit-enhancing activity.

In order to obtain the calculation of the company's solvency, one needs to calculate the equity capital value to the value of liabilities²⁷.

c) Return on equity (ROE)

The return on equity of a company evaluates to what extent the equity capital generates available income, after paying up the financial expenses, shareholders and employees²⁸. This indicator shows the degree of remuneration of the company's owners for the investment by contribution or by the benefits due to them. At the same time, a company with a solid return on equity will be able to appropriate a part of the net benefits to renew its fixed assets, which in time will lead to reducing the expenses arising from operating activities and to improving current result²⁹.

The return on equity is expressed by the net benefits to equity capital ratio³⁰.

d) Current assets turnover

It gives information on the number of current assets rotations during the financial year and it is determined by turnover to current assets ratio.

Bank practice uses two techniques to measure the clients' performances based on the creditworthiness indicators: based on the balance sheet and the profit and loss account according to the methodology recommended by the Ministry of Finance, or based on the restructured balance sheet and the profit and loss account³¹.

Following the analysis of the financial performances, the situation of the loans granted to clients can be classified as follows:

Table 1: Creditworthiness categories

Category	Total of points	Financial – economic position – degree of risk
A	> 20	Very good– loans can be granted
B	16 – 20	Good – loans can be granted
C	11 – 15	Oscillating – high risk
D	6 – 10	High risk – it has no guarantees for granting loans
E	0 – 5	Very poor – no guarantees for granting loans

²² Jianu Iulia, „Evaluation, presentation and analysis of the company's performance”, Ed.CECCAR, Bucharest, 2007, p.425

²³ Petrescu Silvia, „Accounting and financial analysis and diagnosis”, Ed. CECCAR, Bucharest, 2010, p.250

²⁴ Balteş Nicolae, „Financial analysis and diagnosis”, Ed.Universităţii „Lucian Blaga”, Sibiu, 2010, p.67

²⁵ Idem 3, p.438

²⁶ Idem 4, p.247

²⁷ Balteş Nicolae (coord.), „Economic and financial analysis of the company”, Ed.Universităţii Lucian Blaga, Sibiu, 2013, p.235

²⁸ Idem 3, p.340

²⁹ Georgescu Nicolae, „Accounting balance analysis”, Ed.Economică, Bucharest, p.145-150

³⁰ Idem 5, p.69

³¹ Stoica Maricica, „Bank Management”, Ed.Economică, Bucharest, 1999, p.66

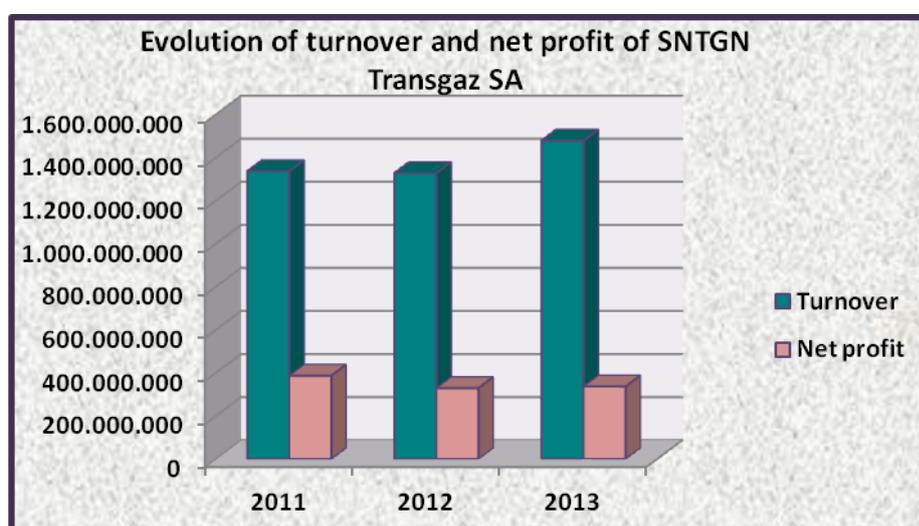
4. Research on the creditworthiness assessment of SNTGN Transgaz SA Mediaş over the period 2011-2013

The company Transgaz SA Mediaş holds a monopoly on the national market of natural gas transmission. The registered capital amounting to 117,738,440 lei is owned by the shareholders such as: the Romanian State (58.51 %), a closed-end investment company, Fondul Proprietatea SA (14.99 %), other legal bodies (19.56 %) and natural persons (6.94 %).

The natural gas transmission company was first listed on the Bucharest Stock Exchange in 2008, quoted as a first rank company, among the top ten entities considering the number and the value of the securities transactions³².

The evolution of the turnover and the profit of Transgaz SA Mediaş, over the period 2011-2013 is presented in chart no. 1.

Chart no.1 Evolution of the turnover and the profit of SNTGN Transgaz SA Mediaş



During the period 2011-2013, more than 95% of the total gross profit of the financial year is obtained from the operating activities, which clearly shows the stability of the activity in Transgaz SA. The profit has the highest value in 2011. During the following year there are recorded decreases, and then in 2013 there were again increases in the company's profitability. The oscillation of the profit for the period was due to the rhythm of modification of the operating income, especially the turnover. In 2012, as compared to 2011, the operating income was diminished by 2.37% (as the turnover lost 0.67 percentage points), and the operating expenses increased by 4.61% in this period.

The decrease of the turnover was due to the reduction of natural gas quantity transmitted by NTS, as well as the natural gas quantity transited abroad. The income from the transit activity witnessed a slight increase due to the modification of the exchange rate for USD, the currency in which the payments are cashed in the transit with Turkey. The increase of the company's expenses was attributed to the exceeding of expenses, in 2012 as compared to 2011, for the salaries expenses (11,304,000 lei), employees' profit sharing (10,025 lei) and the costs caused by the provision for employees' benefits (39,207,000 lei).

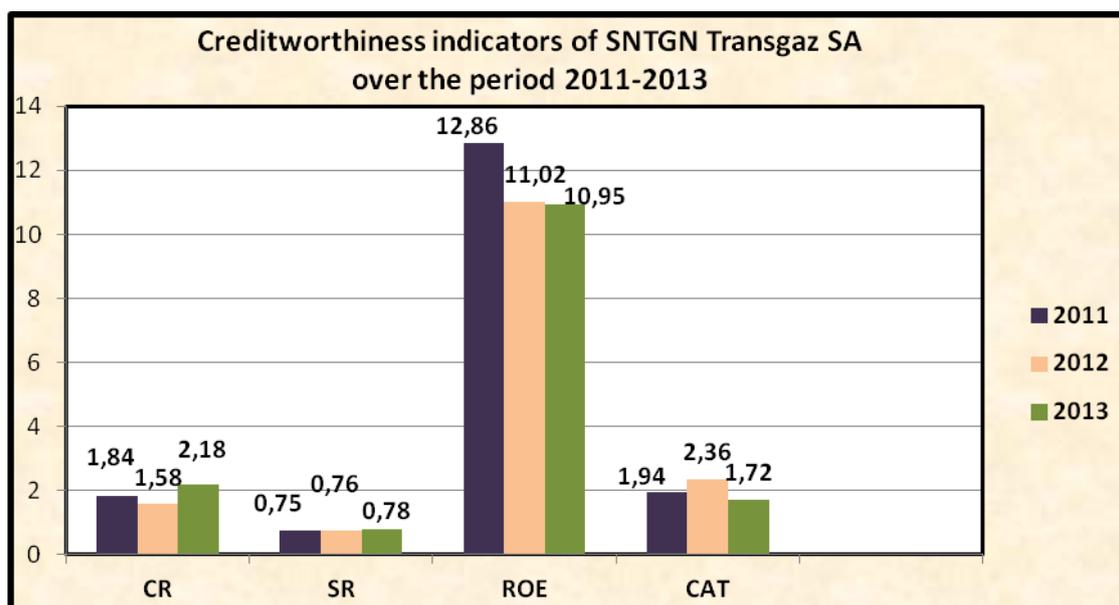
As for the evolution of the turnover, the greatest value was recorded in 2013. The total of the operating income increased by 11.07%, and the operating expenses decreased by 1.80%. Although the quantity of transmitted natural gas diminished, the increase of the turnover and implicitly of the operating income is due to the rise of the capacity reservation charge. The financial income diminished due to the reduction of the company's bank deposits by 14,068,000 lei. An encouraging fact is the reduction of the natural gas technological loss, which indeed led the decrease of the operating expenses in 2013³³.

³² <http://www.bvb.ro>

³³ <http://www.transgaz.ro>

The evolution of the creditworthiness indicators of the company over the period 2011-2013 is described in chart no. 2.

Chart no.2 Evolution of the creditworthiness of SNTGN Transgaz SA Mediaș



Current ratio shows the extent to which the current assets turnover (their progressive liquidity as a result of their operating activity) exceeds the speed of short-term debts rotation (their chargeability). In the case of SNTGN Transgaz SA, the value of the indicator is higher than one, during the entire period 2011-2013. In order to eliminate any risk of default on current debts, the value of the indicator must be about 2. The National Natural Gas Transmission Company has an increased capacity to pay current debts, as it is a solid company with a well-established financial management. The year 2012 witnessed a slight decrease of the indicator value, which was justified by the decrease of cash flow due to the reimbursement of the bank loans to BRD Societe General amounting to 7,785,626 lei, to Unicredit Ţiriac and to BIRD amounting to 18,412,000 lei, as well as the increase of current debts caused by the rise in provisions for risks and charges by 4,763,000 lei (provisions for litigations and provisions for guarantees) and in fiscal debts determined by the increase of profit tax by 30,532,000 lei (caused by the transition to IFRS accounting which required certain fiscal re-treatment).

