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CUPRINS

I. FUNCȚIONAREA PIETELOR ȘI A MARKETINGULUI

Cătoiu Iacob, Gârdan Daniel Adrian, Gârdan Doru Lucian, <i>Trenduri viitoare ale marketingului sistemului de comunicare mobilă</i>	11
Crăciunaș C. Sorin, Crăciunaș V. Diana, <i>Dansul cu industria farmaceutică – practica medicală între etică și afacere</i>	23
Stroe Cristina, Cojanu Silvia-Florina, Militaru Eva, <i>Profilul consumatorului român și influența crizei economice asupra dezvoltării mentalității de consum</i>	29

II. ROLUL MANAGEMENTULUI ȘTIINȚIFIC AL VIEȚII ECONOMICE SUB IMPACTUL RELAȚIILOR INTERNAȚIONALE

Năstase Marian, <i>Leadership și managementul schimbării în perioada de criză</i>	39
Militaru Cezar, Zanfir Adriana, <i>Influența multiculturalismului asupra procesului managerial în cadrul corporațiilor internaționale</i>	49
Scârnecki Florentina, <i>Studiul sociologic asupra motivației managerului român</i>	57
Bălăceanu Cristina, Tilea Doina, Predonu Andreea-Monica, <i>Practici de bună guvernare și de guvernanță corporativă</i>	69

III. ANALIZA ECONOMETRICĂ ȘI PROGNOZA ECONOMICĂ ȘI FINANCIARĂ

Andronie Mihai, <i>Procesul de optimizare economică desfășurată de către companii cu activitate complexă de producție-comerț-servicii care utilizează sisteme informatice integrate cu tehnici de exploatare a datelor</i> ..	77
Eric Eisenstat, <i>Analiza Bayesiană a stabilității cartelului și schimbarea regimului</i>	85
Bucea-Manea-Țoniș Radu, Bucea-Manea-Țoniș Rocsana, <i>Securitatea executabilelor Java în aplicațiile e-afacere pentru IMM-uri</i>	97

IV. LICHIDITĂȚI FINANCIARE – UN STIMULENT AL CREȘTERII ECONOMICE: FINANȚE-BĂNCI

Zaman Gheorghe, Geamănu Marinela, <i>Investițiile străine directe și investiții pe piața internă din România în perioada crizei economice</i>	107
Manolescu Gheorghe, <i>Dimensiuni ale politicii monetare competitive post-criză</i> ...	113

Ungureanu Gabriela, Pistol Luminița, Vârgă Anca, <i>Operațiuni comerciale combinate ca instrument de evitare a lichidităților în contextul crizei actuale</i>	121
Ionescu Ionel Eduard, Oprea Cristian, <i>Considerații privind datoria publică în lumina crizei economice actuale</i>	131

V. TEORIA ECONOMICĂ – UN CATALIZATOR AL CONSOLIDĂRII SOCIETĂȚII BAZATE PE CUNOAȘTERE, AL NOII ECONOMII DE RECUPERARE

Popescu Ion, Stoica Victor, Velter Victor, <i>Paradigme ale e-economiei. Oportunități pentru România</i>	141
Sandu Mihaela Tania, Cetină Iuliana, Mihail Nora, <i>Decizia de a investi în capitalul uman și implicațiile macroeconomice</i>	149
Bucur Oana Nicoleta, Silași Grigore, <i>Politica industrială în Uniunea Europeană</i>	161
Olaru Octavian-Liviu, Chițiba Constanța-Aurelia, Olaru Livia-Irina, <i>Perspective pe termen scurt și mediu asupra economiei mondiale</i>	169

Recenzii

Saren M., Maclaran P., Goulding Ch., Elliot R., Shankar A., Catterall M., <i>Marketing critic – definierea domeniului</i> (Epure Manuela)	177
Paul Krugman, <i>Conștiința unui liberal</i> (Uță Cristian)	180

CONTENTS

I. THE FUNCTIONING OF MARKETS AND MARKETING

Cătoiu Iacob, Gârdan Daniel Adrian, Gârdan Doru Lucian, <i>Mobile marketing future trends</i>	11
Crăciunaș C. Sorin, Crăciunaș V. Diana, <i>Dancing with the pharmaceutical industry – medical practice between ethics and business</i>	23
Stroe Cristina, Cojanu Silvia-Florina, Militaru Eva, <i>The profile of Romanian consumer and how the economic crisis impacts the consumer's mentality</i> ..	29

II. THE ROLE OF THE SCIENTIFIC MANAGEMENT OF ECONOMIC LIFE UNDER THE IMPACT OF INTERNATIONAL RELATIONS

Năstase Marian, <i>Leadership and management of change during a crisis time</i>	39
Militaru Cezar, Zanfir Adriana, <i>How multiculturalism impacts management process within international corporations</i>	49
Scârnci Florentina, <i>Sociological study regarding the Romanian manager's motivation</i>	57
Bălăceanu Cristina, Tilea Doina, Predonu Andreea-Monica, <i>Practice of good governance and corporate governance</i>	69

III. ECONOMETRIC ANALYSIS AND THE ECONOMIC AND FINANCIAL PROGNOSIS

Andronie Mihai, <i>Economic process optimization deployed by companies with complex activity production – trade – services using informatics systems with integrated data mining techniques</i>	77
Eisenstat Eric, <i>Bayesian analysis of cartel stability and regime switching</i>	85
Bucea-Manea-Țoniș Radu, Bucea-Manea-Țoniș Rocsana, <i>Security of the Java Execution environment in e-business applications for SMEs</i>	97

IV. FINANCIAL LIQUIDITIES – INCENTIVE OF THE ECONOMIC GROWTH: FINANCE AND BANKING

Zaman Gheorghe, Geamănu Marinela, <i>Foreign direct investments and domestic investments in Romania in the economic crisis period</i>	107
Manolescu Gheorghe, <i>Dimensions of post-crisis competitive monetary policy</i>	113

Ungureanu Gabriela, Pistol Luminița, Vârgă Anca, <i>The joint commercial operations as a tool to avoid liquidities in the current crisis context</i>	121
Ionescu Ionel Eduard, Oprea Cristian, <i>Considerations under public debt with the current economic crisis</i>	131

**V. THE ECONOMIC THEORY – CATALYST OF THE CONSOLIDATION
OF THE KNOWLEDGE SOCIETY,
OF THE NEW ECONOMY RECOVERY**

Popescu Ion, Stoica Victor, Velter Victor, <i>Paradigms of the e-economy. Opportunities for Romania</i>	141
Sandu Mihaela Tania, Cetină Iuliana, Mihail Nora, <i>Investment decision in human capital and macroeconomic implications</i>	149
Bucur Oana Nicoleta, Silași Grigore, <i>Industrial policy in the European Union</i>	161
Olaru Octavian-Liviu, Chițiba Constanța-Aurelia, Olaru Livia-Irina, <i>Short and medium term outlook of the world economy</i>	169

Book Reviews

Saren M., Maclaran P., Goulding Ch., Elliot R., Shankar A., Catterall M., <i>Critical marketing – defining the field</i> (Epure Manuela)	177
Paul Krugman, <i>The conscience of a liberal</i> (Uță Cristian)	180

TABLE DES MATIÈRES

I. LE FONCTIONNEMENT DES MARCHÉS ET MARKETING

Cătoiu Iacob, Gârdan Daniel Adrian, Gârdan Doru Lucian, <i>Marketing des médias mobile – Perspectives nouvelles</i>	11
Crăciunaș C. Sorin, Crăciunaș V. Diana, <i>En dansant avec l'industrie pharmaceutique – la pratique médicale entre l'éthique et les affaires</i>	23
Stroe Cristina, Cojanu Silvia-Florina, Militaru Eva, <i>Le profil du consommateur roumain et l'influence de la crise économique sur le développement de la mentalité de consommation</i>	29

II. LE RÔLE DU MANAGEMENT SCIENTIFIQUE DE LA VIE ÉCONOMIQUE SOUS L'IMPACTE DES RELATIONS INTERNATIONALES

Năstase Marian, <i>Le leadership et le management de changement pendant la crise</i>	39
Militaru Cezar, Zanfir Adriana, <i>Les influences du multiculturalisme sur le processus de management dans les corporations internationales</i>	49
Scârnci Florentina, <i>Étude sociologique sur la motivation du manager roumain</i> ...	57
Bălăceanu Cristina, Tilea Doina, Predonu Andreea-Monica, <i>Pratique de bonne gouvernance et de gouvernance corporatiste</i>	69

III. ANALYSE ÉCONOMETRIQUE ET PROGNOSE ÉCONOMIQUE ET FINANCIÈRE

Andronie Mihai, <i>Le processus économique d'optimisation déployé par les compagnies avec une complexe activité de production – commerce – services utilisant des systèmes informatiques avec des techniques intégrées de data mining</i>	77
Eisenstat Eric, <i>Analyse bayésienne de la stabilité du cartel et de changement de régime</i>	85
Bucea-Manea-Țoniș Radu, Bucea-Manea-Țoniș Rocšana, <i>La sécurité des exécutable Java dans les applications e-affaires pour les EMPs</i>	97

IV. LIQUIDITES FINANCIÈRES – UNE MOTIVATION DE LA CROISSANCE ÉCONOMIQUE: FINANCES ET BANQUES

Zaman Gheorghe, Geamănu Marinela, <i>Investissements étrangers directes et internes en Roumanie pendant la crise économique</i>	107
Manolescu Gheorghe, <i>Dimensions de la politique monétaire compétitive post-crise</i>	113
Ungureanu Gabriela, Pistol Luminița, Vârgă Anca, <i>Les opérations commerciales combinés en tant qu'instrument pour éviter les liquidités dans le contexte de la crise actuelle</i>	121
Ionescu Ionel Eduard, Oprea Cristian, <i>Considérations sur la dette publique pendant la crise économique</i>	131

V. LA THÉORIE ÉCONOMIQUE – UN CATALYSEUR DE LA CONSOLIDATION DE LA SOCIÉTÉ DE LA CONNAISSANCE, DE LA NOUVELLE RÉCUPÉRATION DE L'ÉCONOMIE

Popescu Ion, Stoica Victor, Velter Victor, <i>Paradigmes de l'économie. Opportunités pour la Roumanie</i>	141
Sandu Mihaela Tania, Cetină Iuliana, Mihail Nora, <i>Décision d'investissement dans le capital humain et les implications macroéconomiques</i>	149
Bucur Oana Nicoleta, Silași Grigore, <i>La politique industrielle dans l'Union Européenne</i>	161
Olaru Octavian-Liviu, Chițiba Constanța-Aurelia, Olaru Livia-Irina, <i>Vue d'ensemble à terme court et long de l'économie mondiale</i>	169

Critique de livre

Saren M., Maclaran P., Goulding Ch., Elliot R., Shankar A., Catterall M., <i>Marketing critique – définition du domaine</i> (Epure Manuela)	171
Paul Krugman, <i>La conscience d'un libéral</i> (Uță Cristian)	180

I. THE FUNCTIONING OF MARKETS AND MARKETING

MOBILE MARKETING FUTURE TRENDS

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Abstract

The present article proposes an introspection into the field of a new marketing specialization – mobile marketing. The concept mainly refers to all marketing activities related to the new communication channel – Short Message Service, Multimedia Messaging Service, and internet access from mobile phone. The article provides, at the same time, a marketing perspective about future trends of mobile marketing and mobile media, and also a technical perspective related to the future mobile communication technologies in the field – the LTE (Long Term Evolution) – cellular communication system optimized to support packet-switched data services to enable mobile broadband.

The conclusions of the article focus on the relevance of mobile marketing, techniques efficiency related to brand promotion, changing consumers attitude and the development of such techniques imposed by the new mobile communication system

Key-words: *mobile marketing, long term evolution, broadband, brand awareness, consumer attitude*

JEL Classification: M₃₁, O₃₁

Introduction

The global penetration of mobile phones increased significantly from 79.1% to 87.2%, between 2004 and 2007 (MobileYouth 2005)¹.

The same source stated for 2010, the percentage of penetration level in using mobile phones among young population (14 to 29 years of age) is between 49% in Uganda, up to 246% in Qatar (from this respect Romania places 13th with a rate of 140% penetration among young users).

With such a high percentages of the world's population owning a mobile phone, marketers from all over the world have the ability to communicate offers directly to the target audience whenever and wherever they may be, offering much more personalised services.

¹ www.mobileyouthreport.com.

The high rates of young people using one or multiple mobile networks accounts offer a large potential for all kinds of marketing related applications, software, etc., and most importantly, the opportunity for marketers to develop and control new types of attitude and consumption habits.

Opportunities in wireless marketing and advertising have therefore risen a great deal, due to higher penetration, and also to the interactions between consumer and advertiser, which have been rapid and easy.

Literature review

The academic literature regarding mobile marketing has been tremendously enlarged its volume in the last decade, as various researchers contributed to define and shape the concepts in the area of mobile channels from the marketing perspective.

That is why we present a few general research guidelines in the field, pointing out only the main issues regarding the potential of mobile marketing, mobile media, the consumer interactions with these new channels and integration of mobile marketing techniques in the marketing activity as a whole.

Mobile marketing can be defined as “using a wireless medium to provide consumers with time – and location sensitive, personalized information that promotes products, services and ideas, thereby benefiting all stakeholders.” (Scharl, A., Dickinger A., Murphy, J., 2005)

If we take into consideration the classical definition of AMA: “Marketing management is the process of planning and executing the conception, pricing, promotion and distribution of goods, services, and ideas to create exchanges that satisfy individual and organizational goals”, we can assume that it implies sequential marketing stages, as well as temporal and spatial separation between buyers and sellers. Mobile devices blur these boundaries and distinctions by extending traditional marketing’s time-space paradigm. As with other forms of digital marketing, mobile media incorporate interactivity and transcend traditional communication, allowing for one-to one, many-to-many and mass communication models.

Mobile Marketing enhances consumer-brand relationship, the interaction between consumers and their mobile phones, together with the ability allowed by mobile advertising to control the viewing environment, providing advertisers with an opportunity to build more meaningful brand relationships than at any time in the advertising history (Aaker J.L., Benet-Martinez V. and Garolera J., 2001).

Mobile phones are thus regarded not only as delivery platforms, but also as a way to connect the platform with mass media and points of sale, and can therefore be successfully implemented to help lead the consumer to a purchase. Mobile phones are also ideal mechanisms for marketing, thanks to their seamless integration as a direct email channel to the target audience (Fujita A., 2008).

Today, individuals maintain a hyper-personal and interactive relationship with their cellular phone (Babinet G., Despres J.C., Gastaldi F., 2003). That is why,

if a certain company wishes to address particularly to a specific target audience, messages through mobile phones are the ideal instrument.

Mobile phones are usually carried everywhere and kept within reach of their owners. They are ideal for use in conjunction with a variety of traditional media tools such as indoor and outdoor advertising and broadcast channels (Fujita A., 2008).

The emergence of the 'opt-in' SMS services allowed the subscribers to be quickly informed about the availability of a promotion or of an innovative service. It is an effective medium to generate traffic by motivating a determined target to contact a call center or to visit a sale location.

Mobile phones have the potential to be ideal personalized tools for providing an opportunity to the marketers to send an offer to the right consumer at the right time (Barutçu, S., 2007).

Content

The main issue related with the application of mobile marketing remains the consumers' attitude towards mobile advertising, the way that any potential target responds to different types of messages delivered via this channel.

After a considerable period of tryouts and in-field experiments, marketers have found that the new type of mobile advertising had also some major restraints, despite its concrete qualities.

In general, consumers have a negative attitude toward mobile advertising, unless they have specifically consented to it, (Tsang, 2004), there is a direct relationship between consumer attitude and consumer behavior. Thus, it is not a good idea to send SMS advertisements to potential customers without their prior permission.

Mobile advertising and Internet advertising have many features in common—both are emerging media used to deliver digital texts, images, and voices with interactive, immediate, personalized, and responsive capabilities (Yoon, S.J., and Kim, J.H, 2001).

Due to the technical specifications and based on different strategic applications, wireless (mobile) marketing can be either permission-based, incentive-based, or location-based (Zoller, E.; Housen, V.L.; and Matthews, J.2001).

Permission-based advertising differs from the traditional bothering advertising in the sense that messages about specific products, services or content are sent only to the individuals who have explicitly indicated their willingness to receive the message. Consumers often ignore the message when interrupted by an advertisement. By relying on the target audience granted permission, the permission-based advertising focuses on reducing the discomfort.

Incentive-based advertising provides specific financial rewards to individuals who agree to receive promotions and campaigns. For example, mobile phone companies may reward customers with free connection time for listening to voice advertisements. Both permission-based and incentive-based advertising mechanisms are feasible for mobile advertising because the wireless technology makes it possible the identification of the individual users.

In addition to the individual identification, mobile technology also allows to locate a particular consumer.

Location-based advertising takes advantage of the feature to target people at a certain location. Advertisements are sent based on where the user is at that moment or where the user is going next (Zoller, E.; Housen, V.L.; and Matthews, J.2001).

The evolution of the mobile marketing content may be generally summarized as:

A. Using the Short Message Service (SMS)

The **Short Message Service (SMS)** is an immediate, automated, reliable, personal, discrete and customized channel (Karjaluo H., Leppaniemi and Salo., 2008).

Table 1

SMS Advertising audience and response rates

SMS Advertising Audience and Response Rates Three-month average ending August 2007 and August 2008 Mobile Subscribers in EU5 (U.K., France, Germany, Italy and Spain) Source: comScore M: Metrics						
	Received SMS Advert (000's)			% Responded to SMS Advert		
	Aug-07	Aug-08	% Change	Aug-07	Aug-08	Point Change
Downloads for mobile phone	40,792	35,915	-12.0%	4.4%	3.9%	-0.6
News or information	25,929	22,122	-14.7%	2.8%	3.2%	0.4
Mobile phone or plan	32,222	31,574	-2.0%	4.6%	4.7%	0.1
Entertainment	12,644	11,230	-11.2%	4.3%	5.1%	0.7
Total Mobile + Media Sectors	111,587	100,841	-9.6%	4.1%	4.1%	0
Clothing/Fashion	3,982	5,503	38.2%	5.8%	6.4%	0.6
Restaurants	1,037	1,424	37.3%	11.6%	15.5%	3.9
Cars	4,407	3,731	-15.4%	11.2%	7.9%	-3.3
Food	1,413	2,162	53.0%	9.2%	12.6%	3.4
Financial services	8,963	9,956	11.1%	3.7%	4.7%	1.0
Consumer electronics	3,957	4,647	17.4%	6.3%	6.7%	0.4
Travel	5,779	6,602	14.2%	4.9%	5.8%	0.9
Total Non-Mobile or Media Sectors	29,539	34,024	15.2%	6.2%	6.8%	0.5

Source: www.comscore.com.

Mobile telephone companies plan to use the SMS for customer relationship management, sending their clients information on where to get cheap pre-paid phone cards when their credits are running low.

Companies can send coupons to cell phones via SMS. In other words, the mobile couponing offers at least three advantages: targeting based on customer cell phone numbers; time sensitivity, e.g. receiving a 20% discount on purchases immediately after entering a shop; and efficient handling by scanning the coupon's bar-code at the cash desk. It has been shown that the rates of percent coupon from a total of a company can get close to 11% in some cases (www.borders.com coupon campaign).

As for the efficiency of SMS advertising, compared to click-through rates of less than 1% for online advertising [Hanson, W. 2000), wireless click-through rates and call-through rates are 19% and 12%, respectively.

Table 2

Status of the main activities in how the subscribers use mobile phones

comScore Mobile Benchmark Study Three-month average ending August 2008 vs. Same Period in 2007 Mobile Subscribers in EU5 (U.K., France, Germany, Italy and Spain) Source: comScore M: Metrics										
	Germany		Spain		France		Italy		UK	
Activity	% Users	Change	% Users	Change	% Users	Change	% Users	Change	% Users	Change
Watched video	3.7%	3.6%	7.9%	1.5%	5.5%	6.9%	7.4%	6.9%	5.2%	4.4%
Listened to music	19.3%	0.4%	24.1%	1.4%	16.2%	2.2%	16.8%	2.0%	22.2%	1.5%
Accessed news/info via browser	6.6%	0.6%	9.3%	7.7%	10.8%	9.4%	9.3%	12.1%	16.7%	2.4%
Received SMS ads	29.2%	-2.3%	73.6%	-0.7%	62.8%	0.2%	54.3%	-2.1%	38.2%	-1.4%
Played downloaded game	7.9%	1.4%	11.3%	-4.7%	4.2%	4.5%	8.5%	3.0%	10.5%	1.5%
Accessed downloaded application	2.9%	-0.9%	3.4%	2.8%	2.1%	22.1%	5.1%	1.4%	4.0%	6.4%
Sent/received photos or videos	22.1%	1.0%	33.2%	2.0%	25.4%	7.7%	32.8%	4.0%	31.8%	1.2%
Purchased ringtones	2.9%	-6.6%	4.1%	-1.9%	3.2%	3.7%	3.3%	-7.5%	3.1%	-1.1%
Used email	7.3%	-1.4%	10.5%	2.8%	7.1%	8.1%	11.9%	3.5%	9.6%	1.9%
Accessed social networking sites	1.9%	-1.8%	3.5%	20.8%	2.5%	10.4%	3.0%	17.6%	7.3%	10.0%

Source: www.comscore.com.

The table above presented the SMS Advertising audience and response rates from a research conducted in 2007 and 2008 on mobile subscribers from UK, France, Germany, Italy and Spain, by a well-known research company, comScore.

It has been shown that the biggest rate of response was in case of food advertising content, restaurants and cars, reaching even a 15.5% rate. This result is very demanding for a direct marketing type instrument as the mobile advertising.

If we look at the main activities in which the mobile subscribers have been involved (table nr 2) via their mobile phones, we can point out that almost 73.6% (from a total of subscribers in Spain) received SMS ads which proves a big rate of SMS advertising penetration among the mobile phone users.

B. Developing Brand Image Campaigns

Even if we took into consideration the limitations of SMS – the text is limited to a 160 number of characters, specialists began to develop brand image campaign using a SMS campaign, correlated with online and offline classical promotional efforts.

The key to implement a real scale brand image campaign resides in using the much evolved technology of MMS (Multimedia Messaging Service) that allows targeted personalised messages with multimedia (audio, video, text) content, and the possibility to have full online access to web pages content related with the message itself.

It has been stated that trusted brands are more and more important in the virtual world where they influence online purchases, generate customer loyalty (Clifton, R.2002), and attract customers to their Web sites. This ‘virtual branding’ effect may apply to SMS and MMS as well.

Broadband access and advanced mobile devices will enable multimedia content access for a very large mass of auditorium and thus increase image campaign possibilities.

Real time transmission, whereby the message appears on the potential consumer’s screen within seconds, will further increase the mobile marketing success. These rapid broadcasts offer opportunities, such as ordering songs played on the radio immediately after listening to them.

C. Integrated mobile marketing mix

The future trend for mobile marketing is related to the capacity of different companies to integrate different elements of the mobile marketing mix into a strong objective-driven strategy. From this point of view, the best thing to do is to start the mobile marketing effort with a SMS campaign, followed up by a mobile Web site, mobile advertising and mobile couponing.

After implementing the above steps, it is imperious to have a sustainable campaign of incentives for the consumers that has been active for all this interval of time.

D. High consumer responsiveness

Maybe the most intriguing and demanding challenge for modern marketers as a result is the one related with the objective of achieving high consumer responsiveness of the mobile marketing activities.

Research conducted so far (Heinonen K; Strandvik T, 2007) stated that message content relevance and channel acceptance are not directly related to high consumer responsiveness. Content relevance in itself does not necessarily mean high responsiveness as the channel may have been altogether perceived as disturbing. In contrast, low relevance may also involve some positive responsiveness, if the channel for the marketing activity is accepted.

Consumers expect messages to be personal and of high interest, so disappointment is greater when they get undesired messages.

A firm's customers may fall into different responsiveness groups.

By looking at the consumer responsiveness in terms of disturbance and relevance, it is possible to see four different situations for increasing the prospects of getting the consumers' attention, as we can see in the figure below.

It is the most important thing to choose the right design for messages, right timing, to take into consideration different type of consumers responsiveness. The mobile marketing strategy itself should be conducted in light of these results.

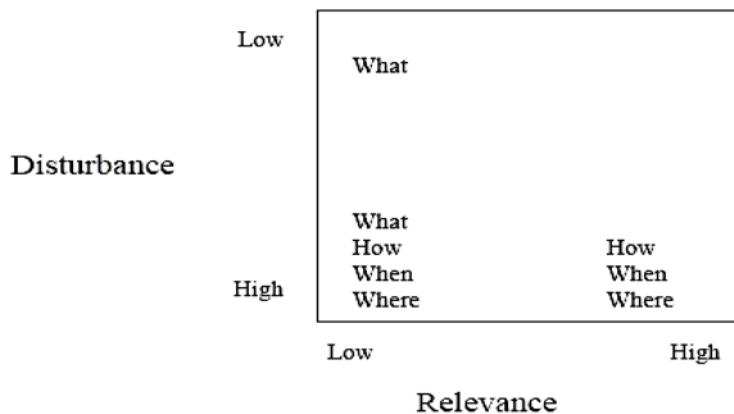


Figure 1. Communication strategies based on customer responsiveness

Source: Kristina Heinonen and Tore Strandvik – *Consumer responsiveness to mobile marketing*, *International Journal of Mobile Communications*, Volume 5, Number 6 / 2007, pg 615

E. Emergence of new technologies

A GSM and its evolution through GPRS, EDGE, WCDMA and HSPA (*High Speed Packet Access*), is the technology stream of choice for the vast majority of the world's mobile operators. Today's commercial offerings, which are based on this technology evolution, typically offer downlink speeds at the order of 7 Mbps (Mega bits per second), with the expectation that 14 Mbps will become widely available in the near future. At such improvement in the 3rd Generation (3G) capabilities, there are obvious questions to be asked about what should happen next.

Users have experienced a dramatic price decrease in telecommunication charges and they now expect to pay less but receive more. Therefore, in deciding the next generation in mobile communication, there must be a dual approach: seeking considerable performance improvement, but at a reduced cost. LTE (Long Term Evolution) is the next step and will be the basis on which future mobile communications systems will be built. LTE is the first cellular communication system optimized to support packet-switched data services to enable mobile broadband.

Mobile broadband is becoming a reality, as the Internet generation grows used to having broadband access wherever they go, not just at home or at the office. Out of the estimated 1.8 billion people who will have broadband by 2012, some two-thirds will be mobile broadband consumers – and the majority of these will be served by HSPA and LTE networks.

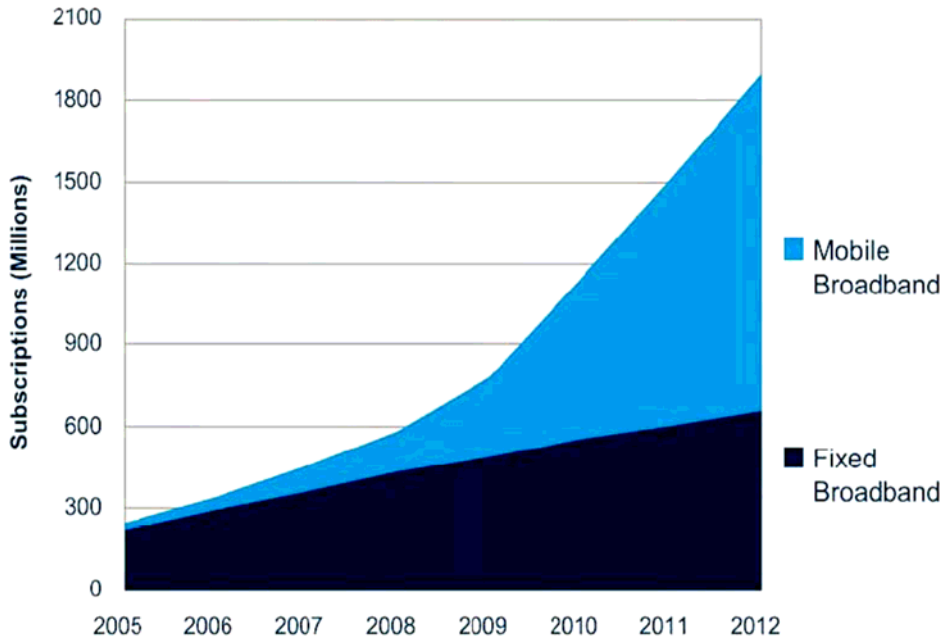
People can already browse the Internet or send e-mails using HSPA-enabled notebooks, replace their fixed DSL modems with HSPA modems or USB dongles, and send and receive video or music using 3G phones. With LTE, the user experience will be even better. It will further enhance more demanding applications like interactive TV, mobile video blogging, advanced games or professional services. LTE offers several important benefits for consumers and operators:

- o **Performance and capacity** – One of the requirements on LTE is to provide downlink peak rates of at least 100 Mbit/s. The technology allows for speeds over 200 Mbit/s. Furthermore, RAN (Radio Access Network) round-trip times shall be less than 10 ms. In effect, this means that LTE – more than any other technology – already meets the key 4G requirements.