In 2013, the reduction of current debts was mainly obtained due to the registration and payment of the tax on natural monopoly, to the decrease of the fiscal obligations on VAT on collection (VAT payable) and to the diminution of oil royalty. In parallel to the reduction of short-term debts, is identified an increase in current assets due to the rise of receivables by 15.37% as compared to the previous year (the increase in the receivables balance due to the increase of the transactions' value, the rise in advance payments to suppliers and the decrease of the provisions for doubtful customers) and the increase of cash flow by using the credit line from BRD GSG for the amount of 29,875,287 lei and due to the positive balance of payments (the cash obtained from the operating activity exceeded the cash used for investment and financing projects). The structure of current assets mostly includes receivables and cash and cash equivalents (more than 80%), as the impact of inventories modification is almost insignificant.

According to the values recorded by the "current ratio", SNTGN Transgaz does not have to deal with a liquidity risk. The company deploys cautious type of management through the credit facilities it has engaged in, making sure it has the necessary liquid assets to pay up debts, observe its contracting obligations and develop an appropriate financing and investment plan.

Solvency ratio measures the capacity of a company to generate sufficient liquid assets to maintain its production capacity and to pay its maturing and long-term debts. The company is considered solvent when the amount invested in tangible assets and current assets exceeds or is at least equal to the total of maturing liabilities. The greater the proportion of shareholders equity is in the total of liabilities, the better the company manages to deal with the insolvency risk. The value of equity capital must exceed 30% from the total of financing sources. Considering the high values of the solvency ratio, which was over 70% during the entire period 2011-2013, one may state that SNTGN Transgaz has sufficient stable financial

resources to pay its debts. The solvency ratio witnesses a rising trend, considering also the decrease of the total of current debts and of long-term debts by paying up bank loans, as well as by increasing net profit.

Keeping a high solvency level is one of the financial goals of the National Natural Gas Transmission Company, in the desire to maintain its management flexibility and the high financial autonomy. Considering the expensive investment projects (especially regarding the improvement and modernization of NTS, which amounted to more than 61,175,946,000 lei in 2013 alone), it must maintain a balance between the incomings flow and the outgoings flow. During the period 2011-2013, the greatest receipts were recorded in 2013, more than 1,484,714,000 lei due to the increase of the capacity reservation charge by 0.812 lei/MWh, and the lowest value was recorded in 2012, amounting to 1,327,987,000 lei. For the entire period 2011-2013, Trasgaz SA reports a decrease, which is greater from year to year, of the natural gas quantity that is being transmitted, which influences in a negative way the company's receipts and expenses budget. Due to the well-developed investment system in NTS, Trasgaz has managed to diminish every year the consumption and technological loss within the transmission system, thus reducing the operating expenses by 14, 972,000 lei in 2012 as compared to 2011 and by 23,425,000 lei in 2013 as compared to 2012.

The financial standing of SNTGN Trasgaz SA expressed by the solvency ratio represents a solid guarantee for the crediting banks. It analyzes the equity capital employed by the owners in financing the company's activity. The proportion of less than 30% of debts from the total assets represents a proof of a sound administration not only of the financial management of Trasgaz SA, but also of the activity at operational and strategic level, making an attractive client for the crediting banks.

Return on equity shows the company's performance through its capacity to turn profit. The return on equity refers to the ratio of the effort to obtain equity capital on its effect (it measures the yield of using equity capital). The return on equity is an instrument for remunerating the company's owners by distributing dividends for their investment on capital. This indicator shows the ratio: the owners' property expressed in net profit/ company's equity capital. The return on equity is decreasing during the period 2011-2013, which shows a reduction for equity capital capacity to generate net profit.

In the structure of equity capitals, the influence is given by the profit of the financial year, as the other components stayed unchanged during the entire period under analysis: the share capital 117,738,440 lei, adjustments of the share capital to hyperinflation 441,418,396 lei, share premiums 247,478,865 lei and other reserves 1,265,796,861 lei.

The turnover, but also the net profit margin, witnesses decrease in 2012 as compared to 2011 and increases in 2013 as compared to 2012.

The natural gas quantity that was transmitted on the internal market diminished in 2013 as compared to 2012, which led to a decrease in receipts by 80,440,000 lei, and on the external market the receipts dropped by 7,338,000 lei, but these decreases were compensated, as we mentioned before, by increasing the tariff. As a whole, the operating income increased in 2013 as compared to 2012 by 11.06 %. The operating expenses witnessed a diminution by 1.26 % (due to the reduction of natural gas consumption and technological loss within the transmission system), which had a positive influence on the operating result, therefore the increase of operating profit by 44.86 %.

The same tendency is recorded for the net profit. In 2012, both the profit ratio and the equity capital ratio witnessed diminutions, but the net profit reduction ratio exceeded the equity capital reduction ratio by 14.09 %, whereas in 2013, the increase of the net profit ratio was exceeded by the increase in the equity capital ratio by 0.78 %.

Although the return on equity of SNTGN Trasgaz SA is slightly decreasing, the company has the capacity to change the falling trend. As it is a solid company, with a well-conceived strategy, with an investment plan in progress regarding the development and modernization of NTS, Trasgaz SA is able to contribute to the increase of the rate of return by speeding up the total asset rotation and the advance of net return of total income. The slightly lower level of the return on equity may be justified by the substantial expenses on NTS infrastructure which, once they are finished, will lead to the augmentation of financial economical performances.

Current assets turnover shows the number of rotations of current assets that are necessary for the turnover. The current assets rotation speed shows the efficiency by which the company's current assets are used. The greater the rotation speed is, the faster drops the volume of current assets necessary to reach the anticipated turnover, or the more diminishes the time allotted for obtaining certain production.

The assessment of the current assets rotation speed can be done by using two indicators: the number of rotations depending on the turnover and the duration of a rotation. During the period 2011-2013 for the natural gas transmission company Trasgaz SA, the rotation speed of current assets, judging

by the number of rotations, witnessed its highest score in 2012. This is mainly due to the output of cash flow necessary to pay for the long-term bank loans to BRD Societe General amounting to 7,785,626 lei, to Unicredit Ţiriac and to BIRD amounting to 18,412,000 lei. The total value of current assets dropped also because of the diminution of receivables in 2012, which witnessed a 6.20% reduction, a situation that was due to the decrease of accounts receivable balance by 8,913,000 lei and to the increase of provisions for doubtful customers by 9,343,000 lei. The decrease of accounts receivable balance is mainly caused by the cashing in, during the first part of the year 2012, of the receivables from Interagro Bucureşti and Electrocentrale Bucureşti amounting to 172,651,980 lei. The proportion of inventories in the total of assets is insignificant. During the period 2011-2012, the diminution of the turnover (by 0.67%) is a lot inferior to the decrease in current assets (by 18.29 %, due to the outflow of cash for paying the bank loans and reducing the accounts receivable). As opposed to the previous period, during the period 2012-2013 there were increases, both in turnover (by 10.62 %), and in current assets (by 24.86 %). As we have previously mentioned, the increase in turnover in 2013 is due to the increase of the capacity reservation charge.

As far as the duration of a rotation is concerned, it drops in 2012 by 32.89 % as compared to 2011, and in 2013 it rises by 18.47 %. From the perspective of the current assets rotation ratio, we can state in the first instance that the year 2012 was the most efficient one. The acceleration of the rotation speed of current assets, shown by the increase of the number of rotations and by the decrease in the duration of a rotation leads to the diminution of current assets corresponding to 1,000 lei in turnover. In the case of SNTGN Transgaz SA, the diminution of the duration of a rotation has led to the relief of liquid assets and reduction of receivables, which was not however accompanied by the increase of benefit from the primary activity.

Depending on the scores recorded by the indicators of creditworthiness, one may determine the rating category based on the model of the Romanian Commercial Bank:

- Current ratio: 184% - 218% => + 4 points
- Solvency: 75% - 78% => + 5 points
- Return on equity: 10.95% - 12.86% => + 4 points
- Current assets turnover: 1.72 – 2.36 => + 1 point
- Market dependence: + 2 points (considering the monopoly position corroborated with the major dependence on State's budgetary policy, there might be pressure from the State in situations of financial crisis).
- Guarantees:
 - Pledges, mortgages: + 3 points
 - Receivables assignment: + 1 point

Total score: 20 points

According to the evaluation grid, SNTGN Transgaz SA is rated as having a good economic and financial standing, being at the limit of the 20 points threshold. The problems met by the company, which might raise certain questions, refer to the current assets turnover and the market dependence. The natural gas transmission company has credit rating type B – good, which allows it to benefit easily from bank loans.

5. Conclusions

The rating of SNTGN Transgaz SA Mediaş regarding creditworthiness is situated in category B, on the limit of the score with category A, which shows a hopeful position for the company, with solid financial perspectives. The rating determined by using the Romanian Commercial Bank model is confirmed by the result published by the Financial Evaluation Agency Standard & Poor's, which rates Transgaz SA with the grade BB+.

As it is a company with a solid financial management, the natural gas transmission company has favorable creditworthiness, which gives it credibility to contract bank loans, as it is not exposed to major financial risks. The rating of Transgaz SA is sustained by the monopoly position occupied by the company on the national market of natural gas transmission, by the cash flow generated by the activity of international transit and its favorable financial standing.

Following the analysis of creditworthiness indicators, the economic and financial indicators had values that show a healthy financial condition. The current ratio, alike the solvency and return on equity had favorable values and therefore there is no question for the company to deal with the lack of liquid assets for paying debts.

A possible risk that might threaten the financial situation of the company is the great need of liquid assets in order to finance the investment projects for the development and modernization of NTS, as well as the involvement of Transgaz SA in Nabucco project.

The favorable financial and economic situation during the period 2011-2013, the solid financial management of the company, the minimum risks of non-reimbursement, corroborated with the support given by the Romanian State to the national companies, all these grant SNTGN Transgaz SA good creditworthiness, ensuring it a high level credibility so it can benefit relatively easily from bank loans.

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ANALYSIS OF THE APPLICATION OF THE INTERNATIONAL ACCOUNTING STANDARDS BOARD'S REGULATIONS AT A WORLDWIDE LEVEL

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Abstract: *The volatile international context is facing a continuous change: processes get shaped by crisis and scandals and new regulations are issued. This paper will present the application of the International Accounting Standards Board's regulations worldwide. After a short historical review of the international board, the paper will focus on the countries currently applying International Financial Reporting Standards. This will be followed by an analysis narrowed down to the European Union level and then to the case of Romania. Afterwards the paper intends to critically address the advantages and downsides brought by the application of International Financial Reporting Standards.*

Keywords: (IASB), (IFRS), (GAAP), advantages

JEL classification: M41

1. Introduction

In a continuously globalising economy, where transnational companies grow from one year to another, the accounting community is driven by the need for harmonisation, in order to assure the comparability of the information provided by the financial statements.

But why are the national generally accepted accounting principles (GAAPs) so different from country to country?

A nation's GAAP is influenced by many factors, namely the economic environment, the political situation, the legal and fiscal system, the inflation level, and the dominant funding structure of the companies (gearing ratios). This can explain the differences between one national GAAP and another.

Differences can be identified in the terminology used, the accounting principles that constitute the basis for the reporting system in that country, the presentation of financial statements and also in the power exerted by the accounting profession. Due to these differences, the users of the accounting information will be reluctant concerning the credibility of the financial statements of a company that bases its activities in a GAAP different than that of the country of origin of the users. In order to bring the presentation of financial statements to a common base, it is necessary for some worldwide accepted accounting principles to be introduced.

Before establishing who should be in charge of elaborating accounting standards, it is considered necessary to distinguish between two terms: normalisation and harmonisation. The normalisation implies the elaboration and enforcement of accounting regulations at a national, regional or international level. The international harmonisation of accounting implies the alignment of national accounting rules and regulations to the internationally-renowned ones.

The normalisation process can be undertaken by public companies, private entities or both.

If the public sector is to be in charge of this task, then it will represent „the interests of society as a whole”, but it is assumed that it will not be open to the needs of the private sector and will not ensure a reasonable level of objectivity.

It is considered, though, that the „interests of society” will be served also in the case in which the duty of elaborating accounting regulations will belong to a private entity; this can be assumed because it is supposed that this entity will comprise representatives of different activity fields. Nevertheless, the

existence of a private regulatory entity will trigger the necessity of a governmental control in order to avoid transgressions.

The optimal solution is provided by the cooperation of the public sector with the private one, which means that the regulatory bodies should collaborate with the governments in the process of elaborating accounting regulations and principles. The aim of this collaboration would be that the financial information built based upon these regulations will address as thoroughly as possible the needs of the users of financial information.

2. International Accounting Standards Board

The regulatory body at international level is the International Accounting Standards Board (IASB). It has been constituted in 1973, in London, as an independent, private-sector body, under the name of International Accounting Standards Committee (IASC). The reason for its formation was the urge to solve practical issues that occur at an international level.

In 2000, in order to inspire confidence and also at the suggestion of the U.S. Securities and Exchange Commission (SEC), IASC restructures itself from a part-time body with a relatively small staff to a full-time standard setter (Camfferman and Zeff, 2007). “The predominant criterion for Board membership”, the SEC said, “was technical expertise, not geographical origin”. Without saying so, the SEC argued for a body similar to the Financial Accounting Standards Board (FASB), the regulator in the U.S.A. Through an unanimous vote, SEC’s suggestions were approved and from almost 150 members, only 14 Board members remained, along with a board of 19 trustees. Since then, the IASB operates under the oversight of the IFRS Foundation. By this means, it was intended to separate the fundraising function from the issuance of new standards, so that interests would not interfere with the standard-setting process.

In 2001, when the first restructured Board meeting took place, the name IASC was changed into IASB. Its standards issued from then on would be named International Financial Reporting Standards (IFRS) instead of International Accounting Standards (IAS). Before 2001, IASC issued International Accounting Standards (IAS) and Standard Interpretations Committee (SIC) interpretations of these standards. Afterwards IASB issued International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations of IFRSs.

Nowadays, there are **29 IASs** into force (and other 12 are withdrawn or superseded by new IFRSs) and **14 IFRSs**. Regarding their interpretations, there are **18 IFRIC** (and other 3 have been withdrawn) and **8 SIC** (the rest of 25 being superseded) interpretations.

In its seek of exposure, IASC made an agreement with IOSCO (International Organisation of Securities Commissions). IOSCO promises that if IASC would significantly improve its standards, IOSCO would support them and promote IASC’s standards through its regulator members. This agreement was signed in 1987. In 2000, IOSCO offered its favourable report on the submitted standards and recommended to its regulator members to impose the standards issued by IASC. By this means, IASC’s worldwide credentials as a standard setter grew.

In recent years, IASB’s priority is the process of mutual convergence with the FASB, encouraged also by the SEC. “The Norwalk Agreement” signed in 2002 stated that IASB and FASB would “make their existing financial reporting standards fully compatible as soon as is practicable.” These two regulatory bodies are now working on the elaboration of a new conceptual framework and are reconsidering some of the previously issued standards. The main concern is now whether IASB will turn to a more principle-based model, promoted by FASB, or it it would still keep its rules-based model.

3. Countries that apply IFRS

According to a worldwide statistic published on the website iasplus.com, we notice that there are 25 countries where it is not permitted for listed companies to use IFRS (a decrease from 31 countries, in 2011). Such countries are Brazil, Columbia, India, Indonesia, Japan. The United States of America (regulated by the FASB) now permit the application of IFRS.

At the opposite side, in 92 countries IFRS is required for all listed companies (including EU member states, which apply “IFRS as adopted by EU”). Such countries are Armenia, Bahrain, Chile, Croatia, Costa Rica, Ecuador, Georgia, Ghana, Guatemala, Honduras, Hong Kong, Iceland, Jamaica, Kenya, Lichtenstein, Mongolia, Montenegro, Norway, Tajikistan.

There are some countries where IFRS are only permitted (26 jurisdictions) or where IFRS are required only for some companies (10 jurisdictions).

In Cyprus and the Slovak Republic, all companies are required to apply International Financial Reporting Standards, regardless of whether they are listed or not on the stock exchange.

4. The application of IFRS in the European Union

Analysing the situation in the European Union, we notice a uniform application of the international accounting standards within the listed companies, due to its compulsory nature. Thus, all 28 states require the application of IFRS in the consolidated accounts of the listed companies. This situation dates back to 2002, when the European Commission committed to IAS, imposing listed companies in the EU to adopt IAS in their consolidated financial statements by 2005. This gave IASB a boost of confidence, as no other country in the developed world had yet announced a commitment to the IASB’s standards. But the regulations were not literally implemented until they passed the technical and political acceptability check, undertaken by European Financial Reporting Advisory Group (EFRAG) and Accounting Regulatory Committee (ARC). This endorsement process implies that the EU members do not apply the IFRSs issued by IASB, but “as adopted by EU”, phrase also encountered in the audit reports of the companies that apply them.

The first article of this regulation stated that because “the Directives (i.e. Fourth Directive: annual accounts of companies with limited liability, Seventh Directive: consolidated accounts of companies with limited liability) cannot ensure the high level of transparency and comparability of financial reporting from all publicly traded Community companies, [...] it is necessary to supplement the legal framework applicable to publicly traded companies”. The application of the international accounting standards would imply “an increasing convergence of accounting standards currently used internationally with the ultimate objective of achieving a single set of global accounting standards”³⁴. Thus, starting 1st of January 2005, 7,000 European listed groups give up on the national GAAP, in favour of the international financial reporting standards (IFRS). Actually, almost 30,000 companies that were part of these groups applied the IFRSs.

But the European Union’s decision was not received enthusiastically by all member-states. For example, in France, the discontent concerned the fact that the new regulations came to replace a regulatory system that has always been under the state’s control. A more specific issue regarded the „fair value” concept.

But France was not the only country that was discontent with EU’s decision of applying IFRS in consolidated financial statements. A research undertaken in 2004 having as a sample 112 listed entities identified other unfavourable aspects triggered by the 1606/2002 regulation:

- the process was very expensive, complex and raised many problems;
- the companies did not expect that the cost of capital will decrease as a consequence of applying IFRS;
- the companies expected that the volatility of their results will increase as a result of applying IFRS;
- the vast majority of the entities would not have applied IFRS if they had not been required.