- o **Simplicity** – Firstly, LTE supports flexible carrier bandwidths, from below 5 MHz up to 20 MHz. LTE also supports both FDD (*Frequency Division Duplex*) and TDD (*Time Division Duplex*). Ten paired and four unpaired spectrum bands have so far been identified by 3 GPP for LTE. And there are more band to come. This means that an operator may introduce LTE in 'new' bands, where it is much easier to deploy 10 MHz or 20 MHz carriers, and eventually deploy LTE in all bands. Secondly, LTE radio network products will have a number of features that simplify the building and management of next-generation networks. For example, features like plug-and-play, self configuration and self-optimization will simplify and reduce the cost of network rollout and management. Third, LTE will be

deployed in parallel with simplified, IPbasedcore and transport networks that are easier to build, maintain and introduce services in.

o **Wide range of terminals** – in addition to mobile phones, many computer and consumer electronic devices, such as notebooks, ultra-portables, gaming devices and cameras, will incorporate LTE embedded modules. Since LTE supports handover and roaming to existing mobile networks, all these devices can have global mobile broadband coverage from day one.



Source: OVUM, Strategy Analytics & Internal Ericsson

Figure 2. Broadband growth 2005-2012

Source: Dipl.-Ing. Gerhard Fritze M.Sc. Customer Solution Manager Ericsson Austria GmbH, – SAE – *The Core Network for LTE*, Ericsson Press Report, 2008

Supporting evidence is shown for mobile broadband take-off. Firstly, consumers understand and appreciate the benefits of mobile broadband. Most people already use mobile phones, and many also connect their notebooks over wireless LANs. The step towards full mobile broadband is intuitive and simple, especially with LTE that offers global coverage and roaming with existing 2G and 3G networks.

Secondly, experience from HSPA shows that, when operators provide good coverage, service offerings and terminals, mobile broadband rapidly takes off. Packet data traffic started to exceed voice traffic during May 2007 as an average world in WCDMA networks (see Figure 2). This is mainly due to the introduction

of HSPA in to the networks. Recently HSPA data cards and USB dongles have become very popular. Several operators have seen a fourfold increase in data traffic in just 3 months after they launched HSPA.

In many cases, mobile broadband can compete with fixed broadband on price, performance, security and, of course, convenience. Users can spend time using the service rather than setting up the WLAN connection, worrying about security or losing coverage.

Thirdly, a number of broadband applications are significantly enhanced with mobility. Community sites, search engines, presence applications and content-sharing sites like YouTube are just a few examples. With mobility, these applications become significantly more valuable to people. User-generated content is particularly interesting, because it changes traffic patterns to make the uplink much more important. The high peak rates and short latency of LTE enable real-time applications like gaming and IPTV.

In summary, operators can introduce LTE flexibly to match their existing network, spectrum and business objectives for mobile broadband and multimedia services.

Conclusions

The main issues regarding trends and evolution for mobile marketing are as follows:

- the efficiency of mobile marketing technique in use and the effect on the consumer attitude and habits;
- the implementation of a mobile marketing strategy, correlated with the whole marketing mix – offline and online, because it has been shown that different marketing goals cannot be achieved without an integrated approach;
- a strong investment in marketing research regarding creative ways of using the new arriving mobile technologies (LTE, HSPA, etc.);
- adapting the mobile marketing content to the company's different responsiveness groups of customers. Theories of innovation diffusion and acceptance have been completed with researches that show another type of variables influencing the consumer responsiveness and feedback. The main concern has to be targeting the right consumer's with the right message content; otherwise, in time, the consumer's response is much more dramatic compared to the other marketing channels.

The evolution of marketing theory and practice in time has pointed out that marketing is a science that finds a great ally in technology and one of the most important sources for developing new concepts and applications. As regards the mobile marketing, this is even more convincing, since this type of marketing is a technology-driven field, at its essence.

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DANCING WITH THE PHARMACEUTICAL INDUSTRY – MEDICAL PRACTICE BETWEEN ETHICS AND BUSINESS

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Abstract

The relation between physicians and the pharmaceutical companies has been increasingly discredited over the last several years.

Moreover, such relations have been proven to influence the prescribing patterns to stimulate drug supplying within hospitals, to encourage publications and research articles and even to contribute to critical article non-publication.

There is a complex relation between physicians, medical organizations and academic departments, on the one hand and industry on the other. Therefore, industry makes its living from the physicians prescriptions and from the devices and services they purchase.

Yet physicians, medical organizations, and academic departments commonly receive money and other benefits from the industry.

This paper reviews specialist literature and addresses the real dimension of the physician-health related industry worldwide interaction. Unfortunately, Romania has not provided any data yet, because this issue has not been officially analyzed in our country.

Key-words: *health industries, relationship marketing for healthcare organizations*

JEL Classification: I₁₁, I₁₈, M₃₁

Background

A growing body of literature continues to seriously question the correctness of most types of physician–industry relations and to suggest ways to remove them. So far, physicians have continuously and faithfully preserved their partaking of industry generosity because they consider themselves too smart to have their medical decision influenced by industry’s marketing strategy (Rutledge P., 2003). This approach has survived although it is not factually supported and is highly arguable. According to an axiom that is hard to grasp when dealing with health related industries all industries have one purpose: to make money (Goldratt E., 2004). No professional ethics can obstruct this aim.

These legends and similar ones persist in spite of an extensive and broadly accepted body of literature that categorically shows that industry–physician

conflict of interest – including industry’s expanding role in continuing medical education (Spingarn, Berlin, and Strom 1996) – increases the cost of healthcare to the detriment of the public, the medical profession, and the patients (Wazana, 2000). In order to face and maybe to repel the physician-industry relation concerns, the American Medical Association (AMA), the pharmaceutical industry, and medical organizations have formulated guidelines to deal with such concerns (America, 2004; Popp et al., 2004; Association, 1998). On the other hand, a closer look at these guidelines reveals their bran interpretation possibility. Conflict of interest has always been a part of medicine. With every patient treated, every physician it involved in a conflict of interests (Tonelli, 2007).

Literature provides a lot of information on industry’s attempts to maneuver physicians away from their responsibility to serve the best interests of their patients. In the end, it is physicians who, as gatekeepers, control industry’s success through the prescriptions they give and the devices they procure. Undoubtly, industry uses large amounts of money to persuade physicians, but by means of a technique that makes physicians consider that they are not being influenced (Chren, 1999). A 2006 report by Steinman and associates deals with the precise issue of Parke-Davis’s illegal marketing of its medicine Neurontin for off-label uses (Steinman et al., 2006). More than \$40 million were spent on marketing the off-label use of the drug to physicians. This activity was illegal. Prescriptions for off-label use climbed. Much of the marketing campaign involved activities with hidden marketing intention such as funding for speakers bureaus and key opinion leaders. Unexpectedly, the industry – pharmaceutical and device – acts like any other for-profit entity, seeking. The interesting part, though, is the extent in which industry hazes the distinction between marketing and education (Steinman et al., 2006) and lucrative investments the physicians naïvely facilitating the industry efforts.

The physician perspective

For physicians industry is a stimulating environment. It is unfair to generalize and say that every physician has the same motivations when dealing with industry, but it is important to evaluate a few persuasive ones, one or more of which may be relevant to a particular individual.

Firstly, the doctors may see themselves as being entitled to whatever industry offers them (Hayashi, 2001). This sense of entitlement could have more reasons. Sometimes, they believed they worked very hard and that those freebies were a proof of the company’s appreciation. The gifts continued and increased during residency and practice – lunches brought in by medicine representatives during a seminar about a new treatment, or simply as an opportunity to eat conveniently.

Consistently, industry speakers support the physicians’ prescribing behavior by affirming that it is an affront to physicians’ intellect even to suggest that their honesty can be bought for a dinner or a pen. If prescribing patterns (Greene, 2007) and, perhaps, personal features are promising to a company, they may be invited to a resort for an “advisors” summit or the like – some way to raise

the ante toward further eliciting our thanks in the form of more prescriptions for the company's products and, maybe, becoming a company presenter to help persuade others to recommend more of these drugs.

A second possible reason for the physician – industry interaction is recognition. Many of them enjoy to be acknowledged as experts, and when industry turns them into experts by choosing one of them on the circuit, his name and sometimes his photo are printed in programme. When he speaks at a meeting, fellow physicians come to hear him. This can be an exciting feeling. Then, they are sometimes tapped as key opinion leader and think that this makes them special, although this acknowledgment makes it obvious that they have been converted into salespeople for industry (Network, 2004).

By responding to the acknowledgment industry arranges for physicians, they are helping industry to cover sophisticated marketing techniques under the appearance of teaching. Some of them may be so good at what industry gets them to do that they are invited to be on a company's scientific advisory board. This recognition makes them believe that they are even more allowed to expenses from industry because, after all, the statement *advice* entails that they are using their knowledge and intelligence to assist the company. Actually, they may think that they are entitled to large payments for being on this advisory board. Although industry does have physicians who provide them with essential guidance regarding drug development and marketing, many industry scientific advisory boards are simply ways to set up appreciation and enhanced allegiance among renowned physicians. Industry's business policy is to convert its "advisors" into salespeople.

The companies the advisory boards of which consist of world-wide members are even more inspired, because they are organize board conferences in remote and interesting places. The international acknowledgment for advisory board members is even puffier. Physicians may believe they are entitled to money and fancy trips, but they are not aware of the fact that by accepting the money and the trappings, they generate conflict, and contribute to expensive drug prescription, to uncertified device purchase, and to non-evidence-based tests ordering. All these increases the patients' expulses and the cost of health. Why would industry spend millions of dollars on such as honoraria, traveling, and on steak dinners for the attendees if industry did not know that such expenditures world lead to more drug prescriptions or to increased device purchase? (C., 2004).

Another reason underlying the physician-industry relation is the sense of belonging that such a relation creates. For the individual practitioner, an invitation to a fine steakhouse for dinner provides the chance to mingle with colleagues whom the company believes are worth inviting. The sense of being special is created by the company. Moreover, he has the chance to mingle with the out-of-town speakers. Physicians who do not care to partake of industry's largesse face a particularly difficult problem because attendance to meetings and interacting with colleagues is part of physicians' professional responsibilities and necessary often simply for them to do their jobs.

A fourth reason for physicians to go into and preserve relation with industry, which is, in fact, the underlying reason is money. Industry pays them for

being speakers, for participating in an advisory board, and for giving advice. Perhaps they believe that the inexorable decrease in reimbursement for our medical services is a good reason to accept some money from the industry to offset what we believe is inequitable loss of practice income. Or, they may believe that what they are doing for industry is a service to medical profession and to the colleagues who come to hear them speak. At any rate, they like money. They even like the indirect benefits that they do not receive as cash: receptions and dinners paid for by the industry, or tax-excerpt courses or courses requiring a reduced registration fee. All these benefits mean money they do not have to spend

Industry perspective

Their bottom-line duty is to augment value to their stockholders: to make money (Goldratt E., 2004). If a company sells soap, refrigerators, drugs, or medical devices, the stockholders want to see profit. If a company makes what seems to be an altruistic donation, it is a business-centred act. The gift may do some good in a community or in other ways, but the company's stockholders do not want the company to act like a charity entity and to spend money that has no business purpose. What is, then, industry buying with some of the \$57.5 billion it spends annually on marketing to physicians – \$ 61,000 per physician – or nearly twice as much as the expenditure for research and development?

Industry buys access, authority, and appreciation. These are knotted. When a company sets up a steakhouse dinner reunion, it needs a lecturer to make the meal simply incidental to a didactic activity and, therefore, tolerable under various physician–industry gifting guidelines.

Companies do much of their marketing to physicians by means of their ever-increasing influence on CME and through payments or gifts to both physician teachers and meeting attendees. In 2006, industry covered the cost of 61% of Continuous Medical Education Courses in US, spending nearly \$1.45 billion, or more than three times what it spent in 1998. In the circumstance of advancing its shareholders' joint interests, this activity is simply business motivated.

Industry aims at leaders because of their reputation and the admiration held by their colleagues. In academia, there are verdicts on pharmaceutical formularies and on research projects and policies that industry has an interest in influencing and that academic institutions should have an interest in keeping free from industry's influence (Ehringhaus et al., 2008; Rothman, 2008). In professional organizations, the clinical care guidelines they create are an attractive prey for the industry; having grateful committee members on these guideline panels can yield positive results to industry's products (Steinbrook, 2007).

Academic perspective

Academic physicians author many of the articles published in journals and they are involved in research that may be of interest to industry. Thus, academic departments are high importance targets of industry and are lured by the same

stimulus as their faculty and community physicians – entitlement, recognition, belonging, and money – to become comfortable with industry representatives.

It may be a visiting professor agenda that industry is enthusiastic to sponsor. Finally, the department has to fight to meet its financial plan and industry's money is simply money that the department will not have to spend. Maybe the company offers money for the department to test a new device or to join in a clinical trial. These examples are ways in which industry can gain influence with the chair and faculty of the department and with its house staff.

Campbell and associates surveyed department chairs at medical schools and at US's 15 largest teaching hospitals (Campbell et al., 2007). Sixty per cent of chairs had some form of personal relation with the industry such as being a paid consultant or a scientific advisory board member or participating in a speaker's bureau. In addition, some 80% of clinical departments had one or more connections with industry, including funding for food and for CME. Most chairs did not perceive anything wrong with these personal or departmental affairs.

Conclusions

Even though industry has brought to market many of the products that have helped improving medicine, there is major concern and strong confirmation that industry's successful marketing tactics have entailed an unreasonable increase in the cost of health. Individual physicians have proven to be sitting targets for the pharmaceutical and device industry and it is least likely to change their behavior, unless bold steps are taken in order to support and even to implement such changes.

In the end, it is essential to reiterate that this perspectives does not put an end to the physician-industry relation. On the other hand, we hope that physicians will identify their physician-industry voluntary financial relations for what they are: a conflict of interests over their responsibility to patients and to the public. The difference needs to be made, though, between interactions that have very specific aims, goals that stand to our patients' and public advantage and those that simply increase the cost of care through encouragement of needless drugs and tests or the writing of prescriptions for costly drugs when a less expensive one is just as good.

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THE PROFILE OF ROMANIAN CONSUMER AND HOW THE ECONOMIC CRISIS IMPACTS THE CONSUMER'S MENTALITY

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Abstract

The paper deals with the Romanian consumer's profile, analyzed in terms of household expenditure structure, by main destinations for food, non-food, services and taxes components, and household's consumption, in terms of size and structure of food consumption.

Synthetic images of quantitative parameters were made using national and international statistical data, between 1991 and 2009. We took into account the total expenditure of households, total consumption expenditure, the structure of monetary consumption expenditure, the average consumption of main food products, in structure and dynamics.

Diagnostic analyses were performed by multi-annual approach of these indicators, important warning signals in the evolution of the household consumption. The multi-country and multi-annual benchmarking contributes to the highlighting of the national consumer profile, compared to those of the other 30-40 countries. These issues underline the extent of the economic crisis seen by the national households like an influence in shaping the consumer's mentality.

Key-words: *consumption, expenditures, indicators, dynamic, comparative analysis*

JEL Classification: D₁

Introduction

For the last two years, we have been facing the worst crisis that has almost neutralized the progress from the previous years, whether we speak about the economic growth or the poverty reduction. In this global context of the economic recession, the crisis has influenced, among others, the population consumption factor. The paper deals with the Romanian consumer's profile in the light of household's expenditure analyzed in structure terms, by main destinations for food, non-food, services and other expenses, and also the household's consumption, by size and structure of food consumption. The issues approached consist in highlighting the total household's expenditure, the total consumption expenditure, the monetary consumption expenditure structure, the average consumption for the main food products, and so on – essential elements in highlighting the consumer's profile, analysed in structure and dynamic, by the type of total expenditure and consumption expenditure.

Even though the diagnosis is based on statistical sources, these diagnostic analyses, at national and international levels, should be familiar with the status of these indicators; besides, the progress of these indicators will lead to establishing appropriate directions for further action. At the same time, another important point consists in the multi-country comparative analysis that contributes to highlighting the Romanian consumer's profile as compared to the consumer's profile of other 30-40 concerned countries. Upon this multi-annual and multi-country analysis, and in particular, by comparability, we will detail some alarm signals about the evolution of some quantitative or qualitative indicators of national consumption, underlining the Romanian consumer's profile, shaping the consumer attitude and the consumption mentality. These signals may contribute to the design of policy directions to support a healthy consumption, and also some food assistance policies prescribed by economy market, especially now, when the global food is at its low and shows fewer opportunities. In addition, the rapid present changes, in all their aspects, facilitate the worsening of the issue of consumer choice, by offering various choices; the consumer is sometimes in a difficult situation, trying to respond to these ongoing challenges. Today more than ever, the frontiers of knowledge, besides huge benefits, generate some potential risks for consumers.

It is particularly important, especially in such a context, to know the dimensions related to the consumption of population/households – as an important component of the poverty overall, alongside income, expenditure, inequality.

Review of specialist literature

The economic crisis of the past two years has revealed some weaknesses of an economy already struggling with the effects of globalization, increasing pressure on resources and an aging population; the long-awaited strategy Europe 2020 comes after a severe recession in the history of the EU and identifies the huge challenges which we will have to face in the next decade. The impact of the economic crisis on poverty depends on how it affects both the average consumption and the distribution of the average consumption, as in a recent World Bank report.

In addition to the concerns of the World Bank about the consumer component, OECD also has a strategic response to the financial and economic crisis. Even if the crisis started in the financial sector, its impact reached consumers worldwide. OECD Committee on Consumer Policy provides some guidelines for creating policies for protecting and empowering consumers, by providing solutions such as e-trade, consumer education, safety of the consumer product, consumer policy, and so.

FAO has warned that more people will be affected by famine, malnutrition and poverty if the food crisis worsens. And at the same time, the Millennium Development Goals are in jeopardy until 2015 (UN Report). FAO report argues that only in 2007 (the prior year of economic crisis), food crisis threw an additional number of 75 million people into the category of malnourished.

The efforts of many nations in fighting hunger and poverty could be slowed down starting with this year; therefore, reaching the Millennium Development Goals will be highly questionable.

In other words, such warning signs have been pointed at long before the crisis; now, we are just looking at what extent this crisis is affecting the consumer attitude, at the international level. Over the past years, there have been lengthy debates on consumption crisis, consumption behavior, degree of damage; while the economic crisis has not deeply affected the consumers yet, the state of “mind” of consumers and their reaction to the crisis proved to be a rather ‘quiet’ one.

For this reason, we are bringing out the components of consumption and the Romanian consumer’s profile in the period before and after the crisis, even if we consider that this economic crisis has not ended, and their effects are still felt at the present time.

Theoretical assumptions

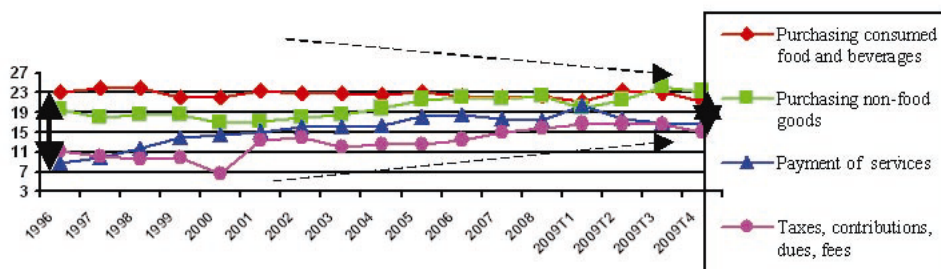
The method used in this paper is based on the analysis of national and international data sources, to make more visible the components of consumption. The used tool is a statistical one, where quantitative indicators describe the components of consumption.

Consumer’s profile

The main destinations of consumption expenditure of households are food supplies, non-food products, followed by services and then taxes, contributions, dues and fees. If we consider these 4 components with majority share in total expenditure in the total household expenditure structure, the household’s consumption hierarchy top spot is held by the food component, which has always held the supremacy of the expenditure (about one quarter of the total money expenditures). The food component is followed, at a short distance, by the non-food component, then services and taxes, contribution, dues and fees (Graphic 1).

Graphic 1

The structure of money expenditures for food, non-food goods, services, taxes and fees



Sources: For years 1996-2008: Statistical Yearbook of Romania, NIS, 1998-2009. For year 2009: Press releases, Revenue and expenditure of households, quarterly press releases, NIS

An interesting part in the consumers' behavior (household) is the dynamic evolution of each component in the period considered, and the gap between these components, such as: for the first few years, the food consumption component was located on a downward had, then for a short period of time path a slight increase; since 2001, this component of consumption has witnessed a continuously decreasing trend. Amid reducing the food costs, other types of expenditures have seen significant increases from year to year.

Thus, we can notice an important change in the consumer's behavior in the past years, when the consumer/household preferred to lower the consumption, by reducing the purchase of food products, non-food goods and had to increase the expenditures for the services. Therefore, in the total consumption expenditure, non-food expenditures have been increasingly growing, especially in services and fees, contributions and taxes.

This change in behavior had many influences, some of which on the consumer side, but others, the majority, from the economic context; they influenced the consumer's behavior and we refer here mainly to higher prices for utilities, services, increased taxes, and so on. Thus, the consumer was required to pay with priority certain services/utilities being conditioned by available cash resources; this cash increases in nominal value from year to year, but lowers in real value; as a result, the consumer changed his priorities in consumption options, giving them a different importance, perhaps at the expense of food consumption.

Most important for the profile is the analysis of the evolution of total consumption expenditures, the detailed structure according to the major destinations, respectively agro-food products and nonalcoholic drinks; beverages, tobacco; clothing and footwear; housing (housing, water, electricity, gas and other fuels; furniture, dwelling endowment and maintenance); health; transport; communications; leisure and culture; education; hotels, coffees and restaurants; miscellaneous products and services.

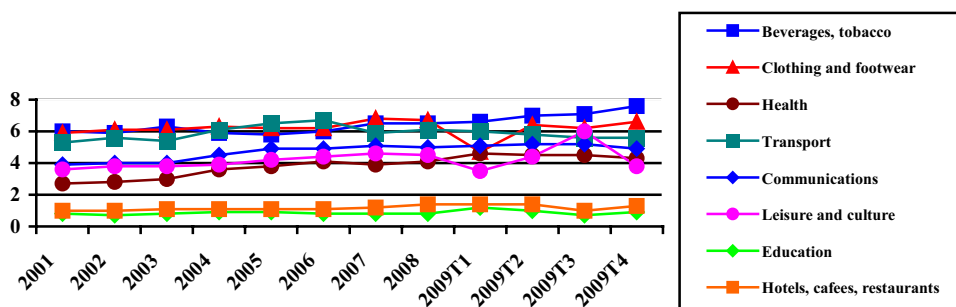
A component of consumption, with a relatively high share in the total consumption expenditure, holding the second position after the agricultural and food products sector, is linked to housing (water, electricity, natural gas, fuel, respectively 13-15%; furniture, dwelling endowment and maintenance of housing, respectively 3-5%). Most of the housing expenditure is absorbed by utilities (water, electricity, natural gas and other fuels).

In terms of the total consumption expenditure of households, in a detailed structure, we distinguished three levels, strongly differentiated: the majority share, although in continuing and substantial decrease, belongs to the component of food products and nonalcoholic drinks (42-52%). This component of total consumption expenditures is followed, from afar, by the household expenses for housing (housing, water, electricity, gas and other fuels, furniture, dwelling endowment and maintenance), in a continuously ascending trend (16-21%). The third place held by a compact group of expenses (beverages, tobacco; clothing and footwear; health; transport; communications; leisure and culture; education; hotels, coffees and restaurants; miscellaneous products and services), which covered a total expense ratio of 1-7% (Graphic 2). In this small range of 1-7% described, we delineate

3 types of expenses with the following destinations: clothing and footwear; beverages and tobacco; and transport expenditures that dispute their supremacy in this triad. This position is followed, from a short distance, by expenditures on communications, leisure and cultural activities and, lastly, the component related to health. The last two positions in the hierarchy of household's expenditure are taken by hotels, coffees and restaurants costs and the last place in the hierarchy is, unfortunately, for the education expenditure.

Graphic 2

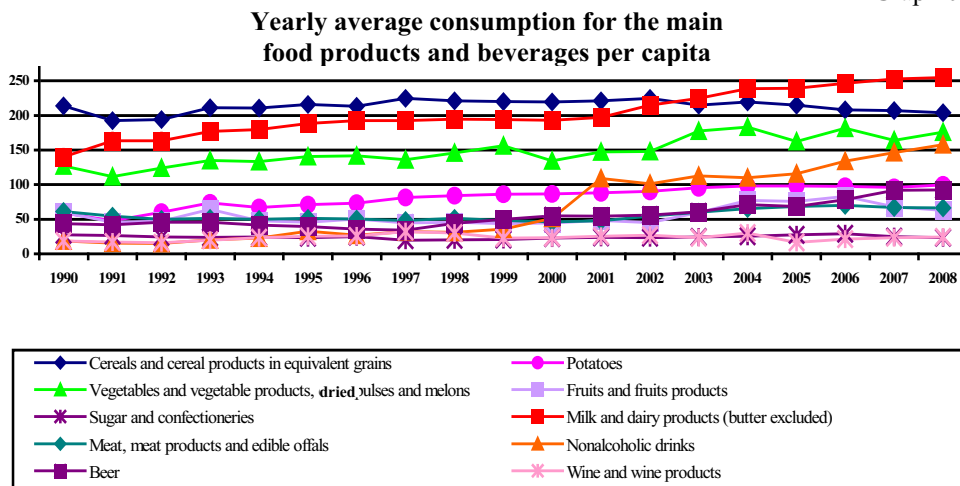
The structure of total consumption, excluding food and nonalcoholic products and housing



Sources: For years 1996-2008: Statistical Yearbook of Romania, NIS, 1998-2009. For year 2009: Press releases, Revenue and expenditure of households, quarterly press releases, NIS

An interesting aspect is the international experience on how it the consumer's behavior is perceived and the importance of different types of expenses. By comparison, Romania occupies the following positions in the ranking of 30 countries: for food products and nonalcoholic drinks, Romanian is on 4/30, which means that the households spend a lot for this destination; for beverages and tobacco component, Romania ranks 2/30, thus being almost a "leader" in the ranking of expenditures; for clothing and footwear expenditure, Romania is on the 18th position, a median position; on housing costs, position 26, national households pay very little money for this destination compared to other countries; for furnishing housing position 24, a small share of total expenditure; for health expenditure, place 19, which is very little, perhaps in many other countries, the system of health insurance is solid and the population spends a lower share; for communications expenses, place 10, quite enough, compared with other countries; for recreation and culture, position 23/30, even less for this activity; for education expenses, Romania is on the 16th place, a median position, if we consider that there are 30 countries, but the truth is that Romania has only paid a share of 0.7%!

Another qualitative and quantitative indicator that influences the profile of consumption is the yearly average consumption for the main food products and beverages per capita (Graphic 3).



Source: Statistical Yearbook of Romania, National Institute of Statistics, 2009

For the 1991-2008 period, the national statistics show that the most important average annual per capita consumption is that of cereals and cereal products in grains equivalent (1991-2002). Then the first position was taken by milk and milk products, the largest in the availability of consumption from 2002 until the present. The third position in the annual average consumption has always been assumed by vegetables and vegetable products, dried pulses and melons, which are located on a continuous increasing trend over time. Until 2001, the next position was the potato consumption; starting in 2001, the 4th place has been taken by the consumption of nonalcoholic drinks, on a continuing and accelerating ascending trend, outpacing the consumption of potatoes. On the 5th position, there is a fairly compact landing where the following consumption products share the role of leadership the hierarchy: beer; meat, meat products and edible offals; fruits and fruit products, and then, at some distance, we have the components like sugar and confectioneries; wine and wine products, in the last position in the availability of annual average consumption per capita (excluded amounts under 15 kg(l), like vegetable fats, animal fats, distilled alcohol and fish).