Analysing the conclusions of this research, one could infer the fact that the application of IFRS triggers only disadvantages and discontent. But this aspect is not fully true. From the investors’ perspective, the understanding, interpretation and comparison of foreign companies’ financial statements implies some costs. These costs could be reduced substantially through the implementation of accounting

³⁴ Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards

standards applicable at an international level. Consequently, the application of IFRS could lead to a significant increase in the investments in foreign capital markets. On the other hand, one could also infer that the application of IFRS is more useful for the foreign investors than for the national ones.

5. Application of IAS and IFRS in Romania

In Romania, the main entity that elaborates accounting regulations is the Ministry of Finance. The application of IFRS in Romania had as a main objective the creation of an attractive investment climate for investors.

What changes pertained to the introduction of IFRS in the Romanian accounting system?

In the process of becoming a member of the European Union, Romania adopted law number 403/1999. It translated the European Union's Fourth Directive: annual accounts of companies with limited liability and the international accounting standards into the national law. But at the time, there were significant differences between the Romanian accounting system and IAS. The national accounting system was characterised by:

- the lack of some components of the financial statements, like the statement of changes in equity and the statement of cash flows;
- the lack of the majority of explanatory notes that the international standards require;
- the financial statements were elaborated mostly for fiscal purposes;
- the lack of adaptation of the financial statements to the effects of inflation (Romania was passing a hyper inflationist period then);
- the lack of consolidated financial statements at group level;
- the prevalence of the form over substance (the legal matters prevailed the economic ones).

Because of these major differences, the application of IFRS triggered important changes.

How did the changes incur?

Recent research showed that the political factor had an important role in the spread of the international accounting standards. This is also the case of Romania, where the standards were imposed through a political decision and not through the voluntary decision of the companies. Some research states that the Ministry of External Affairs concluded an agreement with the Government of Great Britain in 1996, which involved counselling offered by the Know How fund³⁵. The British government funded a team of Scottish specialists that counselled the Romanian Ministry of Finance in matter of the accounting reform. Thus, Romania was counselled to harmonise its accounting with the European and international standards. Other researches consider that the influence came from the World Bank and the International Monetary Fund, that wanted to create an attractive investment climate for foreign investors.

Nonetheless, the reality shows that at that point in time the companies were not ready for this step. The transition to IFRS was not easy, as it implied:

- the use of estimates and professional reasoning when taking accounting decisions;
- the use of different measurement basis, like fair value and discounted value;
- the introduction of new accounting principles, like substance over form and materiality principle;
- the use of international accounting concepts that did not come from the national context, like deferred taxes.

One of the first problems that raised was because the country wanted to adopt both European and international regulations at the same time. And there are some differences between them, as they represent a rules-based system and a principles-based one. In order to solve this situation, law number

³⁵ The Know How Fund is a British programme that provided technical assistance for Eastern Europe and countries of the former Soviet Union. They offered the British know-how in many fields, including financial services.

94/2001 mentioned that if there were to be conflicts between the European and the international regulations, then the company would be free to choose one of the opposing accounting treatments in order to ensure a fair value of the transaction.

Then order 1,827/2003³⁶ came to clarify what companies should apply IFRS in all their financial statements starting 2005. From the comprehensive list, one can mention the listed companies, banks, insurance companies, subsidiaries of companies that apply IFRS at a consolidated level and the juridical persons that fulfil at least 2 of the 3 given size criteria (operating income higher than 7.3 million Euros, total assets higher than 3.65 million Euros and the average number of employees higher than 50). These size criteria are also the ones that determine whether a company's financial statements comprise 5 elements (statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and explanatory notes) or only 3 elements (statement of financial position, statement of profit or loss and other comprehensive income, and explanatory notes).

Until 2005, 1,500 entities started to apply IFRS. A study undertaken in 2005 showed that this process was difficult because the accountants were more used to make fiscal judgements rather than economic ones and whenever they did not find explicit regulations for a certain problem in the international standards, the accountants went back to the fiscal rule. Also, the management of the companies saw this adoption of IFRS as a change in the way the financial statements would be presented rather than a change of the accounting policy in order to be in line with the economic and financial situation of the company.

In order to ensure a better understanding of the international financial reporting standards, the CECCAR (Corpul Experților Contabili și Contabililor Autorizați din România) body started to collaborate with the universities and together they issued guides for the understanding and application of each international accounting standard. They also took the responsibility of translating every new international standard issued. This project started in 2004 and in 2007 they also started translating International Public Sector Accounting Standards (IPSAS).

There was much uncertainty and confusion in the accounting profession when law 1,752/2005³⁷ came into force and requested all the Romanian companies to apply IFRS starting 1st of January 2006. Moreover, law 907/2005³⁸ required all companies to apply European regulation when reporting to the state, regardless if they apply IFRS or not. This represented an additional effort for the companies, because the issuance of 2 sets of financial statements requires additional costs and it can also create uncertainty for the users of the financial information.

Starting 2007, the Romanian authorities decided that only the listed entities will be required to apply IFRS and only in the consolidated statements. This regulation is still in place nowadays. It should not be forgotten that all entities, regardless of their application of IFRS, have to elaborate financial statements according to the European Directives for the relation with the state.

It can be concluded therefore that in the Romanian accounting system the European Directives prevail the international standards. This can also be interpreted in the context of the European Union adherence, which imposed the translation of the Directives in each jurisdiction's regulation.

³⁶ Order no. 1827 of 22 December 2003 on amending some accounting regulations, issued by the Ministry of Finance, published in the Official Monitor no. 53 of 22 January 2004

³⁷ Order no. 1752 of November 17, 2005 the Minister of Public Finance for approval of accounting regulations compliant with European directives

³⁸ Order no. 907 of 27 June 2005 on the approval of legal persons applying accounting regulations in accordance with International Financial Reporting Standards, respectively accounting regulations compliant with European directives

6. The advantages of applying the international accounting standards

In order to emphasise the importance of the international harmonisation of accounting, we will present now the advantages of applying the international accounting standards.

It is generally accepted that the **multinational companies** are the ones that benefit the most out of the harmonisation of accounting standards. Thus, they reduce the costs of elaborating financial statements by using a single GAAP, because reconciliations from one GAAP to another are not needed any more.

We also infer the advantage towards the **investors**, because the IFRS, as a unique GAAP, insure the comparability of the financial statements of different companies and by this means, facilitate the investment decision, because the cash flows that need to be discounted when computing the net present value will be comparable. Also it is known that the investors are attracted by the idea of diversifying their portfolios because the market will offer them returns only for the systematic risk (which is undiversifiable) and by diversification they reduce the idiosyncratic risk (which is diversifiable). Because IFRS make the financial statements of companies comparable, regardless of their country, investors might consider diversifying their portfolios outside their own country. Therefore, the application of IFRS can constitute a starting point for the economic **development of some countries**: because their financial statements will not need reconciliations and translations, the companies will attract foreign investors and thus will create the premises for the development of the worldwide economy.

Therefore, not only the multinational companies will benefit from the application of international standards but also the other entities, because they will be able to fund their growth through the stock market, with a lower cost of access to the stock market.

The worldwide application of IFRS would constitute an advantage also for **auditors** because they would have to specialise only in one accounting system. Thus, the multinational audit and consultancy companies, that have clients with subsidiaries in different countries, will audit their financial statements with a lower cost³⁹.

7. Impediments met in implementing IFRS and IAS

The shift towards the international financial reporting standards is a complex process, that requires significant resources: both financial and human, able to face multiple challenges.

In the context of an effective application of the standards, many difficulties can be met, regarding:

1. the complex structure of the standards
2. the translation of the standards
3. the frequent changes of the standards
4. the gaps in the knowledge of the standards
5. the implications of applying IFRS at a national and international level
6. the challenges faced by small and medium enterprises when applying IFRS for SMEs

³⁹ Regarding the auditors' position in the application of IFRS, it can be argued that their position is somehow privileged and their opinion is to some extent biased: in the IASB board there are also members of the Big Four auditing companies and consequently, their voice can be heard in the board when exposure drafts are issued. Also, these companies offer consultancy to companies in order to help them apply the standards. And in the end they offer auditing services, in order to assure the users of the financial information that the financial statements are elaborated in accordance with the international standards. One can now doubt the objectivity of these companies when offering these services, but this is a matter that regards them alone.

7.1. The complex structure of the standards

In order to create a solid base, the IASB members considered that the regulations should be as detailed as possible. But confronted with this situation, the ones that have to apply the standards might have an attitude of rejection towards the high volume of information and this could harm the process of application of the standards.

The large volume of the standards can be put on the flexibility of the standards. The regulations issued by IASB are principles-based and offer many options. Therefore, they have to be applied in accordance with the professional judgement of the accountant. Apparently, when they are given only general rules, that require their professional judgement, the accountants „do not feel comfortable with this”⁴⁰, according to D.J.Gannon, partner at Deloitte. An example of applying the professional judgement can be met in the valuation of the property, plant and equipment. This can be presented in the statement of financial position at historical cost (minus impairment costs) or at fair value. This could lead to the wrong conclusion that the companies have full freedom in this valuation. In reality, the companies have to present the elements of the financial situation in accordance with the economic reality.

7.2. The translation of the standards

This action can prove to be a real challenge, because expressing the exact meaning of the regulations can be difficult sometimes. Because the translation process is a troublesome one, a few countries that speak the same mother tongue gathered in order to elaborate a good and qualitative translation and in order to split the costs associated to the process, as all of them will benefit from the result of the translation. The case of the French-speaking countries (Belgium, France, Canada, Luxembourg and Switzerland) can be considered here: at the initiative of the Belgian Institut des Reviseurs d'Entreprise, the equivalent institutions from the other countries gathered in order to translate the International Standards on Auditing (ISA).

It is also recommendable for the accounting professionals to get involved in the translation of the standards because they use the terminology frequently and most and foremost, they will be the ones to use the results of the translation.

But in some cases this effort can be considered a Sisyphean work. And this is because at the moment when the work is done and the standards has been understood and translated accordingly, there is the chance for the standard to change and the translation to be useless. This can be the case because we find ourselves in a convergence process between IASB and FASB and a statistic of the European Commission shows that there are almost 9 months between the publication of a standard and the issuance of its translation in the Commission's official publication.

7.3. The frequent changes of the standards

Because perfection implies change, the international standards have gone through changes over time, in order to better represent the economic reality. Their content has changed in time in order to adapt to the changes in the market and to the needs of investors.

A relevant example for this is the review process proposed by IASB in December 2003, that suggested the simultaneous review of 13 standards and the significant change of others. The elaborated document comprised 598 pages.

With the standards under a constant change, the accounting professional can find himself confused. In this situation, the main question that rises is: do the benefits of this changes overcome the costs? Because one must admit that there are costs involved both in the alteration of the standards, and also in their translation and implementation. Therefore, it must be at the regulator's decision if they want to adopt a standard that is to be modified in the near future. (For example, the Accounting Standards Board from the United Kingdom took into consideration the financial implications and decided not to implement in the internal norms some standards that are to be revised in a short-term).

⁴⁰Leone, M., (2010) *Debunking IFRS Myths*

7.4. Gaps in the knowledge of the standards

Because of the over-changing economic environment, accountants and specialists have to adapt and improve their knowledge on a continuous basis. But at a global level, gaps can be noticed in the knowledge of the standards at various levels: management, financial analysts, academia, accounting students. For example, in France and Netherlands IFRS are not taught for Bachelor students with a major in accounting, but only at a Masters level. This can explain partly this gap of knowledge.

Considering the management of a company, it is recommendable for them to understand the implications of the IFRS adoption because the tone at the top is a powerful mechanism in a company. The knowledge and understanding of the standards is important also for financial analysts and mass-media people as they represent the source of information for the population that does not get in contact with the financial field, but want to understand the evolution of the economy in general or of some companies in particular.

7.5. Implications of applying IFRS at a national and international level

A downside of the application of IFRS is that the companies will have to elaborate two sets of financial situations (this is also the case of Romania): a set in accordance with the national GAAP for the national authorities and a set in accordance with IFRS for consolidation purposes. This aspect implies an additional human and financial endeavour.

7.6. Challenges faced by small and medium enterprises when applying IFRS for SMEs

Before the issuance of an IFRS for SMEs, the small and medium entities complained, according to a survey conducted by Peter Wong in 2004, that the application of IFRS was costly and also it did not address their needs, as they elaborated financial situations mostly for tax purposes and not for attracting investors.

In July 2009, IASB published the International Financial Reporting Standard for Small and Medium-sized Entities. The IFRS for SMEs is “a set of financial reporting principles that is derived from the full set of IFRSs but tailored for the needs non-publicly accountable companies”⁴¹. This was the result of 5 years of research which implied the extensive collaboration with SMEs at a global level because it is estimated that SMEs represent 95% of the total number of companies around the world. The IFRS for SMEs has been widely accepted around the world, as in 2013 more than 80 jurisdictions had already adopted or planned to adopt the standard.

Despite its issuance in 2009, only in July 2013 did the IASB issue the Guide for Micro-sized Entities Applying the IFRS for SMEs. Even today the standard is undergoing a comprehensive review process in order to find whether there is a need for any amendments to the standard.

8. Conclusions

After analysing all the obstacles and advantages triggered by the application of IASB regulations, it can be concluded that the advantages prevail from a qualitative point of view. It is true that from a quantitative point of view, the downsides prevail; they mostly concern the financials costs and the weak knowledge of the ones that apply the standards.

Overall, the international financial reporting standards impose a new language for the accounting professionals. The modifications brought by IFRS are significant. An example for this is the the profit or loss, which is now replaced by the comprehensive income, as being the main indicator used for measuring the financial performance of a company. The comprehensive income comprises the profit or loss and other comprehensive income (which are items of income and expense that are not recognised in the profit or loss, but directly in owner’s equity).

⁴¹ <http://www.ifrs.org/Alerts/SME/Pages/IASB-publishes-Guide-for-Micro-sized-Entities-Appling-the-IFRS-for-SMEs-June-2013.aspx>

In conclusion, it can be argued that IASB contributed to the regulation of the volatile international context, through its issued standards. The regulatory board faced some obstacles in its history and there are also some obstacles nowadays in the implementation of the standards. But IASB's initiative to bring order and comparability to the financial world was a successful project that brought stability to the accounting world and contributed towards the development of the profession.

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INTELLECTUAL CAPITAL – THE DRIVER FOR A SUCCESSFUL BUSINESS

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Abstract: *An organization's intellectual capital is said to be a source of competitive advantage and there is evidence that business success can be partly explained by its intellectual capital. Previous literature argues that the difference between the organization's market value on the stock exchange and its book value is depends on its intellectual capital. This paper discusses on the importance of intellectual capital to an organization. The study examines whether there is a linkage between an organization's business strategy and its intellectual capital. At the end of this paper it should also be stressed that it focuses on a very early stage of the life of the firm and that the effects of some assets may take longer to appear.*

Keywords: intellectual capital, knowledge-based economy

JEL classification: O3

1. Introduction

In this millennium people do less physical work and more brain work. This is intellectual capital. It does not appear on the company balance sheet, but it has more value for organizations than the physical assets. Economic wealth is driven more by knowledge and information than the production process. While past economies depended a lot on the use of land, natural resources, equipment and capital for the creation of value, our information economy will depend more and more on the application of knowledge.

Intellectual capital has also been defined as the difference between a firm's market value and the cost of replacing its assets⁴². Components of intellectual capital consist of human capital, structural capital and external (customer) capital. If managers manage knowledge effectively, their organization will enhance their intellectual capital. Knowledge is a very important source for people, firms and countries. Managing knowledge and intellectual capital create new sources of competitive advantage. The fortunes and values of firms can increase or decrease depending on how well they create, capture, and leverage their knowledge.

Intellectual capital encompasses the models, strategies, unique approaches and mental methodologies organizations use to create, compete, understand, problem-solve and replicate⁴³. Intellectual capital is the source of inspired innovation and wealth production - the precursor for the growth of financial capital. Intellectual capital is considered as the most critical strategic asset for the success of the organization. Intellectual capital is a life blood of the high-tech and knowledge intensive organizations. It is based on the soft assets or intangible assets of the organizations that will help to organizations to create value added products and services.

Fundamentally, intellectual capital performs a crucial role to enhance the innovation and creativities in organizations. In an organization, the intellectual capital is used to create value and additional features in their products and services. In a competitive environment high-tech industries or knowledge based organizations are mainly based on the knowledge assets which refer to intellectual capital.

Intellectual capital has also been defined as the difference between a firm's market value and the cost of replacing its assets. It is those things that we normally cannot put a price tag on, such as expertise, knowledge and a firm's organizational learning ability. Market value equals book value plus intellectual capital, with book value usually only the tip of the iceberg of wealth. Intellectual capital encompasses much more than patents, copyrights and other forms of intellectual property. It is the sum and synergy of a company's knowledge, experience, relationships, processes, discoveries, innovations, market presence and community influence.

⁴² http://en.wikipedia.org/wiki/Intellectual_capital

⁴³ <http://www.cartapenet.ro/carte/Intellectual-Capital/9780814775127>

The most widely used definition of intellectual capital is “knowledge that is of value to an organization.” Its main elements are human capital, structural capital, and customer capital. That definition suggests that the management of knowledge (the sum of what is known) creates intellectual capital.

Components of intellectual capital

Human Capital

It is defined as the knowledge, skills, experience, intuition and attitudes of the workforce. Intellectual capital can be increased by increasing the capacity of each worker.

Human capital is the knowledge, skills and capability of individual employees providing solutions to customers. Human capital is the firm’s collective capability to extract the best solutions from the knowledge of its people. It is important because it is a source of innovation and strategic renewal, whether it is from brainstorming in a research lab, daydreaming at the office, throwing out old files, re-engineering new processes, improving personal skills or developing new sales leads.

Individual competence is important for organizations. This is people’s capacity to act in various situations. It includes skill, education, experience, values and social skills. People are the only true agents in business; all assets and structures, whether tangible physical products or intangible relations, are the result of human action and depend ultimately on people for their continued existence.

People create knowledge, new ideas, and new products, and they establish relationships that make processes truly work. Unfortunately, when people leave, they take along their knowledge, including internal, external, formal, and informal relationships.

Intellectual capital - the commitment and competence of workers - is embedded in how each employee thinks about and does work and in how an organization creates policies and systems to get work done. It has become a critical issue for six reasons:

First, intellectual capital is a firm’s only appreciable asset. Most other assets begin to depreciate the day they are acquired. Intellectual capital must grow if a firm is to prosper.