The international experience on average annual consumption, according to statistics from FAO/Food and Agriculture Organization of the United Nations presents consumption between 2003 and 2005 for 40 countries and, undoubtedly, the first position in the pattern of consumption is occupied by the consumption of milk, for all the 40 countries considered. In the second position in the top hierarchy of the FAO statistics, is the consumption of cereals and vegetables. Third rank is owned by fruits, then the following position (no. 4) is taken by alcoholic beverages, starchy roots on the 5th place, followed by meat consumption (6th place) and then the sugar and sugar products (no. 7) and only on the 8th position belongs to fish consumption component. After fish consumption, in lower marginal positions, we have vegetable oils, stimulants, animal fats, eggs, with a consumption between

40-80 g/person/day), then the even lower position is occupied by vegetables, tree nuts, oil crops, spices and offals, which are below 50 g/person/day. Also, at international consumption level, the average consumption of the fish component is fairly low compared to other food products, but its position in the ranking is one more favorable compared with the corresponding national average fish consumption. It is true that there are some countries where fish consumption is very high, compared with others (Iceland – 248 g/person/day, Japan – 176, Lithuania – 123, Malta – 108, Norway – 131, Portugal – 165, Spain – 121), while in our country fish consumption is very low, at the lower limit of the ranking, respectively 11 g/person/day; only Serbia and Montenegro (8) fall below this value.

The level and structure of food consumption is one economic variable reflecting the welfare of the individual, of the population of that country, and is subject to a number of factors: economic (income, agricultural and food prices), demographic (age, external migration, mobility, geographic location), cultural, ethnic or religious, dietary habits, technological, psychological factors related to individual tastes and preferences, some of them relating both to the individual and society, which means that consumer pressures are quite high.

In the specialist literature, there are several consumer models, where each of them has its own specific characteristics. Beyond the variety and challenges between tradition and modernity, the healthy food is more and more visible in consumption patterns. This style tends to be a main feature of the consumption patterns. The transition from model to model in agriculture satiety seems to be characteristic of the European Union. For Romania, the question of to which extent we will adopt either of these models is still open. We did adopt some elements imposed by EU – still, we are concerned about food safety, food identity and reconsidering of the traditional techniques of food production.

Instead of conclusions

The article addresses several issues of food choices of the modern consumer at the present stage of society development, consumption trends and consumption behavior in the last two decades, by comparing the national and the international profile of the consumer, pointing and discussing some key matters of how the consumer behaves, in terms of consumption expenditure for food and nonfood products. The paper is not specifically a justification for a pattern of consumption, but only an outline in evolution for the last two decades, pointing out at certain some behavioral changes. In this context, we must remember Maslow's pyramid – this pyramid shows that our needs should target the top, where self-realization is, and represents the essence of ultimate goal. In other words, life means to learn to line and to find the balance for equilibrium.

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**II. THE ROLE OF THE SCIENTIFIC MANAGEMENT
OF ECONOMIC LIFE UNDER THE IMPACT
OF INTERNATIONAL RELATIONS**

LEADERSHIP AND MANAGEMENT OF CHANGE DURING A CRISIS TIME

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Abstract

Change is now perceived as a condition of normality, a situation that doesn't frighten anymore to such extent as it did few years ago. Moreover, it really feels today as a normal process through which people and organizations have to go through. What is important represents the finality of such process.

The present crisis clearly demonstrated that many organizations had problems, not because of the changes in their environment, but in themselves. Their managers, their leaders failed in some moments to take those decisions that could provide a stable and healthy development of the organizations. But, instead, they got into some situations that outdid their expertise and, quite often, the pride or the lack of confidence in their co-workers hampered them to get the right support in due time. The paper investigates some relationships among leadership, management of change and crisis issues, emphasizing some interdependencies among these phenomena.

Key-words: *leaders, globalization, crisis, organizational culture, performances*

JEL Classification: M₁₀, M₁₄

1. A dynamic business world

The world is facing one of the most difficult period in the last ten years, due to a severe economic and social crisis. Profits falling for most of the companies, restructuring processes that caused high rate of unemployment, the uncertainty of tomorrow, all of them offer a not-so-happy picture for the organizations and people.

On top of the above, some of the dramatic events like the earthquakes in Haiti, Chile or China, destructive hurricanes in USA or South Asia, are bringing more challenges and crises that the political and business leaders have to face.

It is rather difficult to say how many and what type of crisis comes our way, since the definition solely of this phenomenon varies (from country to country, from business to business and even from person to person).

Obviously, we carry out our activities in a period of higher interdependency among different fields of economic and social activities.

Globalization is a more and more present phenomenon in our life (Carnall, 1995), as individuals, groups and organizations. It triggers a lot of changes in the political, economical, managerial, social and cultural fields (Fullan, 2001).

We see the unprecedented development of information technology and telecommunication, at the same time with the free movement of resources across the borders.

Within globalization, we could speak of a tendency for uniformization of approaches and working procedures. Very often, within the multinational companies, we use standardized elements, that help us take quicker decisions and have a common understanding of the issues being dealt with.

It means that the leadership has to take into consideration through diagnosis, to a large extent, the regional specificity and the cultural differences, besides other factors, will continue to shape the interactions among leaders and their co-workers. Without any doubt, the leaders' values, attitudes and behaviors are influenced by (and influence) the characteristics of the national and organizational culture where they develop and operate (Huff, A., Huff, J., Barr, P., 2000).

This diagnosis targets the organization internal and external environment and information collected at this stage, and correlated with the previous one, will provide the background for the leaders vision.

The economic and social factors complete the cultural dimension of the globalization process (Nastase, 2004). More and more, people of different nationalities interact, mixing new beliefs, values and behaviors that enrich one another.

The greater elements above are produced on the basis of the employees awareness of their rights. In the background, these elements have a better idea to have labor education, as a result of developing the concept of lifelong education.

In these circumstances, the employees do not like anymore the people leading only by formal authority (Kleim, 2004), and trying to impose their ideas. Instead, they expect their superiors be more involved both in the operational and decisional fields.

The perception about the inspiration that has to exist within an organization does not come only from the low levels, but also from the top management. During a research within IBM top management, for the question 'what keeps you awake at night', 60% of them answered that their employees did not have the necessary expertise or they did not possess the leadership qualities for managing the organization development.

The changes that take place within environment force the organizations to redesign. New methodologies have been developed to assist them in these process: reengineering, Six Sigma, TQM etc. Even if the stages that they require are the same, the results obtained were very different. Causes: leadership and organizational culture.

Even the great entrepreneurs, leaders, managers from famous companies like Wall-Mart, General Motors are known for their opening to the innovation that take place in other organizations, even those that operate in totally different fields of activities.

2. Leadership development

The leaders vision is based on a very important component that ultimately represents the nucleus of the organizational culture: values. The values are special elements as they reveal what leaders believe in, for what they are ready to take risks and make sacrifices. Without any clear values, the leaders cannot have that mental attitude to help them have verticality, have a firm approach even in hostile circumstances.

The values are those that give force to the leaders, sending powerful signals to those around him in regard to his credibility. Very often, the leadership is associated with the change process. To succeed in such entrepreneurial initiative, you must have a lot of trust in your own capabilities in your belief that you can make a difference.

The values represent powerful elements for connecting people. They convey to us the compatibilities with other people, helping to integrate. For a leader, his values are more important as he is a model for those around him and his values become the others' values. It is a process of knowing one another and harmonizing between the leader and his team.

During the interaction with others, we send powerful messages about our values, but we also receive their messages. It has to be an open and sincere process in which we express our availability for fully cooperation with the members of our community.

Personal values expression should not be a simple formal statement, just to please our vanity, but it has to show our structure and what is really important for us and for those around us.

One of the important ways in which we could better discover or define the personnel values is that of exploiting the qualities and values of those whom we consider leaders. Those people we admire most and with whom we consider having many commonalities.

The analysis of some models could prove an effective way for investigating your own personality, how we report ourselves to others. Leaders have to live what they speak, meaning to develop those qualities that allow them to put in practice what they say. This is the basis on which the leaders build up and show the self confidence and trust in others (Năstase, 2007).

The self-confidence is a very visible element for leaders and, where present, the personnel is more eager to involve with them. The capacity of self-confidence largely influences everyone's motivation. It is the place where we believe that we are good, have the control, and then we will acquire a special attraction.

It is a space where we feel that we can make the difference, that we are ready to shape the future and to offer the support for others around us to help them progress. Self-confidence is an engine that we can fuel with the results that we get; for a leader, though is also the results obtained by his followers are of high importance.

There are more possibilities to develop self confidence. An important one is represented by education. It is the background for our future decisions and actions. When we train ourselves, we develop confidence in our competencies. The positive image that we create about ourselves, about our strengths is also essential.

The study of some models gives us the possibility to look at some successful or failure examples and to build up our own alternatives for actions, starting from a range of known variables. This is an action that allows the comparison of some leading styles in how they approach and settle the problems.

Besides the formal knowledge that we get through formal training, we could benefit of a substantial input from practical activities. Experience is a way in which the leader learns how to solve some issues by facing them directly.

In diagnostics and scenario elaboration (Zecheru, Năstase, 2005), the leaders have the opportunity to validate their formal knowledge, but also to acquire new one.

Involvement of those around us could prove an important action at any stage of our career. If express the support for us, the ones around us will foster our self confidence and our availability amplifies substantially.

The failure to believe in our capacity for doing a thing will be very visible for our followers who, will also question the viability of more and more decisions and actions. On the other hand, we don't have to fall into the trap of considering that the leader knows everything and he is the only one who has all the right answers.

A real leader takes into consideration the personnel expertise and delegates them to solve some of the company problems for which they have the required competence.

3. Management of change

The present circumstances, globalization, development of informational technology, free movement of resources, challenge the managers and leaders to properly communicate and motivate the specific decisions and actions. The wider range of stakeholders is more interested in the manner how an organization management understands its particular needs and interests and, especially, how they are addressed.

As the leader should have a symbolic role for the decisions, he is also held responsible for the organizations real performances. He has to better understand the correlations between the economic and social sides of a business, without allowing a possible threat to the change efforts necessary for adjustment to a tougher environment.

The Romanian organizations are facing a more and more competitive environment that force them to find out new answers for their challenges. The process of Romanian accession to European Union, free flow of resources, development of information technology and telecommunications are only few factors that affect the way in which they design and conduct their operations. Under these circumstances, the role of human resources increases exponentially,

depending on them how they build and develop the organization competitive advantage. Cultural leadership may represent an important instrument for leaders, for managers to develop and value the potential of human resources, in order to ensure a competitive evolution for their organization.

It is very clear that a major determinant of the viability and competitive development of an organization is the leadership and their capacity for building up a powerful organizational culture, based on clear values, performance-oriented

During crisis situations, work processes that require new approaches of all categories of resources are developed, that an organization uses, resources in correlation with internal and external environment.

Profit and social matters are not perceived anymore as being fundamentally opposed. There is an increasing awareness that social issues are important for any business and for the progress of the society.

Leaders make for an efficient economy. They promote ethics as being good and consider that ethics and profit should go together in the long run. It is true that many people blame important leaders of important organizations as being responsible for decisions and actions that triggered or backed up the worldwide crisis. But, we should not impute that to all the leaders around us!

Lack of trust in our leaders could be an important mistake, which could bring us a delay in the process of recovery. The leaders also have to be aware of some questions that their co-workers have and should manage to involve people to a higher level.

The leaders are interested in what is happening with their business, but also what can be done to protect the society (Collins, Porras, 2006). An ethically responsible organization is one where all the stakeholders are paid careful attention to and their needs are researched and met.

It's important to be able to develop a culture for caring for the people and for the good of society, as a whole.

Due to the larger number of companies and other kind of organizations, the leaders start to take more and more into consideration the balance about business economics and social aspects. The integration of corporate social responsibility within the companies messages, regardless of the fact that we talk about corporate entities or SME's, show exactly the type of transformations we assist to.

It is not surprising that leaders have a considerable influence on the economy for creating and developing new business paradigms that emphasize the economic dimension of the companies (Fullan, 2001), but with a strong social concern. In this respect, we point out that management specialists have expanded the way of approaching the company management system, dealing now with five subsystems instead of four (Nicolescu, Verboncu, 2008), as it follows: methodological subsystem, decisional subsystem, informational subsystem, organizational subsystem and, the new one, human resources subsystem.

Corporate social responsibility (CSR) becomes a component to assure a sustainable development of the companies but also able to contribute to the development of a certain region, providing tools for supporting the economic and

social activities. In fact, competitiveness becomes a fundamental principle of globalization that affects all the activities (Brătianu, 2002).

The government has an important responsibility by promoting the laws that encourage the organizations to be more socially aware, to create a framework that fosters cooperation among educational institutions, companies and NGO's.

It is obvious that not only the government or the laws can always solve certain key problems of the society and business, but is required a more integrated approach with a higher cooperation between the public and private organizations (Zecheru, Năstase, 2005). Ethical behavior allows the quality of life dramatically increase (Ionescu, 2001) and it is, practically, the responsibility of each of us to contribute to this new paradigm. An ethical approach will be a fundamental direction for the knowledge-based economy and can do wonders in creating wealth for society.

The convergence of a series of contemporary forces like the globalization of markets (Burduş, 2006), the increasing rates of competitive pressure, and the flattening of organizational structures, has provided new opportunities and threats for leaders and organizations.

The integration of CSR specific instruments proves to be a challenging task for those who are in charge with companies performances. Are the specific activities for this field only a source of expenses? Or, it's just a normal way for taking into consideration the needs of an important stakeholder?

All over the world CSR and ethics virtually become an efficient way for business to become an accepted member of a certain community, with direct and indirect benefits for all the involved parts.

4. Resisting to change

Getting out of crisis and bringing the organizations back to the floating line is not an easy task. Tough decisions are involved and they address both the economic and social fields with multiple direct and indirect consequences. That's why it is not surprising that during the management of change process, the leaders have to face different barriers that, lead to a clear resistance to change. We further present few of the most common factors that represent resistance to change, at individual and organizational levels.

Individual change resistance is generated by:

Workplace safety – the employee perception regarding the probability to his working placed have threatened through the adopted changes, represents one of the most important sources of change resistance. The individual will also feel that his own existence and maybe his family are threatened, and, as a consequence, he will act very aggressively against change.

Habits – as time passes, the individual, on one hand, improves his work-style and, on the other hand, develops certain procedures that made him feel comfortable. Changing those habits, at the same income level, usually represents an effort which is unjustified according to many people.

Fear of the unknown – change can be demanding because we have to deal both with new circumstances and unknown parameters. Changing the workstyle and the manner of interacting with others will place an extra stress on the organization staff.

Economic reasons – the major sources that provide individual change resistance can be summarized to: the potential decrease of the employees' income, the volume growth of labor at the same wage level or the growth of employees' responsibilities at the same income level.

Saturation – appears because of large and unjustified number of changes that take place in the employees' field of activity. Whenever changes prove to be various, redundant and stiffening, the individual reaction is to oppose to the proposed changes, in an open or silent manner.

Fear of failure – the bigger the fear of risk, the more reticent the individual, in regards to his participation in the organization change process. If the failure or the error is accepted in the organization at a low level, the resistance will be very strong.

Organization change resistance is generated by:

High degree of bureaucracy – each organization develops several mechanisms and structures in order to ensure both its normal functionality and its goal achievement and performances. If these structures become very thick or much stiffed in time, then the necessary effort grows substantially in order to implement these changes.

Bureaucratic organizations, in which the transfer and grouping of knowledge is less efficient, tend to report major difficulties especially concerning the access to unspoken knowledge. This phenomenon leads to a lack of performance among the organization members.

Organizational culture – can become a major change resistance factor if it is not properly taken into account or if it is not accurately interpreted in its manifestation forms.

Knowledge-based organization depends on the organizational culture characteristics and also on how the organization supports or not the learning process at the individual or organizational level.

Organizational culture has a major impact on organizational changes, due to the fact that it includes the values, the symbols and the informal rules of the organization (Zecheru and Năstase, 2005) These are issues that exert great influence on the organization staff, and sometimes, they overpass the formal rules of the organization.

Undersized change – in this case, the leaders who bring the change are focusing on some aspects considered relevant, but they overlook the impact of the activity field on other organization items.

Examples like job reshaping, extra-charge granting, organizational structure reshaping a.s.o., are taking into account neither the people nor their training and qualification nor the resize of the informational tracks.

Conclusions

The higher participation of the employees to the company activities tend to diminish, in time, the distinction between leadership and management, as the organizations must have a smooth functioning and overcome the crisis negative impact.

Such a dynamic context imposes a wide range of approaches and channels that could promote and support, for instance, the CSR by organizations managers and the implementation of the best practices that are met all over the world. We talk especially about qualitative approaches that are able to make the difference in comparison with the previous time intervals.

In this respect, as business dynamics and contexts change, the leaders must adapt themselves fundamentally, in order to maintain an effective integration of the leadership and management roles, to get best value of the resources that are available both internally and externally.

At corporate level, it is necessary to develop some form of balance between the expectations coexisting with unit-level autonomy and long-term strategic thinking, along with a measure of tactical and operational flexibility.

The knowledge-based leaders support creativity and freedom of action among subordinates, while providing more autonomy and responsibility. These are ways to increase the participation of employees to the decision making process and to develop their commitment to the organizational objectives.

These is a balance between centrality and participative approach, a way to guarantee the best use of organization's capabilities, in order to be able to handle the environment pressures. Leaders, even if they pay attention to their different structures and particularities, do not have to be rigid in the strategy implementation, based on single pattern, as the crisis can take different forms in different organizations and different places; instead, they will ask for a differentiated application, depending on their action area, targeted market, community needs and so on.

Change management is, for sure, a difficult balancing act, as it requires companies to combine both incremental and revolutionary change. The ultimate goal is to assure that the objectives are fulfilled, based on what can be called as dynamic stability, achieving a balance between the need for stability and for change and assuring that the organization can remain competitive not only on the short term, but also on the medium and long term.

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HOW MULTICULTURALISM IMPACTS MANAGEMENT PROCESS WITHIN INTERNATIONAL CORPORATIONS

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Abstract

International business conflicts take place when one part sends a message in accordance with a specific culture, while the other part decodes the message considering another set of values, corresponding to their own culture. This situation is present because the particularities of other cultures are not known. Very often, the fact that people belonging to other cultures are different is ignored, through their religion, statute, decisions they take, attitude towards time and nonverbal language.

Therefore, the essential element in taking decisions in the international business environment for the corporations that are involved in a global competition is the adjustment of management methods and techniques into the specific cultural space where they operate.

Key-words: *international corporations, multicultural communication, multicultural behavior, management process, multicultural approach*

JEL Classification: M₁₆

1. Introduction

In a multicultural approach, the person who wants to understand the cultural phenomena expressed in other language must have the consciousness of attachment to his own culture. The most appropriate way to achieve such consciousness is to compare your own culture with other one. This method involves an open attitude towards another culture and the ability to understand its values.

Therefore, a great interest is manifested for multicultural approach and for its importance in the context of business internationalization and globalization of business.

The domain is dealt with, first of all, from a managerial perspective, which justifies the title of the article. As such, the present article is included into the management literature, where it is defined by the object of study – internationalization and globalization of business, the microeconomic level –, as well as by the reference environment. The international life, in management studies analyzes the way how the leadership functions (planning, organizing, coordination, control) provide the implementation of the internationalization strategy into the companies.

The issue of cultural differences is important for both economy specialists, international business or social sciences, and the public.

The success of international and national companies largely depends, on the multicultural cooperation skills of their members. Globalization is a reality. The world has entered a new era of unprecedented economic activities, which is characterized by global production, international distribution and global strategic alliances.

International management issue is approached from an multicultural perspective, which means taking into account the cultural diversity in the world business environment. This approach has been recently imposed to the specialist literature into the worldwide plan and is currently the main source of renewals in the conceptual and operational plan of the management field.

Cultural differences at regional, national or corporational levels express different approaches of some human communities, motivated to solve basic problems of existence: world creation, how to achieve internal integration and how to adapt to environmental requirements. The study of cultural differences generally starts from the comparative analysis of “existential solutions”, essential for some communities, whether they are called “options or fundamental assumptions,” “cultural dimension” or “cultural values”.

2. Review of the specialist literature

One of the most elaborate studies on how national culture influence the management practices belongs to the scientist *Geert Hofstede* (*The consequences of culture*, 1980). Hofstede’s concepts had a big impact on comparative research and only a few studies do not mention his research. Sondergaard (1994), and Redding (1994) believe that his work provides a model for future comparative research. He received both praise and criticism; also, he inspired a series of imitations and the adoption of certain managerial decisions. He observed 116,000 people in over 50 countries, who worked for the same multinational American company (IBM) and discovered that its subsidiaries displayed big differences from one country to another, as they are culturally linked to their employees. Consequently, the subsidiaries of the same company were different due to four cultural dimensions that were perceptible in the way how organizations structured, and behaved. Later, he will discover a new dimension in his studies, along with the Canadian Michael Bond.

3. Content

The world of organizations and managers has expanded dramatically in the last decade. Providers, beneficiaries, competitors and staff, all moved easily from one country to another. A series of evolutions like accession into the European Union, implementation of the North-American Free Trade Agreement (NAFTA), the result of Uruguay Round, the General Agreement on Tariffs and Trade (GATT) and subsequent establishment of the World Trade Organization (WTO), with global market penetration of the former USSR and her vassal states, all of these

things have generated favorable opportunities for the development of the international economic relations.

Managers and customers, an increasing number of organizations – be they commercial companies or non-profit – are tackling this international reality in their strategic and tactical thinking on a daily basis.

In parallel with the expansion of the international economic environment, a continuous revolution of communications technology emerged, which enabled a rapid contact among individuals or groups geographically dispersed. A wide range of research and development projects involves members who are miles away one from the other. Negotiation of contracts takes place in real time among groups located on different continents. Multinational organizations may more closely monitor the performance of their foreign subsidiaries, and a more rapid correction of deficiencies is possible. Achievement of organizational tasks, in the evolving business world, may be monitored and thoroughly coordinated from virtually any place on the earth.

These constant modifications have triggered new problems that organizations have to be able to solve. An international economic environment in tireless development requires that managers be aware of the worldwide developments (Ghoshal, 1987). This means that, in order to make decisions quickly and correctly, there must be new systems for collecting and processing information. Internationalization also means that global organizations staff work more often with people from different cultures or with those whose formative years were spent in another country.

The term ‘multinational’ emerged for companies whose operations are distributed in many countries of the world, in the early 60’s and was given by companies like Nestlé, Unilever, Philips etc. In the 80’s, this name gradually lost ground to ‘globalization’, involving two distinct attitudes: concentration and coordination.

Any enterprise with an international vocation is likely to vary the degree of globalization that wants to implement in its activities.

Bartlett and Ghoshal described the evolution of the organizations in the following way: the *multinational model* considers that the exterior operations are a set of autonomous activities; the *international model* in which exterior activities are perceived as an annex of the local parent companies; the *global organization* in which management treats exterior activities as supply routes for a unified international market. Finally, the new transnational model focused on action outside national borders and adaptation responses to differentiated markets.

Due to the specificity of each culture, there are many differences in how to communicate within the international environment. Therefore, a good manager, besides knowledge, has to show tolerance and respect for the values and habits of the people who come in contact with him and accept patiently the ambiguity or confusion. Edward Hall argues that there is a correlation and a mutual dependency between culture and communication. In addition, he introduced the idea of the effect of cultural context upon attitudes and communication behaviors, making a classification of cultures according to the degree of influence of this

context; he started with countries where the influence of culture on communication is very high and ended with those in which these influences are very small:

1. *Communication in countries with strong cultural context* is mostly oral, based on personal knowledge, trust, credibility, ethics of communication on the psycho-social image of the individual in general. The reputation of the companies in community has a great importance, based on how it does business, creates communication relationships before discussing business, performance of rituals related to process knowledge. Negotiators, managers, entrepreneurs from these countries will want to know how their discussion partners think. A contract takes long to conclude and patience is one of the basic attitudes of management in the communication process. Promises that are made should be kept not in fear for the law, but to maintain good personal reputation, family and business.

2. *Communication in countries with little influence of cultural context* has opposite characteristics. The emphasis is on the communication in writing, written documentation, detailed discussions all along. It matters only what is in writing and proved by the law. Insolvency or failure is not a shame or a story and give companies more opportunities to try.

To better understand the different ways of thinking, feelings and behavior of people in different cultures and countries, we have considered the results of four academics who have studied cultural differences among nations, by examining a set of questions showing the employee behavior towards one other, their opinion of what reasonable and appropriate behavior means, their opinion about the manager role within the organization, and their attitude towards time (J.M. Hiltrop and Sh. Udale, 1998, p. 103-108).

The responses differed significantly from one culture to another. Thus, north-Americans and northern Europeans consider that you have to obey the law, even if it means you do not help colleagues and friends. In Russia, Venezuela, Indonesia and China, more than half of those polled responded that they would lie to protect their colleague and friend, even if that involved breaking the law.

In a baseline survey on national cultures, Geert Hofstede (another Dutch specialist in management and international organizations) questioned 116,000 IBM employees in over fifty different countries, between 1967 and 1973.

The results obtained by Hofstede showed that:

a. People from different countries have different views on how to define proper behavior, reasonable and adequate.

b. These differences can be explained to a great extent by the following key factors: power distance, masculinity, individualism and uncertainty avoidance.

Another striking example of cultural differences appeared in a survey for the mid-level managers, who attended programs for executive personnel; the survey was about their views on the role of manager in an organization and about the readiness of a manager. The responses revealed that only a minority (13%) from the Swedish and American managers considered that a manager should respond to any challenge or problem. A majority (59%) from the French and Italian managers agreed to that. Between 30 and 50% of the British, German, Swiss and Belgian managers convened with the statement.

Thus, while most French and Italian managers expect to have answers from the supervisor in line, Americans and Swedes apparently do not. As a result, French and Italian managers must often claim to know more than their subordinates, even if the situation is not like that. If somehow people find that they have less knowledge than their subordinates, their authority will suffer and they could lose their credibility.

Michael Bond's recent work has revealed some clear cultural differences in the human behavior across time. He analyzed the data contained in a questionnaire, deliberately on an eastern orientation, to measure how students in 23 countries perceive values. From this information, he was able to derive three factors identified by Hofstede, along with a fourth factor, unknown to Hofstede. He called the discovery 'Confucian dynamism', referring to a company long-term orientation versus short-term one and human concern about future or past issues. Bond chose the name of Confucius as almost all values seem to be directly taken from his teachings.

His research revealed that:

- People with a short-term orientation focus on the next values: perseverance, ordering relation by status, consideration and a bit of shame.
- By contrast, people with long-term orientation focus on reliability and personal stability, protecting the personal "image", respect for tradition, favors and gifts.

After he classified the 23 nationalities in the Confucian dimensions, Bond noticed that:

- The west Europeans and North Americans have a short-term orientation and think very much of the past.
- By contrast, most Asians have a long-term orientation and are concerned about the future.
- Some countries like Brazil and the Netherlands have received relatively high evaluation in this Confucian dimension.
- United Kingdom, Canada, Nigeria and Pakistan are countries with the strongest short-term orientation.

Conclusions

International activity is continuously growing and involves new requirements for those participating at cultural activities. They must deal with issues such as interpretation of actions and the attitudes of individuals or organizations operating in a different context than the normal one. They have to negotiate with groups, with different purposes, and different methods of reaching them, alongside with not similar expectations about the dialogue partner behavior. Growing diversity of the organizational world, together with the increased pace of the environmental change, bring new demands and problems to be solved by the organization members. Unfortunately, they are not trained to properly cope with the situation.

At another level, however, comparative and international management areas are not yet satisfactorily responding to questions about global management development. For the most part, the domain is still overshadowed by a centrist vision of international management. This vision, based on form of the traditional multinational corporations looks at the foreign subsidiary and suppliers like they are clients who have to be controlled from the company headquarters. Centrist organization imposes its control through managers from the country of origin who are temporarily sent to foreign subsidiaries. With an expatriate manager, the big problem comes from respective the differences or similarities between the origin country and the subsidiary. For example, in a negotiation, will the local representatives go directly to business or speak about a series of social activities? Is it their initial position an authentic offer or is just an unexpected extraction of the level that they agree? From this perspective, the idea is that the manager must have the ability to integrate himself or he cannot work in that local culture. If the manager will be asked to move to a third country, a similar process will take place in terms of cultural discovery and adjustment. All the international relations are perceived like a bilateral interrelation between the origin country and the foreign culture.