Second, knowledge work is increasing, not decreasing. Service generally comes from relationships founded on the competence and commitment of individuals.

Third, employees with the most intellectual capital have essentially become volunteers, because the best employees are likely to find work opportunities in a number of firms. This does not mean that employees work for free, but that they have choices about where they work and, therefore, essentially volunteer in a particular firm.

Fourth, many managers ignore or depreciate intellectual capital. In the aftermath of downsizing, increased global competition, customers’ higher requirements, fewer management layers, increased obligations, and pressures exacted from almost every other modern management practice, employees’ work lives have not always changed for the better.

Fifth, employees with the most intellectual capital are often the least appreciated. Some studies have correlated front-line employees’ attitudes to a firm with customers’ attitudes to the same firm.

Sixth, current investments in intellectual capital are mis-focused⁴⁴.

Relational capital

Represents the value of the relations that a company establishes with its customers. This value is reflected in customers’ faith to the company or its products. Relational capital is defined as all relationships - market relationships, power relationships and cooperation - established between firms, institutions and people, which stem from a strong sense of belonging and a highly developed capacity of cooperation typical of culturally similar people and institutions.

Relational capital, consisting of such as customer relationships, supplier relationships, trademarks and trade names licenses and franchises. The notion that customer capital is separate from human and structural capital indicates its central importance to an organization’s worth.

⁴⁴ <http://www.cartepenet.ro/carte/Intellectual-Capital/9780814775127>

Customer capital-the loyalty of valuable customers created by understanding their needs and meeting them consistently:

- Supplier capital - the mutual trust, commitment, and creativity of key suppliers.
- Alliance capital - reliable and beneficial partners.
- Community capital - an organization's capabilities and reputation in its surrounding community.
- Regulatory capital - knowledge of laws and regulations as well as lobbying skills and contacts.
- Competitor capital - critical understanding and intelligence about competitors⁴⁵.

Structural capital

Consists of a wide range of patents, concepts, models, and computer and administrative systems. These are created by the employees and are thus generally 'owned' by the organization, and adhere to it. Sometimes they can be acquired from elsewhere. Decisions to develop or invest in such assets can be made with some degree of confidence, because the work is done in-house, or bought from outside. Also, the informal organization, the internal networks, the 'culture' or the 'spirit', belongs to the internal structure. The internal structure and the people together constitute what we generally call the 'organization'.

Structural capital is the firm's organizational capabilities to meet market requests. It involves the organization's routines and structures that support employees' quests for optimum intellectual performance and, therefore, overall business performance. An individual can have a high level of intellect, but if the organization has poor systems and procedures by which to track his or her actions, the overall intellectual capital will not reach its fullest potential.

The structural capital of a firm consists of four elements:

- Systems - the way in which an organization's processes (information, communication, decision-making) and outputs (products/services and capital) proceed.
- Structure - the arrangement of responsibilities and accountabilities that defines the position of and relationship between members of an organization.
- Strategy - the goals of the organization and the ways it seeks to achieve them.
- Culture - the sum of individual opinions, shared mindsets, values, and norms within the organization⁴⁶.

Strategic capital

This is a category that is not always included in academic definitions of intellectual capital.

However, this category of knowledge is the necessary complement to the others. It includes all the knowledge you have of your market and the business model that you have created to connect with market needs.

Characteristics of intellectual capital

Although Intellectual Capital is similar to tangible assets in its potential for generating future cash flows, it is radically different from tangible capital in the following respects:

- Intellectual assets are non rival assets. Unlike physical assets which can only be used for doing one thing at a time, intellectual assets can be multiplexed. For example, a customer support system can provide support to thousands of customers at the same time. It is this ability to scale with need that makes intellectual assets far more superior to physical assets.
- Human Capital and Relational Capital cannot be owned, but have to be shared with employees and suppliers and customers. Growing this kind of capital therefore requires careful nurturing.

⁴⁵ <http://www.cartepen.ro/carte/Intellectual-Capital/9780814775127>

⁴⁶ <http://www.cartepen.ro/carte/Intellectual-Capital/9780814775127>

- Structural capital is an intangible asset that can be owned and controlled by managers. However, it cannot be traded easily since no markets exist for this purpose. Moreover, Customers do not care about the Structural capital of their Suppliers since everyone likes dealing directly with real human beings rather than with systems.
- Structural capital, in the form of just-in-time procurement processes and real time inventory control systems can be substituted for expensive capital expenditure such as storage warehouses. Hence the knowledge economy has opened up opportunities for every firm to explore whether inexpensive intangible assets can do the work of costly physical assets.
- Firms that leverage their intellectual capital to do knowledge work are able to generate higher margin of profits than those who provide mass-produced solutions.
- Human, Structural and Relational Capital often work together in judicious combinations to give rise to core competencies that assume strategic significance. Hence it is not enough to invest in people, systems and customers separately, but in combinations that produce end value⁴⁷.

This paper presents one of the first steps towards a better understanding of the importance of intangible assets in newly-created firms. It reveals the relationship between intangible assets and the success of newly-created firms. One of the principal conclusions reached in this study is the importance of human capital to the performance of firms especially in the first stage of life. Moreover, if the company is formed by a team, satisfactory intercommunication between the members plays a key role since, bad communication and coordination could lead to an inability to develop the business idea in an appropriate way and represents a liability for the firm.

For the firms in a stage of early development, structural capital is the most difficult category of intellectual capital to evaluate. Thus, this type of assets indicate that only internal consistency, innovation and adaptability are significant. Therefore, one can suspect that, in new ventures, the structural capital that provides value in the firm's early days is that which enables the firm to innovate and easily adapt to the environment, although having established certain routines that help the efficacy of the internal processes may have a positive effect in the medium or long term.

The last of the analyzed dimensions is relational capital, which is shown to play a significant role in the firms. In general, the results of the analysis highlight the value provided by assets whose nature is defined by the relationships that the firm establishes with its environment. Of these assets, it is unquestionably the "reputation" acquired that contributes greater value in the short term and, in these early and uncertain times, is essential to capture new customers.

It is important to point out that this paper has not been able to offer a complete analysis of the impact of the variables of environment on the composition of the intangible assets of each firm and, consequently, on the way in which that impact conditions the success of newly-created firms. It should also be stressed that this paper focuses on a very early stage of the life of the firm and that the effects of some assets may take longer to appear.

Conclusions:

There is a transformation continually in the world. People, organizations and governments are affected by transformation.

The idea of intellectual capital started a decade or so ago, as two trends began to emerge:

1. the shift from production-based economies to service and knowledge-based businesses;
2. the notion of "the invisible balance sheet"

Intellectual capital has more value for organizations than physical assets.

⁴⁷ <http://www.i-capitaladvisors.com/ic-basics/i-capital/>

Knowledge has been recognized as a valuable resource by researchers, intellectual capital simply means the knowledge resources of an organization. Success of organizations depends on creating, discovering, capturing, disseminating, measuring knowledge. If organizations enhance their organizational learning, they will increase their knowledge and intellectual capital. Learning suggests ongoing, never-ending and always changing. It is the foundation of adaptability and innovation. The economic value of learning is a given because of its role in most business decisions and transactions.

The fast expansion of globalization altered the pattern and structure of the production system. The new production system is mainly driven by technology, knowledge, expertise and relations with stakeholders etc, which may collectively be described as Intellectual Capital. In the new economic system, intellectual assets have eventually recognized as the prominent resources. All companies including property business should be depend to a considerable extent on the intellectual capital for earning revenues and to sharpen their competitive advantage.

Intellectual capital is a real business asset, although measuring it is a very subjective task. Companies spend millions annually training their employees in business-specific topics and otherwise paying for increased competence in their staff. This capital employed provides a return to the company, one that can contribute toward many years' worth of business value.

As technology and process improvements become more of a differentiating factor within modern companies, intellectual capital is likely to become an even stronger force in the marketplace.

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SELL A PHONE WITH VODAFONE!

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Abstract: *This paper consists of a marketing plan for one of the biggest companies that operates in Romania: Vodafone. The marketing plan focuses on a service, that is not currently offered by any of the mobile phone services providers in our country. The idea is to help the company's customer sell his used smartphone, without buying it from him, but instead provide a website where that person can place an advertisement for selling the smartphone. Also, Vodafone will guarantee the quality of the smartphones sold on that website: an employee will check the condition of the mobile phone and Vodafone will issue a conformity certificate for the product. Then the person will decide the price and place that ad. Comparing with Buy-Back, this new service gives the ones who want to sell their second-hand smartphones the chance of getting a fair amount of money. The seller also gets money in exchange of his product and not a coupon for discount that can be used only in the company's stores. This service will be offered to Vodafone customers for free. The people who want to sell their mobile phones through this service, have to conclude or renew a contract for mobile phone services. In the case that they will buy another smartphone, together with this contract, they will have the chance to sell that smartphone through the same service, when the period of the contract expires. This service will help Vodafone differentiate its offers from the concurrency, improve the loyalty of its customers and attract new customers.*

Keywords: marketing, consumer, smartphone, help, free.

JEL classification: O

1. Vodafone. Marketing Plan

Executive summary

Vodafone Group Plc. is a British telecommunications company. Vodafone entered the Romanian market in 1997, and it was known as Connex, until april 2006, when its name was changed to Vodafone Romania. The company specializes in offering mobile phone services and mobile internet services both for individual customers and corporations. In Romania, Vodafone has three main competitors: Orange, Cosmote and RCS-RDS.