As international organizations have evolved in response to the global market pressures, the centrist view has been replaced by the application of international integration. The basic idea that has to be presented in the international relations is not the one of multinational executives people who must be sent to foreign countries, but it refers to managers or, much more, to the organizations lower level employees who has to operate in a multicultural context, no matter where they are (Rao, A., S.M. Schmidt).

The growing importance of the information flow, professional training within organizations and the teams or internal flexibility, have turned the centrist model into an adequate one and in some cases, in a limited one. The new global reality of the organizations means that a part of labor has contact with those involved in international relations; the numbers managers going foreign countries is small.

While a large part from the comparison terms is still working following the British Empire model, other managers are complying with in the European Union context. The stress placed upon specific contrasts between management processes and organizational structures often led to an incomplete and limited image of compared organizational behavior (O. Nicolescu). The processes at lower levels have sometimes been neglected for the description of observable differences. Current international context supposes studies that illustrate how managers and other employees adapt their way of working and thinking in order to cope in a world that is becoming increasingly multinational, multicultural and dynamic.

This approach requires a shift from a descriptive program to one that focuses on how members of the organization are coping with an international segmented environment, generated by the international context.

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SOCIOLOGICAL STUDY REGARDING THE ROMANIAN MANAGER'S MOTIVATION

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Abstract

The article presents the results of a qualitative research (conducted in 2008) on the Romanian manager's identity (insisting only on the motivational aspects). 45 managers were interviewed and the data obtained were analysed and interpreted qualitatively (using grounded theory procedures). The motivational factors identified were then tested by means of a pilot study (a questionnaire applied on 207 subjects). The methodological aspects of the researches (concerning data collection, analysis, and interpretation) are detailed in the article. Here are some hypotheses resulted from the pilot study: managers unlike non-managers are motivated by difficult tasks, with great responsibilities and by the need for increased power; the performed managers unlike those that are not so performing are motivated by an even more increased need for power and by the strong wish to be promoted.

Key-words: managers, motivation, qualitative research, pilot study

JEL Classification: M₅₄, M₅₁, M₁₂

I. Introduction

This article reveals the results of a qualitative research on Romanian managers as subjects. I shall present the agents that motivate them as they resulted from the analysis and the interpretation of the collected data. This objective had been a part of an extended project which dealt with the identification of the Romanian manager's identity characteristics. The extended project had been part of a PhD thesis that I asserted in 2009, and had been financed by UEFISCSU (The Executive Department for the University Education Financing and Scientific University Research): PN-II-RU-TD-2008, contract no. 33 / 4.06.2008.

I shall briefly describe some methodological aspects of the research and I shall elaborate each motivational factor resulted from the research; I shall also analyse the effects of the different types of motivation specific to Romanian managers.

As I have mentioned before, the main subject had not been the manager's motivation; this developed spontaneously, initiated by the respondents. Consequently, the article at hand does not stand for a true study in the research of motivation, but presents tendencies and hypotheses to be further tested in studies of what satisfies the managers, what do they look for in a job or what makes them work more efficiently.

Social and psychological researches having business leaders as subjects have not been conducted in Romania, or at least no results of such researches have been published (I am acquainted with prospective studies of entrepreneurial behavior – conducted on individuals outside the management scope). We have no scientific information on Romanian business leaders; all we know is from the common knowledge level. Existing international studies – related to managers or to business leaders and their performance – have focused on stocktaking a manager's necessary abilities to become competitive and on the professional development programme structure.

The results of the international studies on managers reveal the following: Bass (1974/1990: 150-162) shows that “the way they think, feel and action in regard to themselves affects the leading trend of people”. Levinson and Rosenthal (*apud* Bass) have discovered that business leaders have strong self opinions and ideals. According to Bass, “leaders, in contrast to non-leaders, tend ‘to update’ their self. It is highly probable that they act at maximum capacity and that they develop in this direction”. Many studies back up the idea that “the higher the level reached, the greater the satisfaction level at the working place”. “Managers get greater satisfaction at their job as they climb up the hierarchy ladder. Less successful managers get lesser satisfaction off-work and have less spare time for their families and relaxation”.

II. Methodological aspects of the research

The research has been conducted in 2008 on 45 Romanian managers. We are speaking of people who hold a leading position (over a team of at least 3 employees) in the private business sector. I have been interested in leading the “business” and I have chosen as subjects, team leaders, department supervisors, entrepreneurs, or managing directors.

Twenty managers suspect to the study live in Brasov and had been selected through theoretical sampling – specific to qualitative research. In other words, the sampling underwent the relevance criteria guidelines of cases to be studied (I searched for people who met the “manager” criterion). I have tried to identify, as I have mentioned in the *Introduction*, the identity features managers’. Therefore, to collect data I used biographical research – specific methods and techniques. I have repeatedly interviewed every manager (first, an unstructured interview, then a semi-structured one – in order to clarify different aspects and finally, a structured one – to verify some hypotheses resulted from the data qualitative analysis, and from the application of analytic induction); I conducted biographic, narrative and in-depth qualitative interviews.

Given the qualitative research features – in general – and those of my research – in particular – I have resorted to field operators. As the theme of my research is identity (a relatively delicate subject, especially where studied in-depth, from a qualitative perspective), as the subjects are managers (people with little free time) and as the qualitative research involves getting acquainted with the subjects and spending considerable time around them. I consider that the most suitable

manager selection method meets the “being part of the group criterion”. Therefore, both the field operators and I identified and interviewed people from the subjects’ personal circle (friends, relatives, own superiors, etc.).

The subjects of the research were seven women and thirteen men aged from 26 to 69 years old; each of them had a leading position as mentioned earlier. The interviews, yielding in 216 pages, were recorded in a database.

The other 25 subjects of my research were interviewed by journalists from ‘Money Express’ Magazine. Fragments of the interviews that referred to the responders’ personal information – the way they act, make decisions, aspects which motivate them or personal failures, etc. have been included in a volume (*see* LIDERO, 2008). I carried out a secondary qualitative analysis of this material. The subjects are well-known managers and entrepreneurs at national level: a woman and a man, aged between 37 and 66 years.

The materials used were processed by theoretical coding (going through every stage: open coding, axial coding and selective coding, *see* Strauss and Corbin (1990) and Flick (1998)) to elaborate a grounded theory (*see* Strauss and Corbin (1998)) regarding the manager’s identity (out of which I shall only address the aspects referring to motivation). The visual presentation techniques that have been used to present the data facilitate conclusion drawing (matrices and networks, *see* Agabrian (2004)); also, for data processing I have used the NVivo 7 software (*see* Gibbs (2002)).

III. What motivates the Romanian manager?

I shall present the motivational factors that resulting from the interviews. Each idea will be supported by a personal quote of those interviewed (the managers whose names are revealed, are those quoted in the LIDERO volume).

The subjects enjoy making money, but not as a goal in itself. This motivates them up to a certain point. Past the moment they have it (money), they do not try to make more. There are other stimulating factors at work (these will be analysed later in this chapter). The money these managers earned is not quickly spent on luxurious or unnecessary goods, but rather reinvested. Next, I shall quote some of the interviewed managers:

Whether you earn 5, or 15 million RON it’s the same – this is my life attitude. (M40 Florentin Banu)

I started with second-hand television sets out of passion, not necessarily because of a moneymaking drive. That was what I did, that was what I enjoyed doing. (M3 Dan Ostahie)

I would always choose something that pays off less but makes me happy. (M34 Adrian Amariei)

Money is a way of making you feel – somehow – better, up to a certain point. (M6 I.A)

I enjoy what I do. I absolutely don’t do it for the money. I never did. (M21 Octavian Radu)

I have never thought about how much money I have, or I will have in 5 years-time or what profit I will make. (M19 Marius Ivan)

I have always thought of doing something I enjoy, rather than doing something which pays off better. (M12 F.P)

I buy strictly the things I need around the house. (M17 R.J)

To own the bare necessities: what I need, so I do not forget one should not live only to make money, they should also have fun.

I have only wanted to have a slightly 'better' life than that of an average person; I set my mind on it and I succeeded. (M20 V.N)

This [money] is not very important to me, because I do not promote myself (the way I dress) but it is wisely invest it, or to save it. (M32 M.H)

I did not guide myself based on super-comfort; I focused on the bare necessities. I did not invest in (household) devices, gold, or jewellery. I did not invest in luxury. (M32 M.H)

I cannot spend more than a few thousand Euros every month. I don't need a yacht, a villa, or Monaco... (M40 Florentin Banu)

We would have had money to live well, but we have paid the last dime on houses. (M32 M.H)

What I think is of great importance regarding the manager's motivation is not if they truly are not motivated by the money they earn, but the fact that they all unequivocally claim from the beginning they are not. This is a sign that they do not care much about the money they earn, that if they have it, they will not spend it on useless or show-off belongings.

Apparently, the interviewed managers work with pleasure and out of pleasure. I shall next mention the ideal features of a job (what do managers look for in a job, how the work should be in order to enjoy doing it). The ideal manager work should be the one that gives satisfaction. Such a job is worth dedication, sacrifice, and hard work. The job must be captivating, it must always bring something new and self-teaching and provide promotion opportunities.

It's important to enjoy what you do; only if you enjoy, you will be able to learn something new each day. (M12 F.P)

It's sad to see that most people work to earn money and not for the daily satisfaction offered by their jobs. (M12 F.P)

The ideal job is the one where you go each day, regardless if you have to wake up at 5 a.m. or to work when others sleep. (M12 F.P)

What counts the most is that I enjoy my job. I am not afraid of working, and if I do what I enjoy, the time spent working doesn't count. (M9 I.E)

You only get bored when you cease to be creative, or creativity comes from the pleasure of doing things, and emotions as well. If this emotional capacity of enjoying what you do lacks, you will end completely limited. (M3 Dan Ostahie)

Yes, it is very important to get promoted and have a captivating job, otherwise daily routine kicks in and your productivity drops. As well, you have to learn something from your job, because there comes a time when

you will ask yourself how you have spent your life, and you will realise that you have learnt nothing from your job or from your life. (M9 I.E)

I worked as a network operator for approximately 2 months and I did not enjoy it; it was not dynamic and I could not aim at nothing more than sitting in front of a computer and waste time. I worked with my dad in constructions, but as I said, it was not a job and it did not challenge me; in addition, I could not gain experience and it was not in my field of work. I also worked as a mechanic. I really enjoyed that job as I could disassemble things and I might never put them back together. (M9 I.E)

A year later, I learnt everything one could have learnt in that company – I did not have the chance to be promoted, so I left. (M15 A.C)

What I liked the most was that I could get promoted. (M9 I.E)

It is very important to have this possibility to get promoted. (M9 I.E)

The financial reward is of course very important and managers enjoy receiving credits as important amounts of money; what is more important is the character of the job: challenging tasks, great responsibilities, the smallest possible number of superiors and the greatest power of decision. They are fascinated by the idea of beings little “Gods”, of having the destiny of their employees in their hands.

The ideal job is when you do not depend on any superiors. (M10 S.I)

Honestly, I would make my own business where I wouldn't have to file reports, to answer all kind of questions – a business where I would ask questions myself and take free responsibility. (M7 C.B)

I would always choose a job which pays off less but makes me happy. (M34 Adrian Amariei)

I get motivation by money, but also by the trust my manager shows me or the company I work for and the respect they show me; I could not accept to be treated rudely regardless of the pay check. (M6 I.A)

This is why I think money is the first criterion, as you can't carry on with a job which brings him a lot of money to and he [the boss] pays you as he likes, i.e. change money; I must have money. Your work must be appreciated! (M6 I.A)

I enjoy taking great responsibilities; when I make a mistake, I admit it and try to make it better. I enjoy holding the decision-making power. I enjoy leading. (M9 I.E)

I think that taking responsibilities for the subordinates is the reason I enjoy being a manager; it is also because I have to make decisions that will influence people's lives. However, there are moments I do not enjoy my being a little “God”, especially when it comes to letting people off. (M9 I.E)

Managers enjoy the job that involves dealing with people, they enjoy when they succeed in impressing them, in gaining their admiration, appreciation, trust or respect.

This thing I enjoyed a lot – working with people. I did not enjoy a “static”, monotonous job as sitting in an office and fill in papers... I could not bear this thing daily, working, doing the same things each day. I'd go crazy... (M7 C.B)

You always meet new people and you always learn something new from them and from each relationship... There are extraordinary people whom I really like interacting with and see them building trust in me. (M27 A.R)

I enjoy convincing people that I am right and make them admit when they are wrong. (M9 I.E)

The thing I enjoy most is the fact that I can interact with people. (M12 F.P)

I have good relations with people; I know how to raise my level, or I try to, and I really know how to lower, thus make every man to feel important. (M29 A.B)

Other's respect and appreciation are crucial motivational factors to managers (because work equals their life, they put a lot of weight in their relationships with the employees).

I don't want people to get mad at me, but it's not always working... (M8 I.C)

I always need someone besides me and say: you are doing well, you look well, and you are a good mother or a good employer. (M8 I.C)

Honestly, nowadays it's hard to make yourself stand out. (M27 A.R)

I thought, people really know us, we worked with lots of them and they speak in good words about us. (M27 A.R)

Now, I have the respect and admiration of my colleagues, which feels good. (M11 I.M)

I did not want to embarrass myself. (M8 I.C)

I have always said, I'd like to be appreciated by those around me. (M29 A.B)

They always thanked me when we met [the people I worked with]. (M43 Misu Negritoiu)

Managers also enjoy being among people, being seen, admired, and take public merits. I think one can speak about a motivational dependence among the managers subject to the study. They are addicted to other's appreciations; they want more if they succeed. One of the subjects, after claiming that she always needs someone to tell her she does well, adds: *if you don't tell me all the time, I won't go further* (M8 I.C). The same responder says, *It's not possible! I have to succeed!* This is only because "she does not want to make a fool of herself". Other subjects express similar ideas:

She [the teacher] hit my head against the blackboard and ever since I have told myself that I will learn Math so this won't happen again and prove I can do better. (M11 I.M)

My teacher told me that I wouldn't end up very well and that I wouldn't succeed in my university plans, which gave me a huge impulse to prove she was wrong. (M12 F.P)

I wished to prove myself. (M13 D.S)

Everything I've ever done, I have done it out of the ambition to prove myself. (M8 I.C)

I wished to prove I was good. (M8 I.C)

*It got me started to prove everybody what I could accomplish. (M12 F.P)
I didn't want to embarrass him; I also wanted to prove my parents and maybe my boss that I could succeed.*

Even though they claimed they did not have personal models, the interviewed managers admitted that they sometimes admired their superiors or elder people, but that they also wanted their achievements; they were motivated by the drive to prove they could accomplish something. Therefore, before becoming managers themselves, they were motivated by other's success and their effects (including the status indicators).

In those times, I had seen Metro's big bosses so I wanted to become just like them. (M11 I.M)

The one I guided myself after in life... not really... but I had seen my schoolmates going to faculty in Bucharest so I wanted to apply and go there... to be like them; that was which motivated me. (M15 A.C)

I had seen the Orange bosses driving in their cars so I wanted to be like them. (M15 A.C)

The qualitative study gives rise to a series of questions leading to the idea of testing the grounded theoretical model. Therefore, is the information resulted from the foundation of a theory based on empirical data (collected from 45 entrepreneurs and managers) valid to all Romanian managers?; are the inventoried motivational factors personal to managers, or are they specific to all people regardless of the position held? In order to answer these dilemmas I have conducted a quantitative research – a pilot study.

“A pilot study is a small-scale research project that allows researchers to get a clearer idea about the things they want to know and about the methods to know, without wasting too much time and money, characteristic to a span study. Pilot studies are used to test questions that will be used next in the query as well as other measurement instruments, but also to clear the hypotheses of the research (Johnson, 1995/2007, p. 351). According Rapley and Hansen, “Pilot studies are developed either to act as small-scale replicas of a span study or to act as a ‘trial’ for the potential procedural or methodological problems to be dealt with (2006, p. 440). According Bloor and Wood, “Piloting refers to the conduct of a preliminary research to the main study. It supplies the opportunity of an advised thought and change of research's design and instruments” (2006, p. 130).

Through this pilot study, I aimed at refining the theoretical model (which resulted as an application of the specific process in the construction of the *grounded theory*); to test it on a smaller scale (i.e. the entire identity model specific to managers, not only the motivational one, presented hereby). The operationalization was inductive or estimative (based on the information collected through the interviews with the 45 managers). Each indicator of the operationalization was measured through at least one question in the questionnaire. The population to whom the research referred to was the active population in Romania (people legally employed in Romania in December 2008).

As I conducted a pilot study, I did not project a research with a representative sample at a national level. Therefore, the sampling is nonprobabilistic and its

results will not be generalized to the whole universe of the research. The sampling is nonprobabilistic and the sampling method used was – the snowball: through relatives, friends, colleagues, students I got to managers that facilitated further the road to other managers – colleagues, superiors, business partners, etc. I presented in detail the manager selection procedure, because they were harder to find.

As I stated above, I had used nonprobabilistic sampling (theoretical or purpose sampling as it is also known). I interviewed the subjects so as they could test my hypotheses. Therefore, I selected only people that had never held a leading position, people that held once or more times a leading position, but do not currently, and finally people who currently hold one. I selected more managers than non-managers in order to create analyses on subpopulations with leading positions (team leaders, department supervisors, and institution managers).

I considered that one holds a leading position if he or she has at least three subordinates. I grouped the people holding leading positions in four categories: team leaders (who have a small number of subordinates, are responsible for their productivity and have their own superiors); department, area or branch supervisors (leaders with employees in their subordination, who are not only responsible for those but also for the department's performance, and have as well superiors); institution, organisation or business managers (they are direct responsible for the institution's or business' performance and have one superior – the one that has in his subordination the whole institution or the business' owner) and finally, independent organisation or institution managers or business owners (who do not have a superior).

Related to the businesses the respondents might manage, I have grouped them according to their size: small businesses (up to 10 employees and a turnover up to €500,000 per year), medium businesses (up to 50 employees and a turnover exceeding €500,000 – up to €5 million per year) and large businesses (more than 50 employees and a turnover – exceeding €5 million per year). Unfortunately, I was unable to question a manager leading a large business.

The selected subjects work in the public sector, the private sector or in NGOs; they are women and men, aged between 20 and 62. 207 people have been questioned out of which 57 have never held a leading position, 36 held once or more times a leading position, but not anymore and 114 people held a leading position (at least 3 employees in subordination). Of those holding a leading position, 27 were team leaders, 36 were department supervisors, 20 were institution, organisation or other business managers and 29 were independent organisation or institution managers or business owners. 134 women and 73 men have been tested, 63 are working in the public sector, 132 in the private sector and 12 in NGOs.

The questionnaire included closed questions, with multiplied pre-coded answers (the majority with a 5 scale answer hierarchy) or pairs of opposed enunciations (bipolar items as in the semantic differential) with a 7 scale answer hierarchy. The most encountered variables were category and discrete variables. Consequently, the measurement levels I had access to were the nominal and ordinal levels.

Hereby I reproduce the questions in the questionnaire regarding motivation:

Please consider your past and the events you've undergone since childhood. Try to appreciate to what extent the following enunciations are true to you. First, we will focus on professional aspects:

It is important to me that my job provides me the opportunity to improve myself professionally (always to learn new things).

It is important to me that my job provides me the chance to get promoted.

It is important to me that my job involves establishing relations with people (whom I can impress, win their admiration, appreciation, confidence or respect).

It is important to me that my job proves to be challenging with difficult tasks and great responsibilities.

It is important to me that I have as few superiors as possible, so I can have greater power.

As strange as it may seem, I have to admit I am fascinated by the idea that I am or I may be a little 'God' that holds the faith of my subordinates.

I wish I were perceived in a good way by the others (admired, respected and appreciated).

I have accomplished a lot due to the ambition to prove myself.

I often think (whenever I have to act or make a decision) that it is very important not to embarrass yourself.

The responders had to choose one of the following answers: *I totally disagree; I partially disagree; I agree; I strongly agree; I do not remember / I cannot tell / I cannot appreciate.*

Also, there had been two opposed enunciations to which the responders had to answer the extent to which one of them fits most: *I prefer a job in which I do not have to report further to a superior or I think I prefer a job in which I have to report to a superior (I would be better organised or performant).*

The questionnaire was developed so that it was self-administrated (because of the approached theme – identity – which is relatively fragile, the questions personal, and its easiness regarding application – I did not dispose of field operators). The questionnaire was distributed both on paper (in a sealed envelope) and by e-mail. After finishing the query, I created a database. I used the SPSS 14 software to process the data.

Because of the sample's proportions and the population's volume processed statically, I did not use refined statistic instruments. The data analysis results had been interpreted and used cautiously; they only generated new hypotheses and instruments to be tested in the future. I tried to identify the statistic relations between the variables; most frequently I tried to associate the variables. I used the bivariate analysis (the association of two nominal variables or of two ordinal variables). I also calculated and evaluated the "Chi-Square" test (the values were evaluated taking into consideration the degree of freedom on each contingency table and the critical χ^2 values in the different probability levels). I also used the coefficients of association in nominal variables: Pearson's Contingency Coefficient (C) – calculated in big association tables, Goodman and Kruskal's Lambda Coefficient (λ) and the Uncertainty Coefficient (U); and in ordinal variables:

Goodman and Kruskal's Gamma Coefficient (γ), Somer's d Coefficient and Kendall's Coefficients (τ_b and τ_c). Through the evaluation of these coefficients, I have discovered the intensity (with reference to 0 value) as well as the orientation (with reference to the sign of the value). The conclusions regarding the existent association of variables were reached with reference to statistic independence.

I shall present only the results of the processing that refer to motivational aspects. Therefore, which are the motivational characteristics of managers – revealed as opposed to non-managers? Or which are the motivational characteristics of performant managers – revealed by contrast between them (taking into consideration the hierarchy position or the size of the business)?

As a result of the measurements, I shall firstly mention only the motivational variables that associate positively and significantly (in probability levels under the value of 0.05) with the leading position. The motivational variables associate in such a manner with the leading position depending on the identity variables. Therefore, men that hold a leading position are motivated by professional challenges (difficult tasks with great responsibilities). In other words, we are speaking of difficult, demanding work that offer the possibility to prove their abilities. Then, the ones in the private sector are motivated by power (they want the fewest number of superiors in order to hold greater power themselves).

I shall also present the motivational variables that associate positively and significantly with the importance of the leading position they hold (or with performance: I have considered that the more important the position held is the more performant the manager is) – i.e. the manager has more subordinates or he assumes more risks, responsibilities or has fewer superiors etc.). Consequently, the ones that hold a more important position are motivated by the opportunity to ascend or get promoted (the association is stronger amongst women) and by power (they want jobs with the fewest number of superiors in order to have greater power themselves; this association is stronger amongst women and amongst the ones working in the private sector). To sum up, a manager is motivated by power and by the possibility to be promoted.

IV. Conclusions

Throughout this paper, I have tried my best to describe the characteristics of the motivational factors regarding the Romanian managers. They resulted from a qualitative research (an interview of 20 managers and a secondary analysis based on interviewing other 25 managers). After the inventory of these factors I have designed their testing through a quantitative research that would emphasize the motivational differences between managers / non-managers and performant managers / less performant managers. The testing conducted on a nonrepresentative sample generated some ideas worth taking into consideration in regard to a future testing on representative samples: what differentiates managers from non-managers from a motivational point of view may be their preference towards difficult, challenging tasks that require great responsibility; the desire of holding the greatest amount of power at the working place; them being the utmost

superior (or having the fewest number of superiors); what motivates the performant managers as opposed to the less performant managers may be their stronger power desire and their desire to ascend.

Knowledge of the Romanian manager's motivational features has a great relevance in the further improvement of their performance; it may also help identify the future potential managers, the future potentially performant managers and the capitalization of their work.

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PRACTICE OF GOOD GOVERNANCE AND CORPORATE GOVERNANCE

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Abstract

Corporate governance reforms are implemented around the world and may impact upon the population worldwide. In developing countries, such reforms are implemented in a broader context that is primarily defined by previous attempts of promoting “development” and recent processes of economic globalization. In this context, corporate governance reforms (in combination with the liberalization reforms associated with the economic globalization), in effect, represent a new development strategy for third world countries. The basic questions arising with respect to this situation are: what are the prospects for this new development model and whether alternatives should be considered.

Key-words: *governance, corporate governance, economic globalization, development*

JEL Classification: G₃₄, M₁₂, M₁₄

1. Introduction

Governance raises questions about who decides, when, on what. Governance is also related to the institutional capacity to change and to change properly and in timely fashion to the institutional needs. Clark (1983) defined his well-known triangle of coordination with its three corners, ‘the Market’, ‘the State’, and ‘Academic Oligarchy’. Good governance is a pillar with three supporting beams – governance at the strategic level, at the functional level and at the project level. Strategic governance is about high-level, overarching management of global sourcing initiatives. It doesn’t involve overseeing day-to-day operations of the initiative but it does involve making sure the strategy is (and remains) on target.

2. Review of the specialist literature

The study of the European Union has been characterized by two different theoretical phases. The first phase was dominated by studies from the field of international relations; in the second phase these studies were revised and insights from among others, public policy were added. The most straightforward way of

understanding this theoretical shift is to see it as a move away from treating the EU as an international organisation similar to others (e.g. NATO) to seeing it as something unique among international organisations. The uniqueness of the EU relates both to the nature and to the extent of its development. This means that in some areas of activity the EU displays more properties related to national political systems than to those of international organisations. Whenever the scale of economic or political activity is expanded or shifted (in our specific context, from state to sub-state or supra-state levels), a qualitative change occurs to the actors that get mobilized at these levels private actors may acquire a public function while public authorities may act as private groups, thus engendering a blurring of the *public-private* dichotomy so entrenched in the conceptual history of “state”.

3. Content

Each system (or each institution) could be located somewhere within the triangle depending on how much these forces dominated the system.

In that sense, university governance may to have five dimensions. These dimensions can be found, in different proportions and with different predominant effects, in most systems or HEIs (Schimank, 2005):

- *State regulation* focuses on the traditional concept of top-down authority vested in the state. This dimension refers to regulation by directives; the government prescribes institutional behaviour in detail under particular circumstances.

- *Stakeholder guidance* focuses on activities that direct institutions through goal setting and advice. In public higher education systems, the government is usually an important stakeholder, but certainly not the only player. It may delegate certain powers to guide other actors, such as intermediary bodies or representatives of industry, on university boards.

- *Academic self-governance* focuses on the role of professional communities within higher education systems. This mechanism is institutionalized in peer decision making within universities and the peer review-based of academic communities, self-governance for instance in funding agencies related decisions.

- *Managerial self-governance* focuses on hierarchies within higher education institutions as organizations. Here the role of institutional leadership in internal goal setting, regulation, and decision making is at stake.

- *Competition for resources*. The resource competition within and between universities is mostly based on “quasi-markets” – where peer-review substitutes the customer demand-rather than on “real” markets.

Weber (2004) points out the main types of conflicts as follows:

- *Relation with the state*. In many countries, the rules imposed by the state, as well as its permanent tendency to politically micro-manage the institution, are putting a serious brake on the willingness and capacity to change. However, emphasis should be placed on convincing the state that the lack of real autonomy is counter-productive in the long run.

- *Internal governance.* The traditional organizational structures and systems of university governance restrain institutions from adjusting rapidly enough. Most universities have always been governed according to what is referred to as a system of peer governance; decisions are made collectively, mainly between faculty, directors, deans, and rectors. However, this decision-making system now appears to be less and less adequate for the new environment, which requires strong leadership to implement future-orientated decisions, which cannot always count on the consensus of all the parties involved. In order to make the decision it is important to clearly determine the person or body responsible with the decision-making, the bodies to be consulted before marking the decision and the body validating the decision.

- *Management tools.* One of the main challenges of governance is to find the right means or tools to ensure the effective participation of the people concerned with a policy change and to encourage them to take initiatives spontaneously, in line with the general policy.

Corporate governance consists of the set of processes, customs, policies, laws and institutions affecting the way people direct, administer or control a corporation. Corporate governance also includes the relation among the many players involved (the stakeholders) and the corporate goals. The main players are the shareholders, the management, and the board of directors. Other stakeholders include employees, suppliers, customers, banks and other lenders, regulators, the environment and the community at large.

The first documented use of the word “corporate governance” is by Richard Eells (1960, p. 108) to denote “the structure and operation of the corporate polity”. The “corporate government” concept itself is older and was already used in finance textbooks at the beginning of the 20th century (Becht, Bolton, Röell, 2004). These origins support a multiple constituency (stakeholder) definition of corporate governance.