This marketing plan focuses on building customer loyalty by offering our clients a revolutionary service. The idea is to help the customer sell a smartphone bought together with a contract for mobile phone services, after the two years contract period expires. Another target is to attract more customers, in the idea that after the contract period expires, they will also benefit of this service.

This is not supposed to be a buy-back service. The consumer still sells his phone to a new consumer, not to Vodafone. The company will give its customer the opportunity of getting his smartphone evaluated, at any store, by one of the Vodafone's employees. Then, if the mobile phone is in working condition, it will be returned to the customer with the results of the evaluation and a certificate of conformity, through which, Vodafone will guarantee the smartphone's functionality. The company will provide a site where all these customers can place an advertisement for selling their devices.

Every customer will decide the price that he will ask for the smartphone, the way of delivering and the method of payment. Also the customers will have the possibility of choosing if the product will

be sold at a fixed price, to the first one who enters the site and clicks on “buy”, or if it will be sold through an online auction.

Vodafone will offer this service for free, with the following conditions:

- The mobile phone that will be sold must be a smartphone;
- The person who sells the smartphone must be a Vodafone customer;
- The smartphone must have been bought before from Vodafone, together with a two years contract for mobile phone services;
- The two years period must be passed;
- The customer must conclude a new contract for mobile phone services or renew the one he already has.

The new service will be promoted mainly online, on the company’s website and also on different social networking websites like Facebook, Twitter etc. It will be also promoted through AdWords by Google, Vodafone’s Youtube channel and video ads.

2. Marketing Environment

Vodafone entered the romanian market in 1997, and since then it continued to offer its customers better and better services and products. The technology evolved a lot since 1997 and Vodafone kept pace with this evolution. The company keeps on changing and improving its offers and gives a high importance to the consumers needs.

Vodafone offers voice coverage for 99.4% of Romania’s population and the largest 3G data coverage: 90% of Romania’s population.

Vodafone has obtained three ISO certificates: ISO 14001 for environmental management, ISO 9001 for quality management and ISO 27001 for information security management. The company has been also certificated by P3 Communication, for the best service of internet on smartphones and USB modems.

The Reader’s Digest readers have voted Vodafone for the best mobile phone network and the company won the Trusted Brands 2014 prize for this category. This shows that the people from Romania have trust in this company.

The company has noticed that people tend to spend a lot of time on the internet, including on mobile phones, so now it offers customer support through mobile chat. It is the first mobile phone network operator which offers this kind of customer support in Romania.

On 31st of March 2014, Vodafone lauched a service called M-pesa. Through this service, Vodafone customers can send or recieve money using their mobile phones, even if they don’t have a bank account. They can also pay their bills or fill with credit a pre-paid SIM card.

In Romania, Vodafone is the second mobile phone network operator, by number of clients, after Orange. Alongside Orange, Cosmote is another main competitor for Vodafone. RCS-RDS is the third big competitor, but this company focuses on internet and television services much more than on mobile phone services and from the first two activities comes most of their earnings. The next table shows a comparision between the number of clients and the income for Vodafone and the two main competitors, in 2013:

Company	ORANGE	VODAFONE	COSMOTE
Criteria			
Income (€ million)	934	530	458.5
Number of clients	10.436.000	8.315.389	6.091.000

Vodafone sells its products in the company's stores, in its partners' stores and also online, through the site www.vodafone.ro. Also Orange and Cosmote have their own sites for selling their products and informing consumers about them. According to Web.com, Vodafone.ro has around 380.000 weekly visits, while Orange.ro has 580.000 weekly visits and Cosmote.ro has 150.000 weekly visits. According to a Moz.com study, which measures the accuracy of the search engines of the sites of telecommunication companies in Romania, Orange.ro has the highest score: 70 out of 100, followed by UPC.ro with a score of 56 and on the third place Vodafone.ro with a score of 55. The next sites are: Romtelecom.ro with 53, RCS-RDS.ro with 52 and Cosmote.ro with a score of 50.

Vodafone and Orange offer their clients a service called Cloud, available for anyone who uses a smartphone. Any customer can store his important files on the Internet to keep them safe and to access them from anywhere and from any device. Also, in the case that a mobile phone breaks and the data cannot be recovered from it, the files can be recovered from the Internet. Customers can set an option to make the mobile phones automatically back-up files on Cloud. The two companies also offer free antivirus software for the smartphones of their customers. Cosmote doesn't offer their clients these services.

Vodafone is the only company from the four competitors that does not offer television services. Orange has Orange TV, RCS-RDS has DIGI TV and OTE group (The owner of Cosmote) has Dolce TV. Orange offers 6 months of free telephone services for anyone willing to conclude a contract for telephone, television and internet services.

The company has a partnership with Emag, one of the biggest IT and electronics online stores from Romania. According to this, any laptop, mobile phone or tablet can be bought with a certain discount from Emag, if the customer concludes a contract for mobile phone services or mobile internet services, with Vodafone, for 24 months.

There is a constant increase in number of mobile phone users in our country. According to ANCOM (The National Authority for Management and Regulations in Communications of Romania), this number reached 22.9 million in 2013, and there are 8 million smartphones in the present, in Romania. From 21 October 2008, when the portability law came into force, until 31 December 2013, 824.000 phone numbers were ported.

In the present, many of the new smartphones are compatible with 4G, the fourth generation of mobile telecommunication technology. Four companies have bought 4G licenses in Romania: Vodafone, Orange, Cosmote, RCS-RDS and 2k Telecom. There is a concern for evolving this new technology, with huge potential. Vodafone has announced that the 4G speed for its clients will be risen to 150 Mb/s in a short time and that they are already testing 300 Mb/s speed in our country's network.

There are a lot of free applications for smartphones, which allow people to perform free calls and send free text messages, if there is an active internet connection. Whatsapp is a well-known one. So people, who are anyway buying a lot of smartphones, are starting to use these applications more often, because they are relatively free. The customers have to pay just for the data traffic, in the case they don't

connect through a Wireless internet connection. There are also many free Wireless hotspots, in the restaurants, train stations, airports, parks and even on the streets, especially in big cities. And their number keeps on growing. So both the rise in popularity for those apps and the rise in number of WI-FI hotspots are lowering the income for Vodafone and its competitors.

A big threat for Vodafone and the other companies is the takeover of Cosmote Romania by Deutsche Telekom. That way Cosmote will become T-Mobile and it is expected for them to enter the Romanian market with some really good offers, much better than the ones available now in our country. According to their owner (OTE Group), Cosmote and Romtelecom will change their names in T-mobile and T-home on December the 12th 2014.

Another threat is the elimination of the roaming tariffs in the European Union, starting from December 2015. This can significantly lower the income for Vodafone.

3. Vodafone Buy-Back, Orange Buy-Back and Cosmote Buy-Back:

In Romania, Vodafone, Orange and Cosmote (the last one through Germanos stores) offer Buy-Back services for the consumers, no matter if they are already their clients or not. Sometimes, these companies even accept non-functional mobile phones.

Buy-Back is a service offered by many companies for their customers. The company accepts to take a used product from the customer and, in exchange, they offer a certain discount that can be used while buying a new product.

Of course, the Buy-Back has advantages and disadvantages. These are some of them (for mobile phones):

❖ Advantages:

- For the company:
 - Attracting new customers;
 - Increasing the consumer trust in the company;
 - A better brand positioning;
 - A better selling of the newest and more expensive products;
- For the customer:
 - Getting something in exchange for their used mobile phones, very fast, without having to find a new consumer for it;
 - Getting rid of an useless, old phone, that anyway other consumers wouldn't buy;
 - Receiving a discount for their used mobile phone, according to its value;
 - Getting rid of an useless phone without polluting the environment;
 - Buying a product that they couldn't afford buying without the discount.

❖ Disadvantages:

- For the company:
 - Not knowing how much care was really taken of that phone;
 - The cost of evaluating the functionality of the device (in some cases);
 - The need of giving an established minimum discount for any phone, no matter how old it is;
 - The costs of storing and/or transporting and/or destroying or breaking up the products.
- For the customer:
 - Obtaining a lower amount of money comparing with how much they could get from selling the mobile phone to an ordinary consumer;
 - The necessity of buying a new product or service from the same company in exchange of that amount of money;

- In most of the cases, the customer must also conclude a contract for mobile phone services, before getting the discount for a new phone.

Comparative Analysis:

This is a comparative analysis between the Buy-Back services that Vodafone, Orange and Cosmote offer:

The need of being already a customer of the company: This is not a condition from any of the companies;

The cost for customer: All the three companies offer this service for free;

Expectations from the phone: Vodafone accepts any phone, no matter of its condition or if it has all the parts or not. Orange and Cosmote have some conditions for taking back a phone: the phone must be able to be powered on and powered off, it must have the complete keyboard, the battery and no cracks on the screen.

Minimum discount: Vodafone offers the lowest minimum discount, only 1.21 € for a phone, while both Orange and Cosmote offer a minimum discount of 10 €.

Maximum number of buy-back coupon/new product or service: The companies offer an electronic discount coupon for every phone that is bought from the customer. Vodafone offers the customer the possibility of using up to 5 coupons for buying a new product. Orange only allows him to use 1 coupon. Cosmote accepts up to 3 coupons if the customer want to conclude a new contract for mobile phone services, along with the purchase of the new product and, in the case that the customer only wants to buy a new product without concluding a contract, up to 8 coupons can be used.