Corporate governance reforms are implemented in countries around the world. In developing countries, such reforms are implemented in a context that is primarily defined by previous attempts of promoting “development” and recent processes of economic globalization. This context has resulted in the adoption of reforms that move developing countries in the direction of an Anglo-American model of governance. The basic questions arising with respect to these governance reforms are what are the prospects for traditional development goals and whether alternatives should be considered. This paper offers a framework for addressing these basic questions by providing an account of: 1) previous development strategies and efforts; 2) the nature and causes of the reform processes; 3) the development potential of the reforms and concerns associated with them; 4) the (potential) responsibilities of corporate governance, including the (possible) responsibilities to promote development, and; 5) different approaches to promoting governance reforms with an eye to promoting development.

An adequate answer to these questions, of course, depends upon the answers to a wide variety of other questions. These include: 1) positive (social science) questions such as what reforms actually entail, why are they implemented and what

are their effects; 2) normative questions such as what development is, what our priorities should be, what are the responsibilities and rights of different actors and; 3) strategic questions such as the prospects for success of specific strategies and tactics, and how these prospects can change with alterations to larger economic and political structures.

Providing detailed answers to these questions is obviously a daunting task, one that goes beyond the ambition of this volume. The papers in this volume have set a more limited goal. They are a series of case studies of individual developing countries. All studies approach governance in a broad sense, to include not only board practices and structures, but also a larger range of factors that affect corporate decision-making, including, among other aspects, financial markets, the banking system, industrial policy, labour relations, and the like. The countries covered are all relatively large countries. They include major exponents (India, Brazil, Mexico, Nigeria) of the most widely adopted development strategy (import substituting industrialization), as well as a couple of less typical cases (China, South Africa). The primary focus of all these case studies is the descriptive analysis of the implemented reforms, especially the governance reforms. To a lesser extent, they also examine the reform effects and the normative responsibilities of actors involved, and offer some improvement suggestions. As such, the papers are mainly intended to provide the basis for the normative analysis of corporate governance reforms (by presenting a range of experiences from developing countries), rather than developing a detailed analysis themselves.

Governance covers the distribution of roles, responsibilities and accountabilities. Governance does not answer the “what we should do” question but it does suggest at an institutional level, where that question should be addressed, who should be involved in addressing it and to whom that individual or group should have to account to for their decisions.

It is a governance *toolkit*. It is a collection of ‘tools’, yet, not an of them will be suitable for every task. It does not seek to ‘automate’ any of the tasks associated with implementing PDP/e-portfolios and it will require skill and judgment to select the right tools from the toolkit in any given situation.

The remainder of this toolkit is organised around 5 headings, each fortuitously beginning with the letter P. They reflect, in our experience, the five types of conversation which, sooner or later, every complex project has to include. It is designed to encourage project participants to ask themselves and others the right questions. It does not purport to provide any answers to those questions.

The five headings are as follows:

- Principles and Values;
- Policies and Strategies;
- Processes and Systems;
- Practices and People;
- Politics and Participation.

The implementation of personal development planning and e-portfolios within a *single* educational or employment institution represents a significant organisational challenge. Co-operation and co-ordination between different

departments and between the institution and its learners are essential and can be difficult to manage.

When projects seek to transfer personal development planning *between* institutions, the number of agencies to be coordinated increases dramatically.

The structures and processes governing the project become vital in order to set objectives, establish commitment, avoid dispute, and maintain momentum. This governance toolkit has been developed by the EPICS project to help new projects succeed in grappling with such challenges.

In contrast with the traditional meaning of “governance”, some authors like James Rosenau have used the term “global governance” to denote the regulation of interdependent relations in the absence of an overarching political authority. The best example is the international system or relations between independent states. The term can however apply wherever a group of free equals need to establish a common relations. To complement the macro-level cross-country Worldwide Governance Indicators, the World Bank Institute developed the World Bank Governance Surveys, which are a country level governance assessment tools that operate at the micro or sub-national level and use information gathered from a country’s own citizens, business people and public sector workers to diagnose governance weaknesses and suggest concrete approaches for fighting corruption.

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**III. ECONOMETRIC ANALYSIS
AND THE ECONOMIC
AND FINANCIAL PROGNOSIS**

ECONOMIC PROCESS OPTIMIZATION DEPLOYED BY COMPANIES WITH COMPLEX ACTIVITY PRODUCTION – TRADE – SERVICES USING INFORMATICS SYSTEMS WITH INTEGRATED DATA MINING TECHNIQUES

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Abstract

There are many economic processes deployed by companies with a complex activity that can be optimized, among the most common being: supply, production/service, distribution, sales, suppliers/customers relationships, inventory management, human resources management, financial management, etc.

After the deployment of business processes related data is obtained. The analysis of the related data must be the starting point in any attempt to optimize the economic processes because this data best reflects the actual situation of the company.

In order to carry out such an analysis, several approaches have emerged to extract knowledge from the data accumulated. The first solution is to use specific software to analyze the available data. Another solution that can be successfully used is the implementation of data mining techniques within the database management software available supposing it is a new generation one.

Key-words: *optimization, informatics system, economic process, data mining, data analysis*

JEL classification: C₆₁

Introduction

This paper addresses the issue of optimizing economic processes within companies with a complex business activity (production, trade, services), especially by using modern computer systems.

It is known that over time the economic processes increased in complexity continuously generating increasing quantities of data stored in large databases and data warehouses, which are a true reflection of the work of a modern company. In this context, it is needed more than ever that the computer systems used to analyze the user's data should integrate data mining techniques, the only practical and efficient way to extract knowledge from data available to substantiate the management decisions.

When it comes to optimizing the business processes of companies there are usually few effective solutions available. Most of the times the information

obtained by interpreting the results of the advanced analysis of the available data must be the starting point of any attempt of optimization. In this context, the knowledge resulted from the use of data mining techniques on data collected previously and stored in databases/data warehouses is important for a company because it best reflects its economic situation at the time of analysis.

In order to be effective, data mining techniques have to be applied on significant volumes of data generated by economic processes within a company, data generated in various types of activities, which are collected over a longer period of time and stored in databases/data warehouses. It is beneficial for all computer systems used by a firm to be interconnected and have access to a common database. This way data mining techniques can be applied more easily, without imposing pre-integration of data from several sources.

In order to use the data a company owns, data analysis techniques can be implemented by adding additional scripts to the applications already used in a company with a complex activity. Data models can be obtained in such way that they can be the base for identifying the underlying problems that a firm faces in its activities and also the proposals for concrete measures to eliminate them as much as possible.

Review of literature on themes

Specialized publications were consulted before writing this paper. These are presented in the references section. Books presenting the general concepts on the subject addressed and up to date articles published in journals some of them being ISI were consulted. Works consulted are considered up to date, most of which being published in the last five years, both domestically and abroad.

1. *Opportunities to optimize economic processes undertaken by companies with complex production-trade-services business activity using computer systems that integrate data mining techniques*

Typically, any firm that produces goods or services is also required to sell them (trading activities). Within companies with a complex business activity there are typically production activities, related services activities (maintenance, assembly, service, transportation, financing, etc.), and selling activities.

Among the most common economic processes carried out within a company there can be listed a few:

- supply processes;
- production processes/services;
- distribution processes;
- sales processes;
- processes of relations with suppliers/customers;
- inventory management processes;
- human resources management processes;
- financial management processes, etc.

Any of these economic processes may be subject to optimization, and a variety of methods and techniques can be used for this purpose.

Company employees are involved in carrying out economic processes using specialized computer systems for this purpose. Fig. 1 presents various business processes as well as the generic informatics systems that could be used to conduct these processes.

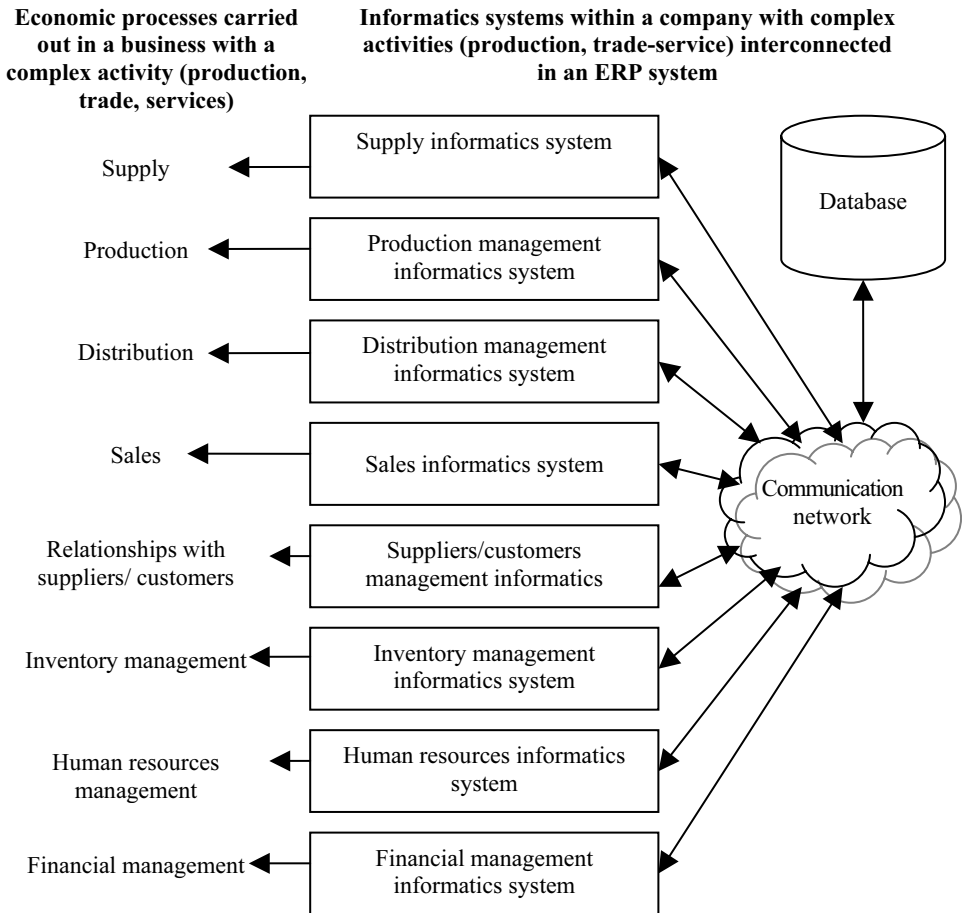


Fig. 1. *Economic processes carried out within a firm and their corresponding computer systems*

In the most complex situations where a firm is well computerized, we have computer systems involved in all the economic processes performed. It should be noted that not every company has a specialized computer system used for a single economic process as shown in the figure above, the case presented being generic. A computer system in practice can be used in the course of several economic processes, its architecture actually being much more varied.

In the previous figure all systems are represented interconnected through a communications network, all with access to a common database. It is important that the data is stored in the same place to facilitate analysis using advanced data mining techniques.

2. *Particularities of the analysis of data generated by business processes carried out by companies with complex production-trade-services activity*

We can say that there are some particularities in analyzing data generated by economic processes undertaken by companies with complex activity (production, trade, services). When using multiple unconnected computer systems, each having its own database, it is required that all databases must be integrated into a data warehouse before moving to the analysis stage.

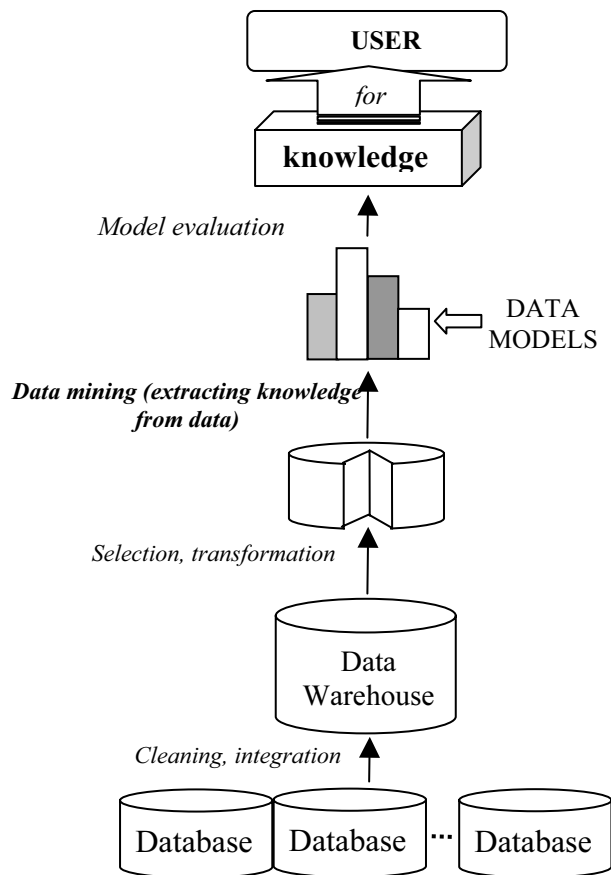


Fig. 2. *Data Mining stages*
Source: [6]

Fig. 2 shows the steps to be taken from collecting the data from a variety of heterogeneous databases to obtaining the knowledge sought. It is apparent that at

first there are several databases, in this case the various databases involved coming from the unconnected systems. There follows a data cleaning step before obtaining a single data warehouse containing all the necessary data analysis. After all data were merged into a data warehouse it is made a selection, a transformation and possibly a reduction of the data available to make it more suitable for analysis. Only after this step we can apply data mining techniques aimed at extracting data models. These models are not knowledge themselves. It is required to give an interpretation to the data models so they can then be used in practice.

Next we are interested in particular about those factors that have to be taken into account when making an integration of multiple heterogeneous databases in a single data warehouse. There have been identified several possible situations where measures should be taken for the initial data not be altered when creating a data warehouse.

We must take into account several aspects:

- Uniformity of data format. Particular attention should be paid to the format in which data are represented. Databases which will form the data warehouse may have different representations, and if the data will not be converted to the same format differences are likely to occur. E.g. calendar date type fields can be represented in many ways. Some may be of type date/time while others only date type, etc.
- Remove unrepresentative data. There may be some out of interest data in terms of analysis that should be removed from the beginning. For example if you want only an analysis of data related to the distribution process, there should be included only the data related to this process.
- Data samples should be representative in terms of quantity and the distribution on the analyzed periods. So if little data is available or they are gathered in certain particular conditions, they are no good for a thorough analysis.
- Fields that represent money must be denominated in the same currency (euro-dollar, etc.). Because in some databases such amounts are represented as numerical values it is possible that at the integration of several databases that relate to different currencies the monetary fields will not be converted at the exchange rates and anomalous data may appear.
- Fields representing physical quantities using different units must be converted in the same unit so not to generate errors.
- When aggregating numerical data should be considered the loss of accuracy, especially for those with more decimal places. The data warehouse normally should represent the resulting numerical data with sufficient accuracy so that data from original database need not be approximated.
- Aggregating data must be made for compatible data in terms of what they represent.
- Data transfer must take into account specific diacritics of various languages. Some words written with or without diacritics may have different meanings.

3. Computer tools that can be used to optimize the business processes

Technological advances made it possible for the majority of modern development software to allow definition and implementation of advanced techniques for data analysis (data mining) that can be used to optimize the economic processes within a company. For example, typical databases applications integrate default data analysis by formulating queries that result in the expected response for a typical database, and data warehouse software offer a multidimensional view of data. Developers of databases and data warehouses can integrate into the applications, at user's demand, more complex algorithms for analysis of the available data that leads to determine trends or patterns in data, to discover the characteristics and any trends in the database [6].

Different database management systems can be used in developing database applications that can integrate at user's request, advanced data analysis techniques (data mining) represented as scripts created especially for this purpose. Many database management systems have features and functions that may be used to define appropriate data mining techniques, providing an interactive way of working which facilitates analysis.

Using the features already included in a database management system has the main advantage of increased efficiency because the internal system functions are used and there is no need to convert data into other formats.

There is also the disadvantage that a database management system has not advanced data mining techniques already included and implemented, so it is needed to implement additional algorithms, which requires additional programming and algorithm complexity evaluation skills.

There are many tools offered by most database management systems that can be used for advanced data analysis:

- scripts;
- reports;
- forms;
- queries;
- data restructuring;
- data sort, etc.

Meanwhile, technological developments made possible the creation and distribution of specialized applications with intelligent data analysis techniques (with integrated data mining techniques), some of them being summarized in Table 1.

Main commercially available data mining products [5, page 18]

<i>Data mining products</i>	Main features
SAS Enterprise Miner	<ul style="list-style-type: none"> • comes from statistics; • easy to use graphical interface; • ability to analyze text.
SPSS	<ul style="list-style-type: none"> • comes from statistics; • includes among others, decision tree algorithms (Answer Tree); • allows users data cleansing and transformation.
IBM Intelligent Miner	<ul style="list-style-type: none"> • comes from the databases industry; • provides advanced tools for visualization and data presentation; • compatible with PMML language (Predictive Modeling Markup Language) for exporting the found data models.
Oracle Data Mining (Oracle 10g)	<ul style="list-style-type: none"> • comes from the databases industry; • began with algorithms such as association and naive Bayes (version 9i); for version 10g includes a large variety of algorithms.

Once the company has sufficient data it may use a specialized software application to extract knowledge from data if it has no specialized programmers to implement data mining algorithms within the database management system.

It is preferable for a firm that the analysis of the data it owns will be made by programmers because the resulted applications will meet its exact needs.

Conclusions

To optimize the economic processes taking place in modern companies with complex business activities (production, trade, services), there must be used strong and powerful tools on the one hand, and on the other measures must be taken based on the conclusions drawn from the analysis of the data the company owns.

Optimizing business processes performed by a company must be based on a thorough analysis of the data generated by the processes carried out, using data mining techniques.

For a company wishing to optimize its business processes two possible approaches were identified. The first possibility would be for the company to use data mining techniques implemented with the features of the database management system it uses (assuming it is a new generation database management system that allows such facilities). Another possible approach is to use a specialized product

for data mining. Such products exist on the market and have already proven their efficiency.

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BAYESIAN ANALYSIS OF CARTEL STABILITY AND REGIME SWITCHING

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Abstract

Empirical analysis of collusive regimes typically requires the construction of structural econometric models, with explicit ties to theoretical models of firm behavior in equilibrium. To that end, theory often elicits a wealth of important information regarding the structural parameters, information that is indispensable in accurately identifying desired phenomena, but nevertheless, is inevitably disregarded by classical techniques. Motivated by these considerations, the paper demonstrates how Bayesian methods may be used to better incorporate such structural knowledge through prior probabilistic beliefs. As a result, Bayesian posterior inference provides a clear and precise empirical interpretation of collusive behavior and cartel stability.

Key-words: *Cartel, dynamic oligopoly, collusion detection, regime switching, structural modelling, Bayesian methods*

JEL Classification: L₁₃, C₁₁, C₃₂

1. Introduction

Porter (1983) was one of the first studies to empirically examine collusive behavior under a particular equilibrium assumption of dynamic, oligopolistic behavior. Specifically, the empirical model is derived under the assumption that firms behave according to the Green and Porter (1984) model of collusive regimes, where unobserved periodic demand shocks lead to temporary, perfectly competitive regimes. This results in a simultaneous equation switching regression, which Porter (1983) estimates using a Maximum Likelihood procedure. Consequently, the results are used to argue in favor of the existence of collusion during the sample period, by rejecting the null hypothesis of “no regime switching” through a Likelihood Ratio test.

An analogous Bayesian estimation may be interesting for several reasons. First, the theoretical framework warrants significant prior information about the structural parameters that Maximum Likelihood estimation cannot incorporate. This is particularly significant in the Porter (1983) exercise because it leads to

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insensible MLE estimates, such as for example market demand elasticities less than one (in absolute value). In addition, simulated draws from the joint posterior distribution allow for an extended analysis of the regime-switching model, and further facilitates straightforward model comparison through the computation of Marginal Likelihoods and Bayesian Posterior Odds Ratios.

The data used in the study describes the operations of the Joint Executive Committee (a railroad cartel) for the period 1880-1886. Observations are market-level prices and quantities for each year in the sample period, along with covariates used to control for competition from outside markets as well as the market structure of the cartel itself. Aside from Porter (1983), this dataset has been analyzed extensively in the literature under various applications and is familiar to most industrial organization economists (e.g. Ripley, 1906; Ulen, 1979; Binder, 1988; Prager, 1989; Ellison 1994). The primary motivation, as in most utilizations of this example, is that the data characterizes an explicit account of the operations of a *known* cartel. Summary statistics are provided in Table 1; for a more extensive description of the JEC and the related data set, please refer to (Gilchrist, 1960; Ulen, 1979; Porter, 1983).

Table 1

Summary Statistics

	mean	std dev	min	max
<i>GR</i>	0.2465	0.0665	0.1250	0.4000
<i>TQG</i>	25,384	11,633	4,810	76,407
<i>LAKES</i>	0.5732	0.4954	0	1
<i>PO</i>	0.6189	0.4864	0	1

2. Estimation

This section derives and analyzes a Bayesian version of the regime-switching simultaneous regression. The primary interests for this arise from the fact that the specified model asserts significant prior information about the structural parameters, and that draws from a posterior distribution seem to be more accomodating in answering some of the questions in this paper, in comparison to point estimates.

As usual, to estimate a Bayesian model, we begin by constructing a likelihood and joint prior distribution. The construction of the likelihood is, in principle, identical to that of the Maximum Likelihood estimation technique presented in the paper. However, in order to facilitate the ensuing MCMC algorithm, we derive a slightly different representation. Consequently, consider the following definitions:

$$x'_{1t} = [1 L_t M_t], \quad x'_{2t} = [1 S'_t I_t M'_t], \quad y_{1t} = \ln Q_t, \quad y_{2t} = \ln p_t$$

$$X = \begin{pmatrix} x_{1t} & 0 \\ 0 & x_{2t} \end{pmatrix}, \quad y_t = [y_{1t} \ y_{2t}], \quad \Gamma = \begin{pmatrix} 1 & -\alpha_1 \\ -\beta_1 & 1 \end{pmatrix}$$

$$\delta_1 = [\alpha_0 \ \alpha_2 \ \alpha'_3]', \quad \delta_2 = [\beta_0 \ \beta'_2 \ \beta_3 \ \beta'_4]', \quad B = [\delta'_1 \ \delta'_2]'$$

The simultaneous equations switching regression model can be written as:

$$y_{1t} - \alpha_1 y_{2t} = \alpha_0 + \alpha_2 L_t + M_t' \alpha_3 + \varepsilon_{1t} \quad (1)$$

$$y_{2t} - \beta_1 y_{1t} = \beta_0 + S_t' \beta_2 + \beta_3 I_t + M_t' \beta_4 + \varepsilon_{2t} \quad (2)$$

or equivalently,

$$y_t \Gamma' = [x_{1t}' \delta_1 \ x_{2t}' \delta_2] + \varepsilon_t \quad (3)$$

For notational convenience, let $X_{-I} = \{L_t, S_t, M_t\}_{t=1}^T$ (the set of independent variables). It follows, then, that the likelihood function is:

$$\begin{aligned} p(y | X_{-I}, B, \Sigma, \Gamma, I) &= \sum_{t=1}^T \phi_{1 \times 2}(y_t | [x_{1t}' \delta_1 \ x_{2t}' \delta_2](\Gamma^{-1})', 1, \Gamma' \Sigma^{-1} \Gamma) \\ &= \phi_{T \times 2}(y | [x_1 \delta_1 \ x_2 \delta_2](\Gamma^{-1})', I_T, \Gamma' \Sigma^{-1} \Gamma) \end{aligned} \quad (4)$$

where $\phi_{n \times m}$ denotes the *Matrix-Normal* distribution. Further note that:

$$p(y | X_{-I}, B, \Sigma, \Gamma, I) \propto \phi_{T \times 2}(y \Gamma' | [x_1 \delta_1 \ x_2 \delta_2], I_T, \Sigma^{-1}) \quad (5)$$

$$= \phi_{2T}((\Gamma \otimes I_T) \text{vec}(y) | XB, \Sigma \otimes I_T) \quad (6)$$

where ϕ_n denotes the *Multivariate Normal* distribution. We will exploit this relationship in deriving the conditional distributions for the MCMC algorithm.

The prior information in this model is described by a joint distribution over all the parameters (including hyper-parameters), which we decompose into the *hyper-prior* and *joint prior* distributions, respectively, as:

$$p(\alpha_0, \dots, \alpha_3, \beta_0, \dots, \beta_4, \Sigma, I_1, \dots, I_T, \lambda) = p(\lambda) p(\alpha_0, \dots, \alpha_3, \beta_0, \dots, \beta_4, \Sigma, I_1, \dots, I_T | \lambda) \quad (7)$$

Let $\gamma_1 = -\alpha_1, \gamma_2 = -\beta_1$. The joint prior distribution, $p(\cdot | \lambda)$, can be further decomposed as:

$$p(\alpha_0, \dots, \alpha_3, \beta_0, \dots, \beta_4, \Sigma, I_1, \dots, I_T | \lambda) = p(I_1, \dots, I_T | \lambda) \quad (8)$$

$$\times p(\Sigma | I_1, \dots, I_T, \lambda) \quad (9)$$

$$\times p(\gamma_1, \gamma_2 | \Sigma, I_1, \dots, I_T, \lambda) \quad (10)$$

$$\times p(\delta_1, \delta_2 | \gamma_1, \gamma_2, \Sigma, I_1, \dots, I_T, \lambda) \quad (11)$$

The prior distribution for regime types, I_t , is assumed in Porter (1983) to be

$$I_t | \lambda: \text{Bernoulli}(\lambda) \quad (12)$$

Furthermore, to construct (10) and (11), we consider the assumptions imposed by the model. First, note that α_1 and $\beta_1 + 1$ are the *constant* elasticities of demand and cost, respectively. Since the industry marginal revenue is given by $MR_{it} = p_t(1 - 1/|\alpha_1|)$ (for a downward-sloping demand curve), it must be true that $|\alpha_1| > 1$ in order for marginal revenue to be positive. This fact, which is pointed out by Porter (1983) explicitly, is contradicted by the subsequent maximum likelihood estimate, $\hat{\alpha}_1 = -0.8$. This, however, is a troublesome result since it inhibits our interpretation of other parameter estimates. That is, how do we

attribute and estimated shift in quantity to a *collusive regime* if our estimate of the demand elasticity implies that optimal output quantity should always be *zero*? One way of describing this puzzling result is that MLE, in this case, puts too much of the burden of inference on the data. More specifically, consider the alternate perspective on data as a limited resource, which we *consult* in search of an answer to our research question. Even if we just eliminate implausible answers *prior* to consulting the data, we allow the data to focus on distinguishing among only plausible solutions. The latter is further extended by describing the alternative possible outcomes with a probability distribution. Therefore, prior knowledge allows us to exploit the data to a greater extent. This is especially true for the exercise at hand since a significant portion of the prior knowledge is asserted by the model, but cannot be identified by the data implicitly.

In addition to restricting the support of α_1 , the model similarly requires that $\beta_1 + 1 > 1$ to ensure that marginal costs are positive and increasing, and therefore, that an equilibrium exists. Consequently, we assign the following prior distribution: $p(\gamma_1, \gamma_2 | \Sigma, I_1, \dots, I_T, \lambda) = p(\gamma_1, \gamma_2) = MTt_5([1.05 \ -0.5]', 50I_2, [1 \ -\infty]', [\infty \ 0]')$ (13) where $MTt_5(m, S, a, b)$ denotes a *Multivariate Truncated t* distribution with 5 degrees of freedom, mean, m , scale, S , vector of lower bounds, a , and vector of upper bounds, b . Note that the independence of γ_1, γ_2 from I_1, \dots, I_T follows from the assumption that elasticities do not change across time (as specified in the model). Porter (1983) also notes the following relationships among the remaining parameters:

- 1) $\beta_0 = \ln D = \ln(\beta_1 + 1) - \beta_1 \ln \left[\sum_{i=1}^f a_i^{-1/\beta_1} \right]$
- 2) $\beta_3 \in [0, \ln(\alpha_1/(\alpha_1 + 1))]$
- 3) α_2 “should be” negative

To derive the prior distribution of β_0 , we begin with the assumption, $a_i \approx a$. Intuitively, a_i represents input factor prices and technology parameters for firm i . Therefore, our assumption reflects a belief that all the firms in the industry face similar production costs and exhibit similar technologies. Furthermore, if $\ln a : N(0, 100)$, then

$$p(\beta_0 | \gamma_1, \gamma_2, \Sigma, I_1, \dots, I_T, \lambda) = p(\beta_0 | \gamma_2) = N(\ln(1 - \gamma_2) - \gamma_2 \ln f, 100) \quad (14)$$

where f is the total number of firms. Although the number of firms in our sample varies across periods due to entry and exit, for the purpose of this exercise we simply let $f = 6.84$, the average number of firms, for all periods. Accounting for [2] and [3] above, we also specify the prior distributions:

$$\begin{aligned} p(\beta_3 | \beta_0, \gamma_1, \gamma_2, \Sigma, I_1, \dots, I_T, \lambda) &= \\ p(\beta_3 | \gamma_1) &= U(0, \ln(\gamma_1/(\gamma_1 - 1))) \\ p(\alpha_2 | \beta_0, \beta_3, \gamma_1, \gamma_2, \Sigma, I_1, \dots, I_T, \lambda) &= \end{aligned} \quad (15)$$

$$p(\alpha_2) = N(-2, 100) \quad (16)$$

$$p(\alpha_0, \alpha_3, \beta_2, \beta_4 | \alpha_2, \beta_0, \beta_3, \gamma_1, \gamma_2, \Sigma, I_1, \dots, I_T, \lambda) =$$

$$p(\alpha_0, \alpha_3, \beta_2, \beta_4) = N(0_{29}, 100I_{29}) \quad (17)$$

$$p(\Sigma | I_1, \dots, I_T, \lambda) =$$

$$p(\Sigma) = IW_{10}(I_2) \quad (18)$$

The prior distribution (17) describes prior beliefs over shifts in the intercepts attributed to “monthly” and “structural” dummies. Our prior over these parameters is relatively flat and asserts stochastic independence. The prior distribution of Σ reflects a belief that ε_{1t} and ε_{2t} are uncorrelated. Note that (14)-(18) fully describe (11), and assuming that

$$\lambda : U(0, 1) \quad (19)$$

completes the full prior specification.

The model is estimated with a Gibbs Sampling algorithm by iteratively sampling from conditional distributions (for further details regarding Bayesian posterior sampling techniques, see Gelman et al., 2003; Koop, 2003). In particular, we sample from five conditional distributions:

- 1) $B | \Gamma, \Sigma, I, \lambda, X_{-I}, y$
- 2) $\Sigma | B, \Gamma, I, \lambda, X_{-I}, y$
- 3) $\Gamma | B, \Sigma, I, \lambda, X_{-I}, y$
- 4) $I | B, \Gamma, \Sigma, \lambda, X_{-I}, y$
- 5) $\lambda | B, \Gamma, \Sigma, I, X_{-I}, y$

These distributions are straightforward to derive from the prior and likelihood as follows:

$$p(B | \Gamma, \Sigma, I, \lambda, X_{-I}, y) \propto p(\beta_0 | \gamma_2) p(\beta_3 | \gamma_1) p(\alpha_2) p(\alpha_0, \alpha_3, \beta_2, \beta_4)$$

$$\times \phi_{2T}((\Gamma \otimes I_T) \text{vec}(y) | XB, \Sigma \otimes I_T)$$

$$= MTN(D^{-1}d, D^{-1}, \beta_3 \in [0, \ln(\gamma_1/(\gamma_1 - 1))]) \quad (20)$$

where:

$$D = \frac{1}{100} \text{diag}\{v_B\} + X'(\Sigma^{-1} \otimes I_T)X \quad (21)$$

$$d = \frac{1}{100} \mu_B + X'(\Sigma^{-1} \Gamma \otimes I_T) \text{vec}(y) \quad (22)$$

$$v_B = [t'_{20} \ 0 \ t'_{13}]' \quad (23)$$

$$\mu_B = [0 \ -2 \ 0'_{13} \ \ln(\gamma_1/(\gamma_1 - 1)) \ 0'_{18}]'; \quad (24)$$

We sample B by first sampling β_3 from a univariate truncated normal distribution and the rest of the parameters from the appropriate multivariate normal distribution, given the draw of β_3 . Subsequently, we derive the conditional distribution for Σ as:

$$\begin{aligned}
p(\Sigma | B, \Gamma, I, \lambda, X_{-I}, y) &\propto p(\Sigma) \phi_{2T}((\Gamma \otimes I_T) \text{vec}(y) | XB, \Sigma \otimes I_T) \\
&= IW_{10+T}((I_2 + e'e)^{-1}) \\
e &= y - [x_1 \delta_1 \ x_2 \delta_2]
\end{aligned} \tag{25}$$

where $IW_\eta(S)$ denotes an *Inverted Wishart* distribution with η degrees of freedom and scale S , which can be easily sampled from using a standard statistics software package. Sampling (γ_1, γ_2) , on the other hand, is not trivial and requires a *Metropolis-Hastings* step. That is, the conditional distribution:

$$\begin{aligned}
p(\gamma_1, \gamma_2 | B, \Sigma, I, \lambda, X_{-I}, y) &\propto p(\gamma_1, \gamma_2) p(\beta_0 | \gamma_2) p(\beta_3 | \gamma_1) \\
&\times \phi_{2T}((\Gamma \otimes I_T) \text{vec}(y) | XB, \Sigma \otimes I_T)
\end{aligned} \tag{27}$$

does not have a closed form that can be easily sampled from. Hence, we construct a *jumping* distribution to sample candidate draws from and employ an accept/reject decision rule. A reasonable jumping distribution for this problem is:

$$J(\gamma_1, \gamma_2) = Tt_5(\gamma_1 | -\hat{\alpha}_1, w_{11}, 1, \infty) Tt_5(\gamma_2 | -\hat{\beta}_1 + \frac{w_{12}}{w_{11}}(\gamma_1 + \hat{\alpha}_1), \frac{1}{w_{11}} |W|, -\infty, 0) \tag{28}$$

where $(\hat{\alpha}_1, \hat{\beta}_1)$ and W are the 3SLS estimates and asymptotic covariance matrix, respectively, from the regression:

$$e_1 = \alpha_1 y_2 + v_1 \tag{29}$$

$$e_2 = \beta_1 y_1 + v_2 \tag{30}$$

where $[e_1 \ e_2] = e$ from (26). Note that $J(\gamma_1, \gamma_2)$ is *not* proportional to the multivariate truncated t distribution, although it is quite similar. We decide whether or not to accept the new draws with the following procedure:

$$1) \text{ calculate } \theta = \frac{q(\gamma_1^{new}, \gamma_2^{new} | \cdot) / J(\gamma_1^{new}, \gamma_2^{new})}{q(\gamma_1^{old}, \gamma_2^{old} | \cdot) / J(\gamma_1^{old}, \gamma_2^{old})}, \text{ where}$$

$$p(\gamma_1, \gamma_2 | \cdot) \propto q(\gamma_1, \gamma_2 | \cdot)$$

$$2) \text{ sample } u : U(0, 1)$$

$$3) \text{ accept } (\gamma_1^{new}, \gamma_2^{new}) \text{ if } u \leq \theta$$

Finally, we sample the remaining parameters, I_1, \dots, I_T, λ , from the following distributions:

$$I_t | B, \Gamma, \Sigma, \lambda, X_{-I}, y : \overset{iid}{Bernoulli}(\rho_t) \tag{31}$$

$$\lambda | I_1, \dots, I_T : \text{Beta}(T\bar{I} + 1, T(1 - \bar{I}) + 1) \tag{32}$$

$$\rho_t = \frac{\lambda \phi_{\lambda \times 2}(y_t \Gamma' | [x'_{1t} \delta_1 \ x'_{2t, I=1} \delta_2], I_T, \Sigma^{-1})}{\lambda \phi_{\lambda \times 2}(y_t \Gamma' | [x'_{1t} \delta_1 \ x'_{2t, I=1} \delta_2], I_T, \Sigma^{-1}) + (1 - \lambda) \phi_{\lambda \times 2}(y_t \Gamma' | [x'_{1t} \delta_1 \ x'_{2t, I=0} \delta_2], I_T, \Sigma^{-1})} \tag{33}$$

The above MCMC algorithm was run for 70,000 iterations, with the first 20,000 draws discarded as *burn-in*. The remaining 50,000 draws are assumed to be sampled from the joint posterior distribution and are summarized in table 2. Note that the marginal posterior distributions described by the draws are fairly close to

the distributions of the ML estimates reported by Porter (1983). In fact, the only significant difference appears in the estimate of β_3 , our main parameter of interest. In particular, note that the posterior distribution asserts $Pr(\beta_3 \leq 0.568 | X_{-I}, y) = 0.25\%$, which is the region containing the MLE estimate $\hat{\beta}_3 = 0.545$. This difference can be, at least in part, explained by the parameter restrictions imposed in the Bayesian estimation, since we are explicitly forcing $\beta_3 > 0$ and $|\alpha_1| > 1$. Meaningful interpretation of the difference is difficult, however, since interpretation of $\hat{\beta}_3$ is unclear given that $\hat{\alpha}_1 = -0.800$ implies firms are *minimizing* profits, if an equilibrium in the given model exists.

Table 2

Estimation Results

	Summary of Posterior Distribution $p(\alpha, \beta X_{-I}, y)$										
	mean	std dev	min	0.25%	20%	40%	median	60%	80%	97.5%	max
α_0	7.965	2.679	-3.698	2.696	5.699	7.296	7.973	8.629	10.213	13.211	17.380
α_1	-1.160	0.083	-1.509	-1.337	-1.232	-1.175	-1.153	-1.131	-1.085	-1.021	-1.000
α_2	-0.387	0.127	-0.867	-0.631	-0.494	-0.419	-0.387	-0.355	-0.281	-0.137	0.110
β_0	-4.019	2.670	-14.251	-9.259	-6.232	-4.683	-4.033	-3.370	-1.782	1.174	7.495
β_1	0.259	0.026	0.194	0.216	0.237	0.248	0.255	0.263	0.283	0.317	0.335
$\beta_{2,1}$	-0.198	0.044	-0.435	-0.288	-0.234	-0.208	-0.197	-0.187	-0.162	-0.116	-0.040
$\beta_{2,2}$	-0.227	0.059	-0.483	-0.345	-0.276	-0.241	-0.226	-0.211	-0.178	-0.115	0.002
$\beta_{2,3}$	-0.390	0.048	-0.610	-0.488	-0.429	-0.401	-0.389	-0.377	-0.350	-0.300	-0.223
$\beta_{2,4}$	-0.132	0.117	-0.552	-0.328	-0.221	-0.165	-0.141	-0.116	-0.055	0.098	0.731
β_3	0.624	0.030	0.495	0.568	0.599	0.616	0.624	0.631	0.649	0.684	0.758

In addition to the parameters reported in table 2 (and table 3 in Porter, 1983), it maybe of interest to examine the posterior probabilities of I_1, \dots, I_T . Figure 1 depicts the predicted I_t as well as the posterior probability $Pr(I_t = 1 | X_{-I}, y)$ for each period in the sample. Note that our predictions are fairly consistent with the predictions derived by Porter (1983) using the Keifer Algorithm. Another point of interest evident from the figure is that in the later periods with more frequent (predicted) regime switches, the posterior uncertainty is relatively higher. Incidentally, this is also the period of highest market concentration (8 firms), which

perhaps indicates that competition not only makes cooperative behavior more difficult in general, but also makes it more difficult to detect.

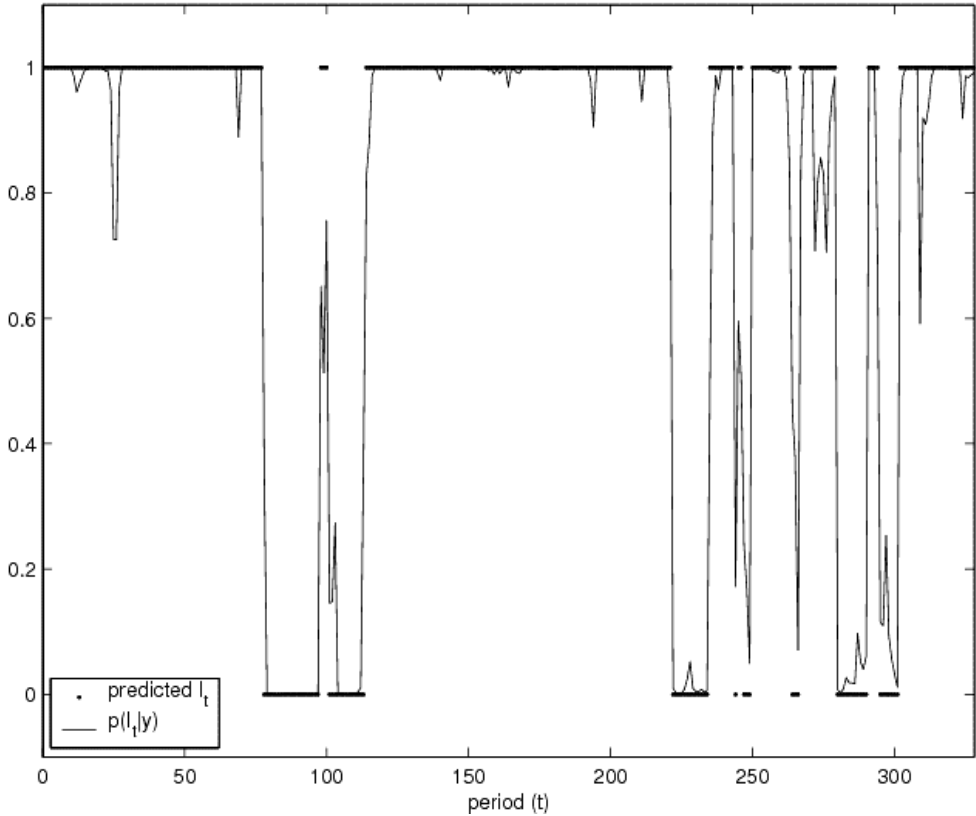


Fig. 1. Predicted I_t and Posterior Probabilities $Pr(I_t = 1 | X_{-t}, y)$

3. Inference

3.1. The “collusive” regime sets static monopoly prices

If the collusive regime sets static monopoly prices, then we should observe that $\Lambda = \ln(\gamma_1/(1-\gamma_1)) - \beta_3 = 0$. While, “hypothesis testing” doesn’t exactly make sense in the Bayesian context, we can perform an analogous exercise by examining the posterior distribution of Λ , which is easily approximated using the simulation draws. Specifically, we can examine the 95% Highest Probability Density (HPD) of Λ and check whether $\Lambda = 0$ lies in the posterior HPD. Constructing a 95% HPD given draws of Λ is straightforward using the following procedure:

- 1) approximate the support of $p(\Lambda | X_{-t}, y)$ with a fine grid of points Λ_i ;
- 2) approximate the posterior density at each Λ_i using non-parametric techniques;
- 3) sort the grid in descending order by density values;

4) the first m sorted grid points whose densities sum to 0.95 represent the 95% posterior HPD.

Using this algorithm, we find that the 95% HPD for Λ is [0.5806, 2.8308], thus reflecting our posterior belief that it is unlikely for the collusive regime to have set static monopoly prices. This confirms the Porter (1983) prediction that “cooperative period prices exceed those implied by competitive price setting, but are less than those consistent with static joint profit maximizing.” The HPD is depicted graphically with the shaded region in figure 2.

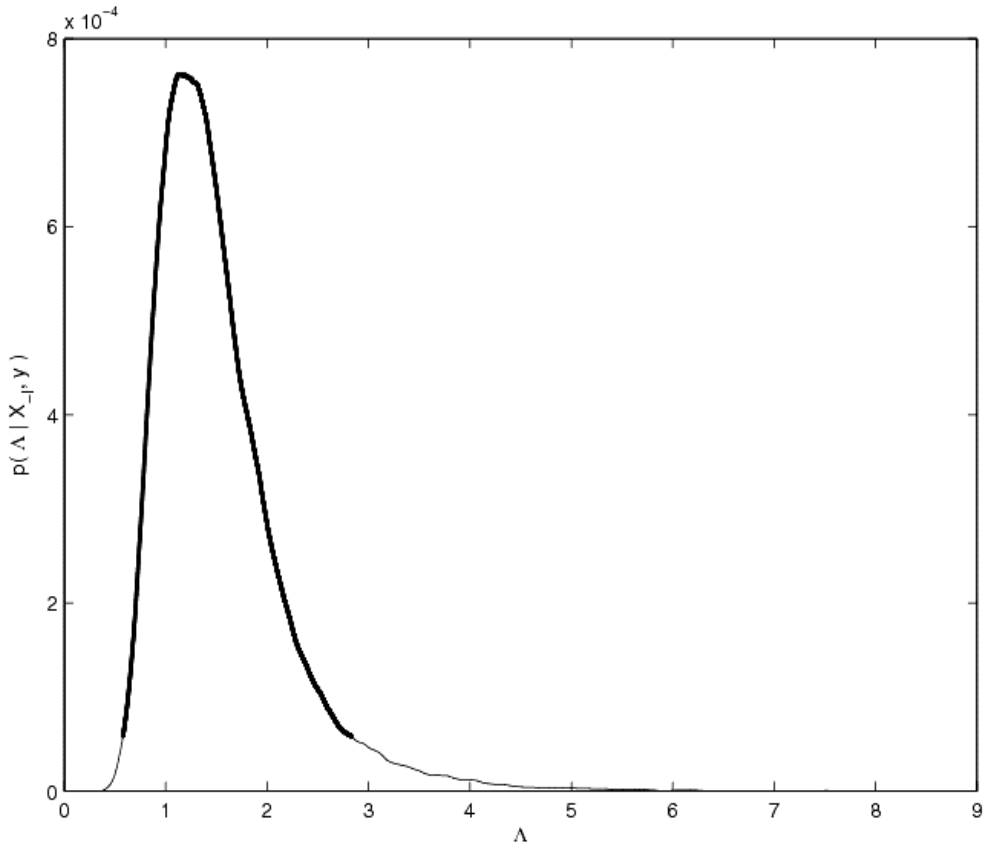


Fig. 2. *Approximated Posterior Density and 95% HPD Interval for Λ*

3.2. *There is only one regime in the data*

This hypothesis can be easily tested using the posterior draws of I_1, \dots, I_T , removing the need to examine β_3 . That is, using the simulated draws we can construct the posterior distribution for the number of regime changes, $\Delta = \sum_{t=2}^T |I_t - I_{t-1}|$. Since Δ is discrete, we can explicitly answer the question,

“What is the probability that no regime changes occurred?”, by estimating the probability $Pr(\Delta = 0 | X_{-I}, y)$. Table 3 contains the posterior probability mass function, $Pr(\Delta = d | X_{-I}, y)$. Clearly, our posterior belief asserts that $Pr(\Delta = 0 | X_{-I}, y) = 0$. In fact, we conclude that at least 12 regime changes occurred during the observed period, with the most probability around 22-24 regime switches. Furthermore, note the fact that the pmf heavily favors an even number of regime change is consistent with the posterior predictions that test period began and ended with cooperative regimes.

4. Conclusion

The Bayesian procedure and analysis described in the paper compliments the empirical analysis of dynamic oligopoly structure of Porter (1983) by incorporating significant information into the estimation procedure and offering a more extensive inference. In addition, the Bayesian framework may be extended to accommodate a more robust econometric model. For example, it is possible to estimate a similar model without the strict imposition of particular functional forms of supply and demand.

Consider, for example, the type of market demand assumed in the model. The constant demand elasticity reflects a CES utility function for the *representative* consumer, which may be regarded as quite restrictive in the sense that even if we accept that each consumer exhibits a CES utility, the individual demands would not aggregate to a constant elasticity market demand unless each consumer has exactly the same preferences. However, modelling a demand function without a constant elasticity (e.g. quasi-linear utility) is extremely difficult. Even if we provide a better justification for the alternative market demand, a constant elasticity of market demand is a crucial assumption in the aggregation of individual firms' pricing decisions. Thus, changing the elasticity of the demand curve also affects the industry supply curve. It is possible, in that case, that the new demand/supply specification might entirely explain market price fluctuations in terms of demand shifts or market structure changes (e.g. entry and exit).

Even if we were able to generalize the functional form of the demand curve in a way that nested several possible demand specifications, including constant demand elasticity, estimation through Maximum Likelihood of this type of model would be difficult. Bayesian Model Averaging, on the other hand, allows for a straightforward way of incorporating different types of models, even those that cannot be nested. Such procedures, therefore, can be easily used to obtain more robust estimates.

Table 3

Posterior Probability Mass Function $Pr(\Delta = d | X_{-I}, y)$

value	Pr	value	Pr	value	Pr
12	0.0003	24	0.1896	36	0.0049
13	0.0000	25	0.0018	37	0.0001
14	0.0064	26	0.1512	38	0.0023
15	0.0001	27	0.0011	39	0.0001
16	0.0285	28	0.1055	40	0.0010
17	0.0004	29	0.0008	41	0.0000
18	0.0744	30	0.0602	42	0.0003
19	0.0009	31	0.0004	43	0.0000
20	0.1376	32	0.0309	44	0.0001
21	0.0012	33	0.0003	45	0.0001
22	0.1856	34	0.0129	46	0.0001
23	0.0014	35	0.0001	48	0.0001

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SECURITY OF THE JAVA EXECUTION ENVIRONMENT IN E-BUSINESS APPLICATIONS FOR SMEs

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Abstract

Web space is currently inherent in any business activity, from SMEs to international holdings. In this context security of e-business applications becomes an issue intensively studied by the scientific literature.

Currently the Java programming language is the most popular among software developers. The paper studies new elements of security, mainly for the Java environment. Other topics studied in this article refer to attack targets, fundamental threats against computer systems, means of facilitating security attacks and Java execution security environment. The case study demonstrates the impossibility of using a Java applet over web to access files and folders structure on the host systems. Using Java Web environment is the security strength of e-business applications.

Key-words: *Applet, Java, informational security, masquerading, IDE*

JEL Classification: L₈₆

Introduction

Web space is currently inherent in any business activity, from SMEs to international holdings. In the management activity, in the decision making process, in the communication with the customers or shareholders, the company uses web-based solutions. In this context, the security of e-business applications is a subject extensively studied by the literature.

The Java programming language is most popular among software developers. (www_1) The article brings new elements regarding security, mainly for the Java environment. Other topics studied in this article refer to the targets of the informatic attacks, fundamental threats against computer systems, means of facilitating security attacks and Java execution environment. The case study demonstrates the impossibility of using a Java web applet to access files and folders on the host system. Using Java Web environment is a strength in the security of e-business applications.

Security of E-business applications to SMEs

Attacks may be aimed at specific targets or may be random, that target-of-opportunity strike randomly. Illegal access to a computer system represents a positioning of the attacker which makes possible other offenses, too.

Attacks potential on the computer systems are influenced by the following factors:

- 1) business process automation;
- 2) profitability of successful attacks;
- 3) access to remote procedures and methods;
- 4) difficulty in identifying and undertaking computer crime.

Classic scenarios of illegal computer activities focus on:

- the public exposure of confidential data and information;
- changing data and transmitting altered data to beneficiaries;
- blocking or unduly delaying legitimate users access to data.

The possibility that computer systems are insufficiently protected against certain risks or loss is called system risk. Risk is the sum of threats, vulnerabilities and value of information displayed:

$$\text{Risk} = \text{Threats} + \text{Vulnerabilities} + \text{Information value}$$

A suggestive representation of information systems security concepts and relations between them is proposed in the standard *Common Criteria for Information Technology Security Evaluation*.

Fundamental threats against computer systems can be classified into:

- **information disclosure** – the act of accessing and disseminating confidential information by unauthorized persons;
- **repudiation** – a person's ability to deny the sender's identity or content of a message or date of sending the information;
- **denial of service** – attacker uses thousands of remotely controlled computers to automate transmission of unsolicited data that will flood the target system;
- **illegitimate use of data and information**.

Means of facilitating attacks are [according to Vasiu & all, 2007]:

- **masquerading** – the process by which an attacker assumes the identity of an authorized user. IP spoofing is how the attacker pretends to use an already known trusted IP computer to exploit the communication in order to gain privileged information or running programs (the attacker claims to be a trustworthy person known by the user);

- **computer contaminants** – malicious programs or scripts able to alter, erase, record or transmit data that allow the remote access to computer resources, able to alter the normal operation of a computer system without consent of the owner:

- **Trojans** – software with hidden features, unacceptable in terms of the user, may insert or alter data, may format disks, may intercept passwords, may remote lock, and after the malicious action they destruct itself. Examples of trojans: *droppers* that install viruses on a victim system, *injectors* that access memory placing malicious instructions, *germs* – generated by viruses,

□ *Logic bombs* – malicious instructions from a program designed to create conditions for a computer attack;

□ *Viruses* (from Lat. Virus = poison) – inject their own message information in an existing program that will replicate the action repeatedly, have the ability to perform unauthorized actions on behalf of the host. Can be grouped into self-replicable macros, hidden viruses (stealth) which hide the actual size of host files avoiding integrity checks on disk, encrypted viruses that hide the virus code and polymorphic viruses;

□ *Backdoors* – mechanism for violation restrictions on disk access or write to breach confidentiality or placing Trojans;

□ *Spyware* – malicious software placed on a host system without the knowledge of the owner to obtain vital information about the system or to capture information entered by the keyboard.

Applications with the source code unhidden are safer than the proprietary applications, because they allow to identify vulnerabilities not only for hackers, but also for specialists from the organizations that can provide a remedy. Applications requiring a high level of security are:

– views and browsers that allow you to access remote data and may allow execution of macro commands malware;

– programs run only the super-user root;

– daemons;

– CGI scripts;

– Java applets;

– setuid/setgid type applications.

Security of Java execution environment

SE Java Platform is a dynamic architecture with expandable security, based on standards and interoperability. Security features of the platform include cryptography, authentication and authorization, public key infrastructure and others. Java security model is based on custom modules “sandbox” in which Java software programs can run safely, without potential risks for system or user [www_3].

Creating and implementing a Java program involves editing a source file with the extension *.java*. It is processed using a Java compiler (javac from the jdk package) into a bytecode file with the extension *.class*. It contains instructions in Java machine code and is the fundamental unit of Java implementation. The program can be executed within the execution environment of Java Runtime Environment (JRE), using Java interpreter from jdk package. JRE includes the Java class libraries (packages) and Java virtual machine (JVM).

The language was created for software development in a heterogeneous network environment. As one of the original goals of the language was to be used in embedded systems with a minimum memory source, Java is designed to be small and use a small amount of hardware [Yellin, 2010].

There are two distinct Java programs:

1. *Stand-alone Java applications* contain a main function which is executed through the Java interpreter; such applications have access to all system resources.

2. *Java applets* are executable programs within a web browser; an applet is loaded with html page via html tag APPLET:

```
<APPLET
CODE = clasaApplet
WIDTH = latimeInPixeli
HEIGHT = inaltimeInPixeli
[ARCHIVE = arhiva.jar]
[CODEBASE = URLApplet]
[ALT = textAlternativ]
[NAME = numeInstantaApplet]
[ALIGN = aliniere]
[VSPACE = spatiuVertical]
[HSPACE = spatiuOrizantal] >
[< PARAM NAME = parametru1 VALUE = valoare1 >]
[< PARAM NAME = parametru2 VALUE = valoare2 >]
...
[text HTML alternativ]
</APPLET>
```

Enrichment Web browser functions through Java applets involve a series of threats to client system security [Patricius & all, 2001]. *A Java applet code is in most cases an uncertain code, coming from an unreliable source.* An applet could write a considerable file size, could read confidential data or might launch virus-type programs.

Attacks on the client host via applets can be:

- changing the file system, execution or cessation programs, memory access and control processes during execution;
- reading the file with passwords for machine UNIX type reading the global system variables or accessing inputs from different user interfaces;
- using the printer or using the host to access other resources shared in network, the use of resident services on the host site for masquerading;
- denial of service attacks by creating threads with highest priority to monopolize all the processing capability of machine cycles, memory allocation block work overload or disk available;
- other repetitive attacks, beeps, opening windows avoided by closing the web browser.

Restrictions being placed on an applet usually concern the following:

- access to the host file system;
- network connection (socket functions and URLStream);
- accessing graphics functions – untrusted window;

– calculation system properties (user.name, user.home, user.dir, java.class.path);

– processes and threads.

JVM launches an exception type `SwecurityException` whenever one of these restrictions are violated, thus blocking the respective thread.