The necessity of concluding a new contract for mobile services: Vodafone offers the following alternatives: the customer can conclude a new contract and buy a new mobile phone/laptop/tablet and get the discount, or he can conclude only a contract and get a discount from its value, or buy a new Prepaid SIM card or a package including a Prepaid SIM card and a phone. Notice that Vodafone doesn't offer the possibility of buying only a mobile phone from them in exchange of the coupons. Orange offers the possibility of buying a new mobile phone or other product without concluding a contract, but only in the case that the buy-back phone was evaluated at more than 10 €. If it was evaluated at less than 10 €, the customer has to buy the new product and to conclude a contract of at least 6 €/month, for a period of at least 24 months. Cosmote allows customers to buy new products, with the discounts, no matter if they also conclude a contract for mobile phone services or not.

In conclusion, the three companies offer basically the same service, but each one of them has different conditions and expectations from the customer and the mobile phones that they take back.

Cosmote has the best Buy-back service. They can give the customer the discount for a new mobile phone, tablet or laptop without asking him to conclude a contract or to buy a prepaid SIM card or anything else except that mobile phone. They also accept the largest number of coupons for each product: up to 8 coupons. Cosmote also gives at least 10 € for any mobile phone, no matter how old or used it is. They only want them to be intact and to be able to be turned on and turned off.

4. Marketing strategy

Vodafone will focus on creating long term loyalty relationships with the customers, by differentiating its offers from the concurrency offers, while giving the customers the opportunity of selling their used smartphones very fast for a fair amount of money, without any extra cost for them.

Mission:

Vodafone's mission is to offer its customers the best experience possible from using mobile phone services and mobile internet services, with the best voice coverage in the country, the fastest available internet speed, the best customer service and the newest smartphones, all of these at the lowest prices possible.

Marketing Objectives:

- Improve the loyalty of the existing customers;
- Increase the number of customers by 400.000 in the next 5 months.
- Develop loyalty relationships with the new customers.

Target Markets:

Individual customers from all over Romania which can be divided into 3 segments:

The first segment is represented by the young consumers (under 30 years old), that usually buy a smartphone mostly for entertainment. They like listening to music, surfing the internet, watching Youtube movies, socializing on Facebook, chatting with friends and they need access to all these things wherever they are. They have the tendency of changing their devices quite often, as technology evolves;

The second one is represented by the mature consumers (over 30 years old), who use a smartphone to read the news, to check the weather forecast, to take family pictures, to scan different QR codes and find out more about different things, to save different virtual discount coupons;

And the last segment consists of the consumers (over 30 years old) who buy a smartphone for their children, who, in many cases are not even 18 years old yet. They also have the tendency of buying new mobile phones quite often.

Positioning:

Vodafone will position itself as a top provider for mobile phone services and mobile internet services, with a variety of offers that suits any customer and any budget. The company's customers will always find here the latest technologies, the latest mobile phones and a well prepared team that is always ready to take care of them and to provide the best solutions for their needs.

Strategies:

Because of the inefficiency of the Buy-back program, its numerous disadvantages for the customers and the small number of customers who are willing to use this service for an functional, high-quality smartphone we decided to give the people a better alternative. This alternative allows the customers to sell their mobile phones faster, because of the increased trust of the potential buyers in the honesty of the seller and the product's quality, thanks to the conformity certificate. This service also allows them to sell their smartphones at the price they choose.

This way the company will increase the loyalty of the existing customers and also get a substantial number of new customers, because of the unicity of the service in the Romanian market.

Marketing Mix:

Product:

Vodafone offers their clients a service called „Sell your phone with Vodafone!“. This service will be available only for smartphones, no matter the operating system (Android, BlackBerry, iOS, Windows etc.). The product must have been previously bought from Vodafone, together with a contract for mobile phone services for 24 months and that period must have been passed.

The company will provide a website where second-hand smartphones will be sold. The Vodafone's customers will have to opportunity of placing there an advertisement in order to sell their used mobile phones to another consumers. Being a Vodafone client will not be a condition for those who want to buy a mobile phone from the website.

Before putting the ad on the website, the Vodafone's customer has to take the mobile phone, with its parts intact (buttons, battery, screen, connectors) and battery fully charged to any Vodafone store or to any authorized partner store. An employee from that store will evaluate the condition of the mobile phone. After that, if the smartphone is in a good condition an conformity certificate will be issued, through which Vodafone guarantees the quality of the product. The certificate will contain the following information: the personal data of the person that owns the mobile phone, information about the store where it was issued, the name of the employee that has evaluated the smartphone, the name of the producer of the smartphone, the model of the smartphone, the technical specifications of the product, the IMEI code, the date when the smartphone was first bought, the date when the certificate was issued. The certificate can be given to the customer printed or in electronic format, through email, or in both of the formats. The customer will also get a recommendation for the price, a minimum price and a maximum price that he should ask for his mobile phone.

After the customer decides to renew his contract for mobile phone services with Vodafone, and the evaluation is done, the request will be processed. In maximum 24 hours the person will be able to access his virtual account from „MyVodafone“ section and place the advertisement. The website for selling second-hand smartphones will be a distinct website from www.vodafone.ro, but the customers will be able to log on this website with the same account as on Vodafone website. The new website will have the following domain name: www.smartbuyphones.ro. The person decides if he wants to sell the product for a fixed price or if he wants to organise the sale as an online auction.

As for the delivery, the customer has the obligation to attach to the package the conformity certificate. That way, when the buyer receives the product he can compare the IMEI code from the phone with the IMEI code from the certificate to make sure that everything is legit. Also he can choose between personal delivery (case in which he must let the buyer compare the two codes before paying) and delivery through a courier company that offers the customers the possibility of opening the package and check the product before accepting it and paying for it.

The website:

The website www.smartbuyphones.ro will contain all the advertisements made by the Vodafone customers for selling their used smartphones. When a customer places the ad, he will have the option of uploading pictures with the mobile phone. The customer will not have to complete any fields for the technical specifications of the smartphone, because the specifications will be already there, provided by Vodafone, according to the model of the smartphone. He will have to complete the contact address, e-mail, phone number, to choose the way of delivery and to establish a price.

The ones who want to buy a smartphone from this site will have the possibility to use a search engine for easily finding the device that they are looking for. They will also be able to search by different

criteria (producer, price range, year when the smartphone was first bought from Vodafone, city where the seller lives, buying process, operating system and other technical specifications: processor frequency, the presence of the touchscreen, screen size, camera resolution etc.)

Price:

This service will be offered for free, to any Vodafone customer, with the following conditions: he must conclude a new contract for mobile phone services or renew the previous one; the contract must be concluded or renewed for a period of 24 months; the new contract or the renewed contract must be for a value of at least 11€/month. The following plans are accepted: SMART 11, SMART 13, SMART 15, SMART 19, RED 25, RED 29, RED 45, RED 59.

Promotion:

The company will promote its new product through the following channels:

Internet: an easily seen ad for the new service will be placed on the homepage of the Vodafone site. The ad will be placed on the top section for ads as the following image shows:



When clicking the ad, the people will be redirected to a page: www.vodafone.ro/sell. Here, they will find all the information about the service, a map of all the Vodafone stores and authorized Vodafone partners that can evaluate the smartphone and a link to www.smartbuyphones.ro.

The company will announce the launch of the new service on the official Facebook, Twitter, Pinterest, Google+ and Flickr pages, using status updates and image uploads. The statuses will contain the two links (www.vodafone.ro/sell and www.smartbuyphones.ro) together with an appropriate message. Also, the descriptions of the images will contain the two links.

Also, this new service will be promoted through Vodafone's Youtube channel. A video commercial will be recorded and after that uploaded on the official Youtube channel. This video will be shared on the official Facebook, Twitter, Pinterest and Google+ Vodafone pages.

The company will also pay for an ad on Google AdWords. Also another ad will be placed on Facebook. Several ads, including video ads, will be placed on different IT&C websites from Romania. These ads will redirect the person to www.smartbuyphones.ro, and from there he will be able to buy a used smartphone, no matter if he is already a Vodafone customer or not. This page will contain, in a visible spot, a link with the name: "Sell your smartphone here!" and it will redirection the user to the page www.vodafone.ro/sell, where he can find information about selling his used device.

When a Vodafone customer accesses his personal account on the Vodafone site, and gets redirected to his personal page, a pop-up ad will appear, promoting this new service.

Television: the same video commercial used for promoting the service on Youtube will be used for promoting it through TV. The commercial will be broadcasted on all the important television channels from Romania.

Advertising in stores: large posters will be placed on the windows of every Vodafone store and partner store. Also there will be brochures for every person that comes into the store. These will contain some basic information about the service and the links where the customer can find more information and use this service. Also the company's employees will notice the new customers and those who want to renew or cancel a contract about this service, its advantage and they will be able to give them all the information they need.

Distribution:

This service will be distributed online, through the official website: on the page www.vodafone.ro/sell and also through the second-hand smartphone sells advertising website www.smartbuyphones.ro. After completing the first steps (concluding the contract, getting the smartphone evaluated and the certificate of conformity), the customer will be able to access and use this service after logging in his personal Vodafone account.

Bibliography:

Philip Kotler, Kevin Lane Keller–Marketing Management, 14th edition–Prentice Hall, 2011.