The general structure of an applet is as follows:

```
import java.applet.Applet;
import java.awt.*;
import java.awt.event.*;
public class StructuraApplet extends Applet {
public void init() {
}
public void start() {
}
public void stop() {
}
public void destroy() {} }
```

Methods `init()` `start()`, `stop()` and `destroy()` are called automatically by the browser and are not called explicitly in the program.

Case study – Java applet

Building a Java NetBeans applet [www_2] that accesses the password file on the root disk. Steps are:

Step 1. Open a new project and choose its type:

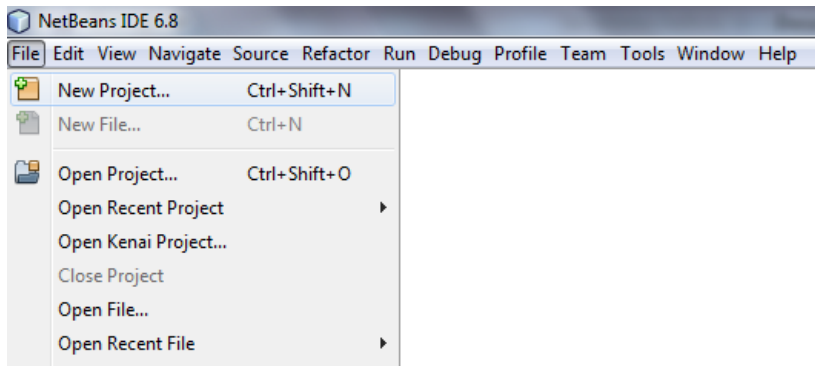


Fig. 1. Integrated Development Environment (IDE) NetBeans

Step 2. Writing the source code:

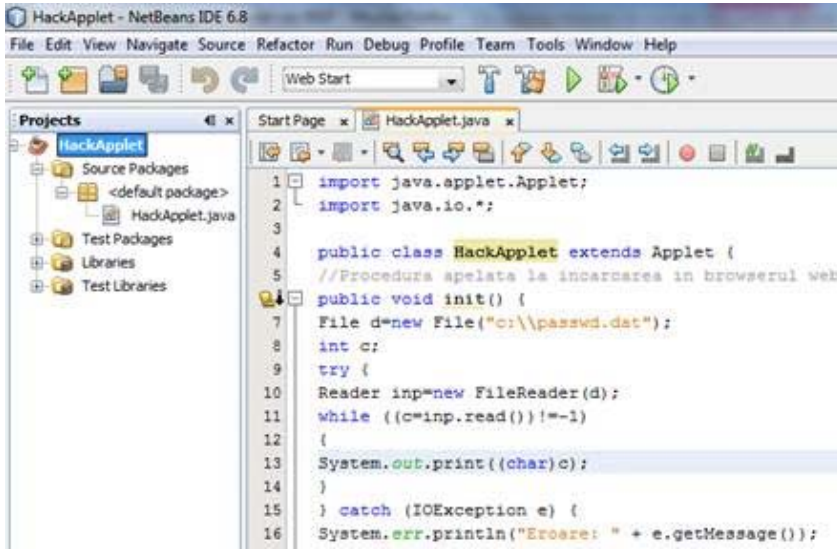


Fig. 2. Code editor window and browser solutions

Step 3. Running project development environment and find AlbacaZapada password, as shown in fig. 3:

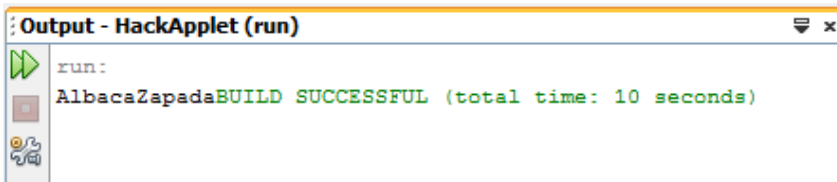


Fig. 3. Java applet result in NetBeans environment

Step 4. Trying to appeal applet from the browser the system returns the following error:

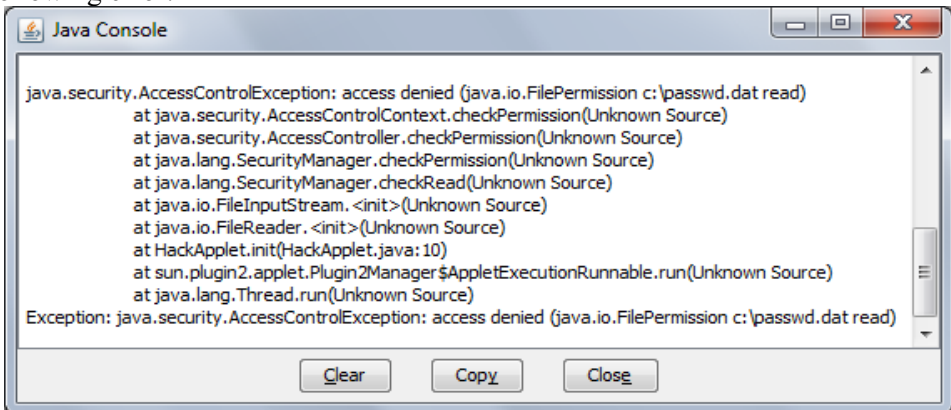


Fig. 4. Consola Java with exception error message

The exception is launched when trying to open the file *passwd.dat*. `FileReader` constructor that takes as parameter the file descriptor *d*, calls the method `checkRead` of the Security Manager installed by the browser. This method is possible to check the file and starts reading the above exception. In the worst-case-scenario the `checkRead` can be overridden in order to access the system, so an applet cannot create or install your own security manager.

Conclusions

In conclusion, the safest method of configuration browser against malicious applets is disabling Java option. This is done in Internet Explorer by opening the configuration window from the Options submenu of Tools menu. In the dialog box the user has to select the Security tab where he has to check the option Disable Java Programs.

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**IV. FINANCIAL LIQUIDITIES – INCENTIVE
OF THE ECONOMIC GROWTH:
FINANCE AND BANKING**

FOREIGN DIRECT INVESTMENTS AND DOMESTIC INVESTMENTS IN ROMANIA IN THE ECONOMIC CRISIS PERIOD

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Abstract

Investments represent one of the most important factors of the economic growth as well as of the exit from crisis and economic re-launching. The paper analyses the investments evolution (foreign and domestic) in Romania under the crisis circumstances, taking into account the main factors of influence. Based on the analysis of Romania's investment process, in the period 2005-2010, several proposals are made aiming at the improvement of investment mechanisms and their sources of funding, including the increase in Romania's absorption capacity of EU structural and cohesion funds in the period 2007-2013.

Key-words: *investment, economic growth, foreign and domestic investments, economic crisis, sources of funding*

JEL Classification: G₁₁, E₂₂

Introduction

Economic and financial crisis triggered in September 2008 by the U.S. bank Lehman Brothers bankruptcy was a first evident signal of financial system crisis with implications at both international and national levels. Contagion phenomenon was rapidly diffused since U.S. investment bank has international relations with other countries in the global economy. Directly or indirectly, the effect of the crisis has spread to the European countries including Romania.

In this paper we present the impact of current economic and financial crisis on the investment process in Romania during 2008-2010 as regards the features of volume, structure and dynamics of FDI and domestic investment.

I. Macroeconomic Developments

We will try to present a first approach of the impact of economic crisis in Romania based on analysis of the main macroeconomic developments in the period 2008-2010 in the detachment to draw conclusions about the causal correlation between the effect of some indicators (GDP, industrial production, trade, services) and effort indicators (domestic investment, foreign direct investment, employment).

Table 1

Main macroeconomic indicators

Period	Gross domestic product		Investments in national economy Annual rate of growth %	Services provided to the population Annual rate of growth %	Current account balance (million euros)	Foreign Direct Investment (million euros)	Unemployment	
	Nominal (million lei)	Real annual rate of growth (%)					No. Total registered unemployed (thousand persons)	Registered unemployment rate (%)
2005	288954,6	4.2	10.8	11.9	-6888	5237	523,0	5,9
2006	344650,6	7.9	19.7	28.2	-10156	8723	460,5	5,2
2007	416006,8	6.3	20.9	9.6	-16714	7047	367,8	4,1
2008	514654,0	7.3	17.1	2.3	-16157	9308	403,4	4,4
2009	491273,0	-7.1	-29.1	-15.6	-5168	4400	709,4	7,8
2009								
Q1	96616,7	-6.2	2.7	-6.1	-910	1471	513,6	5,6
Q2	112073,0	-8.7	-29.7	-19.2	-2431	2593	548,9	6,0
Q3	130288,7	-7.1	-30.6	-20.4	-3493	3669	625,1	6,9
Q4	152295,3	-6.5	-39.9	-14.6	-5168	4400	709,4	7,8
2010								
Jan.	x	x	x	8.8	-144	274	741,0	8,1
Febr.	x	x	x	8.0	-754	445	762,4	8,3

Source: National Institute of Statistics, Ministry of Finance, National Bank of Romania.

Main conclusions residing in the macroeconomic analysis presented in table 1 are:

- in 2009 the volume of investment dropped by – 29.1 in comparison with 2008; this is the most severe decline among macroeconomic indicators;
- the economic crisis had a powerful negative impact on services provided to the population from 6% in the quarter to 20% in the third quarter;
- FDI share in GDP in 2009 was 3.78% versus 6.6% in 2008, which shows a decrease of almost 50% of foreign direct investment to economic growth in Romania;
- more worrying is the situation of FDI in the first two months of 2010, when net FDI volume was 274 million euros, 445 million euros respectively, compared with a monthly current account balance of – 144 million euros, respectively – 754 million euros; this discrepancy between FDI and current account balance raises a very serious problem for sources of financing the current account deficit and external debt because some of funding resources declined, particularly, a foreign inflows of remittances from Romanian workers abroad (free currency transfer) and the proceedings from state-owned assets privatization;
- the number of unemployed increased from 403,400 persons in 2008 to 709,400 persons in 2009 (unemployment rate increased from 4.4% in 2008 to 8.3% in February 2010), as a consequence of the large number of insolvencies and bankruptcy of enterprises.

II. Volume and gross total investment growth

Part II examines dynamic volume and gross total investment in Romania in 2005-2009, with forecasts for 2010 and 2011 compared with the EU-countries.

Table 2

Gross capital formation in Romania and other EU countries in 2005-2011

(million euro)

Country	2005	2006	2007	2008	2009	2010	2011
EU-27	2210746,9	2416051,,	2633239,3	2633918,8	2262853,6	2239639,8	2331916,9
Bulgaria	5278,8	6533,3	8588,0	11354,0	8377,6	7757,1	:
Germany	390080,0	422800,0	455530,0	474710,0	430640,0	440715,7	461277,1
France	344370,0	373205,0	408776,0	427208,5	399942,6	400215,6	415306,9
Hungary	20422,8	19531,1	21406,6	22102,9	18639,7	20783,1	22484,4
Poland	44572,1	53412,3	67124,1	80038,5	65171,1	73204,2	77762,2
România	18930,0	25006,2	37618,4	44637,1	29675,8	32425,9	35797,9

Source: Eurostat.

In 2008 compared to 2005, total EU-27 investments increased by 1.2 times. In 2009 over 2008 the increase of investments was only 15.0 %.

Table 3

Indices of gross capital formation (investment) in Romania compared to EU-27 and some EU members (%)

Country	2008/2005	2009/2008	2010/2009	2011/2009
România	235	66	109	121
EU-27	119	86	99	103
Bulgaria	215	73	93	:
Germany	112	90	102	107
France	124	94	100	104
Hungary	108	84	111	120
Poland	179	81	112	119

Source: own calculations based on Eurostat.

From table 3 states we point out the following conclusions:

– in 2005-2008 the volume of investments at the macroeconomic level increased in all analyzed countries, Romania registering the largest increase, 2.4 times; substantial increases were also found in other transition countries (Bulgaria, Poland), but also in developed countries such as France and Germany;

– the crisis has affected most of the investment processes in Romania, 34% decrease in 2009 compared to 2008, in other countries examined the decline of investments ranged from – 19% (in Poland) to – 6% in France; it can thus be noted that relatively less developed countries had suffered a stronger shock from the crisis than developed ones;

– according to forecasts in the years 2010-2011, the investment process will be resumed in all EU countries.

It can be concluded that EU countries with lower levels of economic and social development than the average EU level of vulnerability showed significantly higher than that of developed countries, and also were characterized by the development of investments more variable from year to year, which aimed at finding supports for the relative fragility of economic development in these countries.

III. Causes of the drastic decline in FDI and domestic investment

It is obvious that under stress conditions, investment risk increases due to the combined influence of several factors, such as: inflation, exchange rates, interest rates, external debt and medium and long term budget deficit.

Table 4

Macroeconomic explanatory factors of investments

Period	The interest rate charged by credit institutions		Consumer prices (CPI)	Foreign exchange market rate (RON/EUR)	International Reserves (million)	External debt (million)	External debt service (mil. Euro)	Consolidate budget balance (mil. Euro)
	Loan	On deposits						
2005	21.04	8.34	9.00	3.6234	18259.2	24641.5	5306.1	-2268.4
2006	14.83	6.51	6.56	3.5245	22935.2	28622.2	6499.7	-5651.0
2007	13.32	6.70	4.84	3.3373	27186.8	38711.2	8466.0	-9448.3
2008	15.07	9.55	7.85	3.6827	28269.9	54761.9	13056.1	-24654.9
2009	17.30	11.89	5.46	4.2373	30858,6	65465,2	11958,2	-36400,6
2009								
T1	18,05	14,33	6,77	4,2662	27426,4	52497,3	2416,9	-7925,1
T2	17,76	13,45	6,09	4,1923	28689,9	59020,1	5679,6	-14383,1
T3	16,73	10,65	4,99	4,2247	30615,6	64635,1	7649,3	-25563,2
T4	16,58	9,52	4,56	4,2659	30858,6	65465,2	11958,2	-36400,6
2010								
ian.	16,30	9,13	5,20	4,1409	30623,0	65839,4	720,3	+15,3
febr.	15,60	8,60	4,49	4,1179	32465,8	67736,6	2312,8	-5818,8
mar.	4,20	4,0879	34784,2

Source: National Institute of Statistics, Ministry of Finance, National Bank of Romania.

In the period 2008-2010, we mention the following main aspects concerning the impact of financial crisis:

- is the first period that the crisis inflation did not register jumps very high compared to other periods, however the inflation level varying between 4-5% annually is relatively high;

- increase of taxes on income, salaries and pensions as suggested by Romanian officials is likely to generate a price spike in goods and services which could affect unfavorably the consumption in the next period;

– another factor likely to influence the resumption of investments in Romania is the relatively high interest rate. As shown in table 4, 2008-2010 interest rate credit institutions increased from 15.07% in 2008 to 17.30% in 2009, ending in February 2010 with a decrease to 15.60%*;

– measures to further reduce interest of monetary policy is an instrument to encourage investment by bank loans. Unfortunately, the present level of interest rates charged by commercial banks in Romania is still very high, a substantial investment based on the use of bank loans on long-term not being a reliable solution;

– if the interest rate on loans for investments projects will be compared with the rate of profits generated by these investments continue banking system is favored to the detriment of real economic expansion, situation conducive to a continued split between real and nominal economy to scale unacceptable, counterproductive;

– the relatively large gap of 7-8 per centage points between active and passive interest practiced by commercial banks does not encourage savings;

– while Romania's international reserves increased by 2009 to 30.8 billion Euro, Romania's foreign debt on medium and long terms increased to 67.7 billion Euro;

– increasing external debt on medium and long term, is another factor hampering investment in Romania, as an important part of development through investment financing has to be devoted to foreign debt payment;

– the budget deficit is another parameter with impact on investment, especially public ones. Increasing the budget deficit as a proportion of GDP in the period under review has seen higher levels since 2009 under pressure to reduce budget revenues due to decreased production of goods and services and a relatively high level of spending.

Budget deficit targets agreed with IMF Executive by Romania, as a conditionality of loan, impose budgetary austerity which reduce the future investment volume.

A particular issue that deserves special consideration in terms of foreign direct investment is aimed at foreign-owned investment profitability. It is generally known that foreign-owned firms have higher profitability and higher productivity than the Romanian ones.

IV. Some conclusions and final remarks

It is widely recognized both with methodology and practice that the end of the crisis in Romania cannot be achieved without a revival of investment process.

Sources of financing medium and long term investments in Romania could be improved by increasing absorption capacity of EU structural and cohesion funds

* In comparison with the inflation rate of only 5-6 per cent, in this period, the interest rate seems to be too “really positive” and detrimental to economic relaunching.

in accordance with the provisions of Sectoral Operational Programmes in the period 2007-2013.

Currently, Romania has failed to receive EU payments of contributions during 2007-April 2010, only a proportion of 8.76% compared to the total EU allocation for Romania.

This rate Medea low absorption capacity was assigned to various operational programs as: transport 1.19% Average 9.94% 16.36% Regional, Human Resources 6.89% 11.23% competitiveness, administrative capacity 2.02%, 2.22% technical assistance. Compared to other new EU member countries, Romania is on a very low position.

Given the high degree of external openness of the Romanian economy and the essential share of enterprises with foreign direct investment (73% of total Romanian exports, and 62.6% of total imports), the foreign capital in Romania play a particularly important role in surpassing the crisis and the economic recovery in the coming years. This more so since some companies with foreign capital even during the crisis have been relatively high profit making. In this regard, we mention Renault Dacia Company which in 2009 contributed with 10% to the Romanian exports and over 15% of GDP, OMV and Sidex Mittal. In order to contribute to Romania's exit from the crisis these foreign companies must reinvest in our country a large part of their profits.

At the same time, we consider that the revigoration of the domestic investments in both public and private sectors is one of the most powerful determinants of the economic recovery and growth in parallel with FDI.

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DIMENSIONS OF POST-CRISIS COMPETITIVE MONETARY POLICY

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Abstract

This communication wants to highlight, synthetically, the need to reconsider the monetary policy pursued in post-crisis period, driven by the imperatives of necessity, the requirements increase its competitiveness in a global economy, integrated, computerized, subject, becoming more global governance multiform.

In this respect, communication and defining attributes are revealed circumscribed managing corporate governance dimensions of competitive monetary policy, promoted by the central bank in post-crisis period, finally giving it a summary schedule determined relations between attributes and dimensions of size co-determinative scheme could offer possible opening for formalization and modeling.

Dimensions listed in the paper confined field improvement and adaptation potential of monetary policy in a period of rebuilding and restructuring the global economy, world of regionalism and integration, the polarization of the world economy, the assertion of national economies in a new perspective, that of network economies networked and distributed market.

Key-words: *monetary policy, competitiveness, attribute, coordinated dimensional size, decision, tool*

JEL Classification: E₅₂, E₅₈

1. Competitiveness of monetary policy in the post-crisis period

The current global crisis is a crisis of capitalism, ultimately destroying the invisible hand of market creative institutional failures, and not only global markets. It's more a governance crisis of capitalism, an ideology of self-regulation has replaced discipline and supervision of complex economic systems warrant.

Beyond the dramatic experience of central banks facing the current global crisis, they have the opportunity to reconsider monetary policy, both in terms of theoretical foundations and its practical implementation, this reconsideration may provide a starting point for a better debate perspectives on monetary policy, increased competitiveness.

The concept of competitiveness means the ability of central bank monetary policy, the monetary authority to base, develop and implement monetary policy so as to ensure the supply amount of money requested by business entities, in terms of

ensuring a balance of cash and money markets efficient and relevant and timely objectives of monetary policy, monetary policy performance and integrity in all economic policies to achieve objectives set by using an appropriate operational framework, following predetermined rules and scoring strategy and economy on a dynamic upward trajectory in the context of economic development national and global economic developments.

Increased competitiveness of monetary policy can be obtained in circumstances where monetary policy is integrated in the context of appropriate economic and financial governance, which lead to economic development are revealing, through empirical research, financial contributor to the governing monetary policy and economic competitiveness.

One cannot talk of Governance without taking into consideration corporate governance, the latter being an essential element of improving efficiency, competitiveness and growth. Good governance involves promoting monetary policy transparency, accountability and openness, providing an adequate framework for getting the goals, effective implementation of monetary policy instruments and increasing the competitiveness of monetary policy performance.

Post-crisis issues advertising need multilateral cooperation, wider, to achieve strong growth, sustainable and balanced in the context of global governance. A component of this government is the coordination between monetary policy and financial regulation, need for fiscal adjustment and fiscal stabilizers suitable, it involves international cooperation in *economic and monetary policies*.

2. Attributes and dimensions of competitive post-crisis monetary policy

Need reconsideration and reconfiguration of post-crisis monetary policy in order to increase competitiveness. As was summary pointed out above, the monetary policy involves placing the formal macro-economic governance, globalization and integration in terms of global governance to ensure effectiveness, consistency, completeness and flexibility of monetary policy, the defining attributes of a competitive monetary policy.

1. **Effectiveness (AE)** means power to achieve its goals, with appropriate and reduced operational time, in accordance with the requirements of monetary financial processes concerned, it involves promptness, efficiency and utility. Effectiveness of monetary policy is the main attribute, which concentrated on the other, may be circumscribed to elasticity of money supply changes, the results, the maximum is achieved if resources are used and the price level is constant.

2. **Consistency (AC)** means the attribute of stability, firmness of monetary policy, objectives, instruments and its operations, meaning also the promotion of non-contradictory, sustainable objectives and instruments. Consistency of monetary policy aimed at issues such as: consistency between credibility and flexibility, consistency between short and long term predictability of monetary policy, consistency between objectives and instruments, consistency of internal analysis and external communication, which is the essence of monetary policy transparency.

3. **Consequently (AS)** means constancy, steadfastness characteristics of monetary policy promoted logic tracking tools, procedures and operational objectives, principles and, in accordance with predetermined rules, consistency does not mean lack of flexibility of monetary policy.

4. **Coherently (OA)** means ensuring close links between the components of appropriate monetary policy, in particular between strategy, operational framework and mechanism for the transmission, ensuring compatibility and integration features consistent monetary policy in a harmonious whole, consistency is closely related, primarily, by poliicii currency composition.

5. **Completeness (AP)** means that the economic situation, financial and monetary dynamics and known once this situation, monetary policy includes all elements used to influence processes and institutions necessary to achieve the proposed desiderata established by macroeconomic policy makers.

6. **Flexibility (AF)** means the ability to target alternative objectives and use different instruments, react to change and ability to adapt and transform. Flexibility of monetary policy may be addressed in future time, distinguished the following openings of flexibility: flexibility temporal, between one day and a month long-term flexibility, between one month and one year long-term flexibility over a year. Important is flexibility in the short term, aiming to moderate cyclical fluctuations in the economy and financial turmoil.

The post-crisis requires reconsideration and reconfiguration of monetary policy in order to increase competitiveness in the economic recovery, given the context of the new globalized economy and computerized. In this regard, monetary policy, regardless of country, level of integration and conjecture will have to reconfigure the content, at least the following *dimensional coordinates*:

➤ *interactional, IC*, targeting monetary policy integration across the adequacy of market mechanisms and economic policies, given the fabric of interactions and co-determination are placed monetary policy decisions;

➤ *institutional, CO*, to regulate and entities, organizations involved in providing and receiving monetary policy decisions and its strategies, having the central bank center;

➤ *interventionist, CM*, instruments aimed at direct and indirect, immediate or delayed effects, used to implement monetary policy decisions;

➤ *conditional, DC*, aimed at increasing the competitiveness requirements of monetary policy in the post-crisis between these benchmarks lists are: *independence, predictability, transparency, accountability, credibility, communication*.

Dimensional coordinates listed circumscribes the potential field of improving and adapting monetary policy in a period of rebuilding and restructuring the global economy, world of regionalization and integration of global economic polarization, the assertion of national economies in a new perspective, that of network economies networked and distributed market.

3. Interactional coordinate

Competitiveness of post-crisis monetary policy depends largely on how monetary policy and central bank are located in diverse and differentiated network interactions, and specific aggregates of elements, components and parts of institutional, instrumental, operated, etc. emerging value, is conserved and disappear in the post-crisis period as a whole disposing interactions on specific configurations that formed interactional dimensions of competitive monetary policy, the main dimensions of interaction of monetary policy are the following:

➤ *scale comprehensive (CD)*, including interactions between content items of monetary policy that is objective, instruments, restrictions, conditions, etc. These interactions contribute to the formation of monetary policy and interventionist potential modeling of the potential;

➤ *size configuration (DF)*, which refers to the interaction of monetary policy with other types of economic policy with other macroeconomic management and societal components, namely policy-making function within macroeconomic management, according to the interconnected functions of other components, contributed to competitiveness of monetary policy;

➤ *international dimension (DI)*, which refers to interactional integration of monetary policy in the international area, the area of global governance, monetary policies interacting with other states and international institutions in an environment of cooperation and collaboration or, conversely, in an environment of adversity and incompatibility, outsourcing various effects and restrictions;

➤ *behavioral dimension (FD)* which refers to the conduct of monetary policy and monetary variables in the interaction between them and the whole economic and financial variables of the economic policies of macroeconomic management, modeling these interactions representing support monetary and monetary policy, which monetary policy is based and guided its implementation.

4. Institutional coordinate

Having a crucial influence on business competitiveness, institutional coordinate regulations aimed entities involved in developing and implementing monetary policy, corporate governance is circumscribing the monetary policy pursued by the central bank, this materializing is coordinated by the following institutional dimensions of monetary policy:

❖ *regulatory dimension (RD)*, which creates the institutional framework of monetary policy, that rules, procedures, organizations (entities) and functions, powers and responsibilities, this dimension having a formative role in the sense of creating forms and structures in which the monetary policy;

❖ *organizational size (OD)* refers to organizing the rationale, development, implementation and monitoring of monetary policy, central bank representing essential entity organized for this purpose, but to participate in this process and other entities, the authority, expertise and execution all of them is making up a network of hierarchical relationships, guidance, and tracking of performance, largely related to organizational nature;

❖ *decision-size information (DD)* refers to the delimitation of monetary policy decisions on how their background and aggregation, based on the decisions necessary information on their selectivity to the requirements of monetary policy and the relationship between decisions, skills institutional objectives, the strategy of monetary policy;

❖ *size management (DM)* is a summary of this dimensional coordinates, in addition to ensuring synergy, convergence of other institutional dimensions, this ensures, guide, coordinate, momentum, monetary policy assessment, training objectives and institutional entities applying operational framework, the central bank circumlocution, and this dimension.

5. Interventionist coordinate

This refers to operational coordinate framework of monetary policy, expressing the middle of central bank intervention in the banking and financial markets, the operational framework providing, directly or indirectly, objectives, implementation strategy of monetary policy tool coordinate dimensions are the following:

- *principled size (DL)*, which refers to the principles which should take into account application operational framework, instruments and conduct operations;

- *instrumental dimension (DT)* refers to tools, direct or indirect central bank intervention, sequence, specificity, selectivity and coherence of these instruments must constitute some of the characteristics of the operational framework, the instrumental dimension;

- *operational dimension (ND)* refers to the diversity of operations bearing or not monetary policy instruments, made usually by the central bank to implement monetary policy, is distinguished both market transactions and banking operations;

- *size transmission (DV)*, which refers to the transmission mechanism of monetary policy impulses to the real economy, financial markets and banking, specificity, efficacy and efficiency of transmission channels representing the needs of a competitive monetary policy;

- *protective size (DU)*, which refers mainly to monetary policy operations to protect financial markets and banking risks, such as deposit insurance operations, market adjustment, standardization, supervisory.

6. Conditional coordinate

Competitiveness depends on monetary policy, especially in open economies by globalization, governance, certain benchmarks, characteristics of monetary policy, contributing to its circumscribing the defining attributes of a competitive monetary policy, these benchmarks dimensional manifested by *independence, predictability, transparency, accountability, credibility, communication*.

✓ *Central bank independence (DA)* means its ability to substantiate, adopt and implement monetary policy decisions without direct intrusion and corrective political or financial authority, thereby protecting the definition of the objectives of

monetary policy by central banks, and promoting this policy in order to achieve objectives.

✓ *Predictability of monetary policy (DB)* is understood as the ability of financial markets to correctly anticipate future monetary policy decisions of central bank monetary policy this dimension must be considered in a broader context and for long periods.

✓ *Transparency in monetary policy (DM)* enables economic subjects, public have accessibility, usability, understanding and information on specific processes monetary policy decisions, transparency implying openness, communication and accountability.

✓ *CB Responsibility (DG)* refers to the compliance of rules and principles that underpin the central bank activity, its mandate, independence and accountability are indivisible, meaning that the responsibility of the central bank must have a clear responsibility for its actions .

✓ *The credibility of monetary policy (DH)* target that traders' expectations about their future central bank actions and, in particular, on how they expect the central bank to react to their actions meaning the degree to which economic agents believe that policy makers money to achieve their plans announced.

✓ *Communication CB (A)* refers to transferring information from the central bank by traders, the financial markets and banking, having a repertoire of signs and semiotic rules, fostering increased independence and the central bank responsibility.

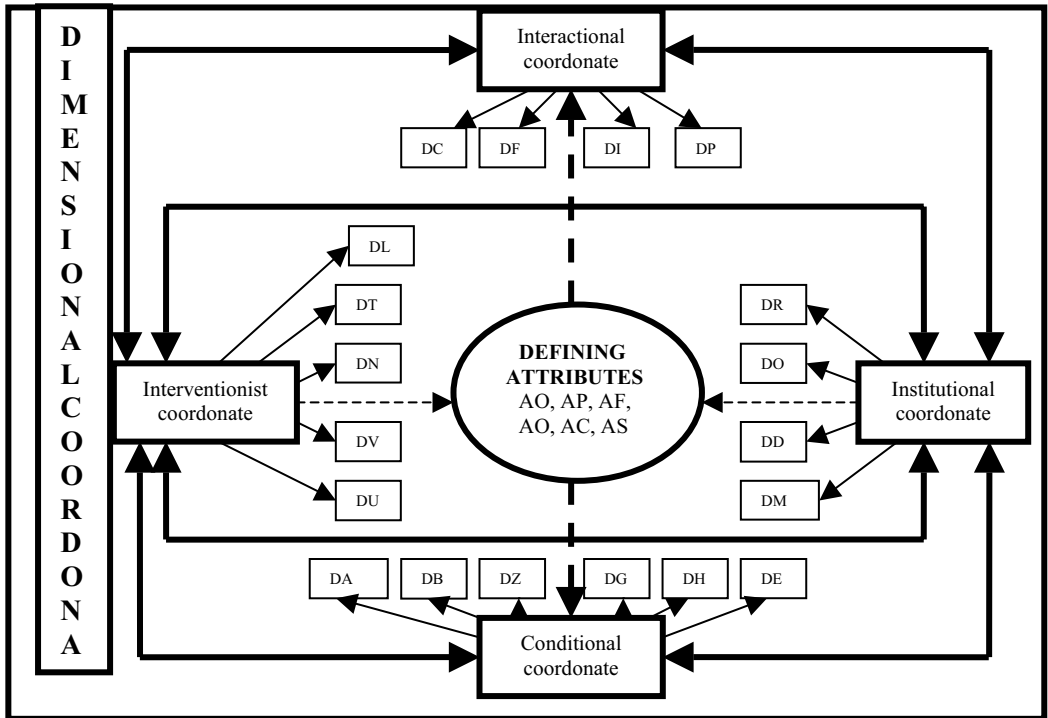
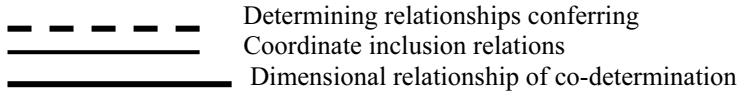
7. Competitive monetary policy determinations network

Obviously, the specific dimensions of the four coordinates influence each other, with different intensities depending on the specific economic and financial situation, the evolving structures and conjunctures, coordinated interactive is essential in a global economy in which all the components interact in a way or another, directly or indirectly, the co-determinations of the overall dynamic evolution of the rule.

As i said, in all their dimensions four interconnecting coordinated, co-determining and influencing it is, supporting one another, within the meaning of competitive generation of monetary policy. Moreover, the very dimensions of the same lines are the co-determined relationships, providing details of the dimensional stability and robustness needed to ensure the competitiveness of dynamic, continuous and balanced monetary policy.

The diagram below attempts were simplified representation, in aggregate form, co-determined relationships between dimensions dimensional coordinates, the defining attributes of these and monetary policy.

Lines symbolize relations co-determined schedule, with the following meanings:



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THE JOINT COMMERCIAL OPERATIONS AS A TOOL TO AVOID LIQUIDITIES IN THE CURRENT CRISIS CONTEXT

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Abstract

The main joint commercial operations are counterpart, re-export and switch operations. Regardless of the evolution of barter, these arrangements may be made at the firm level, as well as at the governmental one. Delivery in counterpart has extended relatively a lot in the contemporary international trade and it implies the elimination or the reduction of the traditional paying tools and its replacement with the exchange of goods and services normally sustained by financial deals.

The counterpart operations are mainly based on the oldest form of trade – the barter (exchanging goods for goods) which precedes the use of money. The barter as an arrangement between Governments of different countries has some specific features such as: the high value level of the occasional barter exchanges, the long-term convention, an agreement regarding different safeguarding stipulations.

Key-words: *clearing agreement, buy-back, switch, off-sets, compensation, barter*

JEL Classification: M₅₂

The joint commercial operations represent international affairs that unite import and export operations, performing services, etc. within an unique transactional mechanism, conceived and performed by compartments of foreign trade and by companies specialized in this domain.

These combined operations developed within the foreign trade especially in the 8th and 9th decade of the 20th century and they are still maintained in the present as a form of transactions adapted to specific directions of the international economic relations.

The development of this type of operations is based on several factors:

- Commercial migration – the concern of the foreign trade firms to offer new modalities of promoting transactions and increasing profit.
- The differences regarding the level and the performance between the countries that take part in the foreign trade processes.
- The geographical position in comparison with the trade partners.

- Differences and flaws within the market mechanisms between different countries.

- The general judicial regime and the commercial regime in different countries.

- The commercial and currency policy in different states.

The combined commercial operations are particularized by the following aspects:

- The judicial basis of the operations is normally created by two or more contracts that are somehow bonded and contain some elements specific to several types of contracts.

- The transaction has a higher risk degree, which has a commercial or an extra commercial root.

- Performing the transaction implies a real professionalism.

The main joint commercial operations are counterpart, re-export and switch operations, which have a series of common characteristics, placing them into a special category of the foreign trade techniques:

- joint operations putting together elements specific to production with elements specific to commerce, as well as elements related to the traditional import-export process with counterpart or, in some cases, with economical international cooperation, financial-banking combinations etc., leading to certain specific elements in the commercial and the financial-banking mechanism;

- economical business generally done by specialized firms that act as recognized representatives with a highly recognized competence in international trade, agents of international trading – trader – or as independent firms. In some cases, banks are also involved – *switch*;

- the content of the operations is mainly shaped by making profit in foreign currency, by acts and facts of trade, in some cases of production as well, often having as object goods from a third party.

Delivery in counterpart has extended relatively a lot in the contemporary international trade and it implies the elimination or the reduction of the traditional paying tools and its replacement with the exchange of goods and services normally sustained by financial deals.

The counterpart operations are mainly based on the oldest form of trade – the barter (exchanging goods for goods) which precedes the use of the money. This type of trade developed especially during periods of monetary instability in areas where there are not enough liquidities, in countries with a weak currency not convertible, and it appeared as an attempt of finding a solution to lower the effort and the currency risk.

The counterpart operations are known as modalities or mechanisms that condition the flow of goods and services between two or more partners. The notion of counterpart is used in the specialist literature with two meanings:

- 1) generally, it refers to the compensatory engagement by which the exporter is contractually obliged to make income for the importer. The main purpose of these operations is to reduce or to eliminate, in a certain period of time,

the net payment in the currency of the importing country. In this sense, the counterpart contains joint commercial actions – compensations and parallel operations – as well as operations in the international cooperation area such as: sub-production, co-production, licensing etc.;

2) in a more narrow sense, the counterpart includes those transactions where a connection is compulsory by contract, a conditioning between the import and the export flows, respectively the barter and the parallel operations.

Although the counterpart has many forms, they have a common element: the direct, complete or partial compensation of an import made by a partner through an export made by the other partner.

Several factors contributed to the extent of the counterpart operations:

– conjectural factors:

- the lack of the currency resources;
- significant changes of the currency (currency risks);
- external debts;
- significant deficits in the balance sheets;
- rising the price of the power and raw materials in the 70s.

– technical factors:

- the combined operations can be used as an easy and efficient method to reduce some surplus without reducing the price;
- the effect of rising price due to inflation can be reduced;
- they are used in addition to selling-buying transactions.

The trade by counterpart has different approaches and each of them has its specific deployment techniques. The main approaches to make an exchange in counterpart are:

The *barter*, the compensation operations, the *clearing* agreement, the *buy-back*, *switch* operations, *off-sets*.

The compensation operations involve a transaction where the export is totally or partially paid by the delivery of goods that the importer makes. The main operations of this type are:

- *the total compensation*, where the value of the export of goods is totally covered by an equal import of other goods;

- *the partial compensation* – the partner who does not have enough money to pay for the imported goods agrees with the other partner to paying a part of the imported goods in foreign currency;

- *the clearing agreement* may be defined as a compensation of a claims ensemble that has the roots in the mutual goods and services delivery between two or more countries without making the currency transfer. The paying clearing system implies a mandatory agreement between the participant states. The judicial framework that the Government has created all the natural and all the legal compels people to comply with it in the respective country. Moreover, it establishes some restrictions regarding the way the traders execute the import-export activities. This is why the IMF recommends the members not to use this payment modality. By 1990, Romania had many *clearing* agreements that were gradually eliminated.

The switch operations are a specialized form of trading normally used in case of some unbalance between the *clearing* accounts during the process of bilateral trading. Balancing the clearance sale is made by a specialized firm that, by switch operations, identifies a third country interested in the goods that the debtor country offers (unless the creditor country is interested in it).

Compensation within the cooperation operations – or buy-back – represents a form of direct compensation that the exporter of goods and high value technological equipment accepts as payment, in exchange of his exported goods, to import goods which had been made by using his equipment from the beneficiary. The framework agreement that is normally concluded at a governmental level is the basis of the two contracts: the delivery contract for some equipment goods (machines and tools, complex outfits, plants) and the purchase contract for some goods from the importer country, mainly resulted from efficiently using the imported equipment. The *buy-back* operations have mainly developed in the area of exploration and **exploitation** of the raw materials, in the area of developing the capacity to produce power, in the chemical industry, etc.

The compensatory arrangements or **the off-set** means an agreement between a firm that exports complex objects or high value equipment (military, aircraft industry or naval industry) and the importer country that pressures the exporter to accept the association of some firms from the importer country in order to make and to set working the objective, i.e. the delivered equipment. In this case, the operation is quite similar to the counterpart operations in its narrow sense (in compensation and parallel operations). The second type includes the arrangements that imply a direct participation of the firms from the host country in the achievement of the objective/equipment that is the object of the export. This is achieved through different ways: technological transfer, sub-production, co-production, capital investment.

The **barter** dates since the old silk roads, with its ups and downs. The method was strongly reinforced at the same time with the opening of the ex-Soviet Union and of the Eastern states to West – regions with a huge request of imported goods, but reduced funds.

The **barter** represents a global compensation performed between two firms from two countries, where each partner acts as an exporter as well as an importer. The value of the merchandise of both parties must be equal, no money is used and neither banking or credit system.

Generally, the barter is based on agreements between ministries and even between Governments. It is usually a short-term agreement that lasts one year at most. That's why some specialists consider that the barter is a short-term clearing. The barter is different than the simple compensations: its domain is a lot larger; the level of the institutionalisation is higher, usually involving factors of the public power as well. On the other hand, the barter has a more limited domain that refers to a group of measures, a number of firms, while the clearing is a truly global compensation at the level of a national economy.

The exchange report must be regulated – if prices can be established for some goods (raw materials, oil products, cereals) taking into consideration the stock

exchange, this possibility is not available for the manufactured goods. Thus, the manufactured goods might be overvalued.

At the end of the year, both countries will have regulated the exchange balance of the barter operations by payments in foreign currency or by transferring the debt into the next year account (the most common).

The banking institutions do not agree to the barter because it jeopardizes the general needs for banking services; still, some banks have come to the conclusion 'if you cannot destroy them, you would better join them'. Consequently, the banks set up special departments that are meant to deal with barter transactions.

The multilateral barter represents a stage in the evolution of this kind of operations and consists of exchange agreements among three or more partners. This category implies the participation in these operations of some firms in three or more countries. The goods delivery between the participants is like a close circuit. This is also the modality to terminate the financial obligations, thus currency deductions are avoided. In this case, the conditions are stipulated in contracts between the participants in different countries, since the operation is multilateral; the compensation is complete, and the compensation obligation is transferred from a firm to another, which increases the operation risks.

Regardless of the evolution stage and the form, the barter arrangements may be made at the firm level, as well as at the governmental level. The barter as an arrangement between Governments of different countries has some specific features such as: the high value level of the occasional barter exchanges, the long-term convention, an agreement regarding different safeguarding stipulations. Such agreements are quite common when we talk about the practice of the international trade relations in the developing countries. Their objective is mainly food products, ores, oil, chemical products in the light industry, agrarian equipment.

The difficult issue about negotiating the barter operations is the determination of the exchange report between the goods that are the object of the mutual flows. For the replaceable goods, the exchange report is calculated starting from the stock exchange quotation of the respective products. A common price does not exist for the manufactured goods; that is why we notice a tendency to overbid the price of these products in order to cover the specific operational risk and to gain unilateral advantages.

The transactions of products or services that are done as a corporative barter may value millions of dollars and they are, first of all, specific to large companies, especially advertising agencies.

The corporative barter society helps companies to use their inactive assets (e.g. old production, the surplus of proprieties not used) to finance the production costs (e.g. advertising), totally or partially.

Thus, a company that intends to sell the surplus of production, whether it is a tank or lipstick, relies on the corporative barter company that purchases this part of production. Among the most unusual offers for barter we may mention those that have as objective latter-day products: booking tickets for traveling, consultancy services, mobile phones, gadgets. Generally, the barter aims at lands and houses, holiday destinations within the same country or abroad, advertising media. We can

also mention the exchange between lands in the mountainous areas and houses at the seaside. Other products that are intensely transacted as barter are fishing products such as schedule charts for any month of the year, for any area in the world. This offer is estimated at 100 euros and the people who are interested must advertise the charts on the internet (sites, blogs, forums). Other advertisements are placed by people who offer web and project management consultancy in exchange for professional hosting, web design or server management services. The value of the business could rise to 1.000 euros. A corporative barter company buys and sells on its own, manages the transaction, but also has to deal with the trade credits.

The corporative barter, as we know it, has its origin in the 50's. At the beginning of the 70s, as a result of the American recession, many companies had production and industrial capacity excess, but financial resources limited. Thus, the advertising budget was very much decreased. Consequently, the ad space was unused. The time for advertising, as well as the space are 'perishable' products. The income from these 'perishable' products was almost zero. Some entrepreneurs started to change the surplus of products with this type of 'perishable' products.

Nowadays, the corporative barter activity is more sophisticated and **omnipresent**. The companies that deal with corporative barter are proficient at making millions of dollars from advertising of other products or services, by using the method of changing with the surplus of production or/and the surplus of production capacity.

In order to practice the modern corporative barter, we need:

- a financial solution;
- a trading method.

When the corporative barter first appeared in the 70's, it was a financial tool, a method that helped the companies with production surplus or obsolete products recover a part of their loss or even the entire loss getting in return ad space or other products or services that they should have paid cash for.

The corporative barter does not only offer innovative financial solutions for some companies, but it can also lead to the extension of the advertising or marketing domain of the companies. The corporative barter companies are accepted by the advertising agencies because they exchange ad space that values millions of dollars with services that they should normally pay for.

The weight that the corporative barter industry carries could mean that it is more profitable to use the barter method of trading than paying cash. For example, a chairs manufacturer with a production cost of \$25 sells a chair with \$50. If he exchanges chairs with ad space, he gets a 50% reduction for the ad space. The importance that the corporative barter has shows the report between the value of the ad that he gets by giving goods of 1 million dollars and the value that could be obtained if 1 million dollars cash was spent.

The barter is also efficient if a company decides to function in another country that does not have hard currency to pay for the products or services, but it holds goods and services for the exchange.

Nowadays, the barter has evolved in such a manner that it can be used to solve a big number of financial problems, but it is also an important marketing tool.

To get the total value of the obsolete products or of the surplus of products, the corporative barter can be a solution for:

- minimizing the loss caused by perishable products;
- reducing the stocking costs for the old products;
- extension of geographical allocation;
- entering new markets;
- increasing sales;
- minimizing the negative cash flow and generating the positive cash flow;
- using the surplus of production;
- doing market research and increasing the ad budget;
- solving the assets that are not paid off;
- reducing the corporative buying costs;
- obtaining equipment and active capital;
- purchasing real estate values;
- developing foreign trade.

During the current economic crisis and due to credit blockage, as well as lack of liquidities, which also creates a stoppage at the level of payments, the salesmen will shortly turn to the barter. The lack of liquidities can have a strong negative impact on the evolution of a company.

The barter is, thus, used as a tool that can balance the situation of a company by excluding the role of liquidities during a transaction.

Therefore, a company can use the necessary resources and, at the same time, it can dispose of liquidities to continue with the activity.

During this economic crisis, we notice a decrease of the input and a blockage in the economy. The lack of liquidities can be a cause as well as an effect with drastic consequences upon the standard of living and on the consumer request. In this context, the traditional form of barter will become an attractive practice that can compensate the current financial problems and stimulate the input. The barter can be practiced at any level, starting with exchange between personal services to avoiding stock blockage between companies.

Currently, we are witnessing to a larger number of barter transactions on the American market. The most popular ads site – craigslist.com – declares that the number of ads about barter transactions has doubled compared to the beginning of the year, while other sites of different specialties register double traffic compared to the previous month. This phenomenon proves that the barter is favoured by the current economic situation and is more and more used for that reason.

Of course, the biggest challenge about barter trading is finding the right partner. This is dramatically simplified by the existence of a common market where partners can be easily found among thousands of tenders.

The barter is a tool that helps a company grow during periods economically stable; but now, the need for this tool is even bigger.

The motivation and the advantages that might explain why the public as well as the private firms are so interested in counterpart are the following:

Monetary instability mainly invested in the fluctuation of currencies, the crisis of international liquidities, the inferiority that some countries are in because of lack of their own currency convertibility.

The advantage that the counterpart offers is that it involves some trading operations in cooperation actions, in production, science and technique, with small efforts for each of both partners. Therefore, counterpart is a trading form that may lead to a reduced currency effort.

We can mention the attempt to maintain and to develop good mutual relations within a balanced environment of goods and services flow by the clearing approach.

The diversification of the stock of goods for the market within a regional frame, with benefits for the consumer is another good point. This method is also a way of testing if certain products are internationally competitive.

The counterpart is not an expensive form of trading because it does not involve much marketing interference and a commercial system less complex than other trading forms require.

The counterpart has also some limits which explains why some businessmen are reserved about it:

- the harmony between the partners' interests about the merchandise that each of them holds can sometimes be unequal as quantity and the balance may get deteriorated;

- the value compensation of some merchandise exchange may be heavily done and in time, a certain imbalance that could stop these operations;

- some firms, especially in the developed countries, have the tendency to export processed goods that are technically passé in exchange for raw materials, which become more and more rare all around the world.

But, in spite of all these limits, the counterpart is still viable in trading. The counterpart operations can be classified as it follows:

- Considering the compensation degree of the merchandise or/and the services, there can be compensation that totally eliminates the currency or parallel operations functioning in an exchange, partially with merchandise or/and services and a part of the business including currency as an exchange term.

- Considering the numbers of the business partners, there can be bilateral counterpart operations in or multilateral counterpart operations. As for the economic and judicial level of the partners, there can be counterpart operations at the level of enterprises, of groups of enterprises or branches (barter) or at the level of states (clearing).

Exporters in counterpart enjoy of a wide range of options in the strategy of negotiating the transactions. The international practice shows that firms can choose one of the following formula or one of the formula combinations: negotiating some diminished imports in counterpart in exchange of some advantages offered to the importer that refer to:

- implementation of some work in common;
- training the personnel;

– the total or partial transfer agreement to the obligations of a third party in the counterpart;

– association to marketing decisions;

– trading on a third market.

• accepting a part of the export payment done in the importer's currency even if this is not convertible and cannot be transferred abroad, provided that the currency is used by the exporter for payments and investments in the importer's country;

• accepting a partial payment of the exporter in services offered by the partner in the import country or abroad especially services of constructions;

• providing the necessary assistance in order to identify business opportunities on foreign markets, thus the importer's benefits are used as a payment source for the exporter's deliveries;

• sub-contracting, licensing or investing in other projects from the importer country in the context of the exporter's obligations in counterpart.

An important strategic problem refers to the modality the counterpart is dealt with from the point of view of the organizational structures, used as a 'services support' of the transactions. In this sense, there are two possibilities:

– creating their own organizational structures (in-house formula);

– setting relations with an experienced house of commerce in counterpart.

The role of a specialized organizational structure is to assist the firm management in building and applying the strategy to participate in counterpart transactions and to implement this strategy in instructions and guidance for services/directions of the company.

Many firms would rather transfer the execution of the obligations in counterpart – obligations they have already been accepted in the contract with the importer partner – to a house of commerce, due to the experience and specialization this one has. One of the problems that may appear in this situation is the cost of the operation. For most of the cases, the house of commerce asks the exporter for a global payment, made up of two elements: the subvention that will be given to the final buyer of the goods as the object of the counterpart, and the commission, which must cover the debts of the house of commerce and bring a profit. Normally, a house of commerce asks for a 1-3 % commission from the value of the obligation in counterpart, but for high risk situations, the commission could rise to 4-5%. The subvention is a manner of promoting the sales for the merchandise in counterpart, so the house of commerce could offer a discount to the final buyer.

Normally, the house of commerce requires a global sum of 10% (subvention + commission); the firms that have a wide range of clients and their marketing capacity allows it; on the country, for a risky selling, the subventions are increased.

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CONSIDERATIONS UNDER PUBLIC DEBT WITH THE CURRENT ECONOMIC CRISIS

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Abstract

In current economic conditions, in full financial crisis, many world state governments looked for external funding to cover budgetary deficits, fact that led to explosive external debt of these states. The state must accomplish its objectives. For overtaking each economic, industrial, cultural, political, technical sector needs, needs financial resources; but not always the state internal financial resources cover entirely financial needs.

Therefore, each state needs to apply for external or internal loans.

Key-words: *public debt, external public debt, consolidated debt*

Jel Classification: H₆₃, H₇₃

1. Introduction

This paper briefly presents the concept of public debt offering at the same time a short analysis of the evolution of the concept in Romania. In a market economy in a continuous movement but also in the present economic and financial context, public debt exists and is ever growing.

The state can be compared with a person. Thereby, like any other individual, the state has specific needs; needs that come from all the subordinate sectors. For fulfilling all the requirements, the state first needs resources, rather financial resources. If it could answer to all the requirements in each domain everybody would be content; but it appears the everlasting conflict needs-resources. The need, in the economical sense, represents material requirements of goods and services, at various stages of activity development, of people lives and activities. Therefore, its gratification presumes goods and services consuming. The resources represent all the elements that can be used for production of material goods and services calculated for needs gratifications. Financial resources, as good as other resources are limited comparative with needs. Thereby, state must appeal to multiple means for answering, to some extent, to its requirements. One of the solutions is the state internal or external loans contractions.

2. General aspects of public debt

According to law no. 313/2004 – the law regarding public debt –, the governmental public debt designate the integrality of internal or external financial obligations of the state at specified moment of time, coming from contracted loans direct or certified by the Government through the Ministry of Finance in the name of Romania from the financial markets. In the same law it is specified the fact that all the internal or external obligations, contracted by the local public authorities, from the financial markets, compose the local public debt. Thus, the public debt contains governmental public debt and local public debt.

Generally, the state is borrowing to complete routine resources: taxes, contributions and other taxes deductible; when it has not enough cash in treasury for making its outstanding payments to subordinate domains. Thus, when the incomes are insufficient to cover the costs, the state appeals to such loans for balancing the state budget. In our country, the government is authorized to contract internal or external loans for different purposes such as:

- a) needs financing at short notice of the state budget;
- b) state budgetary deficit financing;
- c) governmental loans liquidation and amortization; and redemption of unpaid debts;
- d) interest payment but also of other costs related to public debt.

There are more concepts that define public debt term. Thereby, we can analyze floating public debt as being at short notice public debt and contains contracted loans on periods up to one year, in order to cover the downs generated by the differences in time of the income with the budgetary expenses; consolidated public debt as being the totality of the debts resulted from the state budget contracted for medium and long term, but also of the debts that have arisen from terms extensions of loans returning which means medium and long term public debt.

In terms of creditor quality, the public debt can be gross debt, designating loans total value, wherever these are placed and net public debt which do not contain loan value placed in governmental institutions.

Public debt increases every time whenever a budgetary deficit is funded by the contracted loans.

The state procure its needed both inside and outside financial resources. So we have an internal public debt and an external public debt.

For Romania, internal public debt has as activity object the financial tools: bonds, government papers, treasury certificates but also the state loans contracted at the Romanian credit institutions or from different governmental agencies.

Regarding the external debt, in the most part it consists in borrowing from other states governments, foreign banks and different regional or international financial institutions.

Maastricht Treaty, which builds the European Union, sets the economic criteria by a state can join forum. One convergence criteria, in financial field, concerned the indebtedness of relative state; this one had to be less than 60% of the

State Gross Domestic Product. Romania has fulfilled this criterion. By reference to the percentage of public debt to GDP, note that it is almost nonexistent in 1990, approximately 0.9%, then gradually increased in 2002 reaching the percentage of 28.5%, while the end of 2009 public debt to GDP ratio reached a value of 29.29%. The following table shows the public debt ratio to GDP after 1990:

Table 1

Share of total public debt to GDP 1990-2009

Year	Public debt ratio to GDP (%)
1990	0,9
1992	20,4
1994	17,5
1996	27,8
1998	27,6
2000	31,4
2002	28,5
2004	22,5
2006	20,4
2008	21,8
2009	29,29

Source: calculating on the Ministry of Finance data.

Although the share of public debt to GDP increased in the last 3 years, it is worth remembering the 7.49% percentage increase of public debt in 2009 against 2008, due to contracting loans from the International Monetary Fund and from European Union but internal loans based on bond issues as well. There is a better situation in Romania than in other EU countries, as we are not expected to exceed the 60% GDP level, which is the maximum permissible value for the European Union members.

Among European Union countries according to some transmitted data by the de Organization for Economic Cooperation and Development (OECD), regarding debt ratio, the following states are in a bad situation:

- Italy – with a debt ratio to GDP of 127,2%, is on third place in the top of World's Biggest Debtor States.
- Greece – with a debt ratio to GDP of 123,3%, is on fourth place in the same OECD top.
- Belgium – with a debt ratio of 105,2% is on fifth place.
- France – falls below percentage of 100%, so in the case of this state the debt ratio is 92,5%.

Compared to the above data, Romania looks good, but the fact that the Romanian government loans to cover current needs such as budget system regular

salary and pension payment instead of, for example, investing in infrastructure or other priority objectives is worrying.

3. External public debt – total public debt component

According to law no. 313/2004 – law regarding public debt – the external governmental public debt designates all financial obligations of the state coming from contracted loans direct or certified by the Government from persons or corporate body non-resident in Romania.

External public debt can be contracted directly by the state or certified in the state's name or account in order. To assess external debt level characteristic to a state and for making international comparisons between states a number of indicators are used. Among them the most important are:

- external public debt in year ... (EPD);
- external public debt service (EPDS);
- external public debt ratio to GDP;
- ratio between external debt and export goods.

External public debt service represents all payments arising from external public debt repayment, outstanding rates, interest, commissions, etc.

Another analysis indicator of external public debts is the ratio between external debt and export trade that shows how much time is necessary to refund the state's debt based on currency received from abroad sales of goods and services.

The most used indicator is the debt service rate, which is calculated as the debt service ratio that holds in external revenues of the state, respectively:

$$R_{de} = \frac{SDE}{VE} * 100;$$

where: Rde – Debt service external rate;

SDE – External debt service;

VE – Foreign income.

The year 2010 brings a debt crisis in the whole euro area. All euro area countries were overly indebted; so the public debt in euro area reaches 84% from GDP when the maximum is 60%.

In current economical conditions, in full financial crisis, many of the world's states governments looked for external funding to cover budgetary deficits, fact that conducted to explosive external debt of these states. World Bank published in 2009, top 20 The World's Biggest Debtor Nations.

In the next table (table 2) are presented the volumes of external public debt in Gross Domestic Product of top 20 The World's Biggest Debtor Nations.

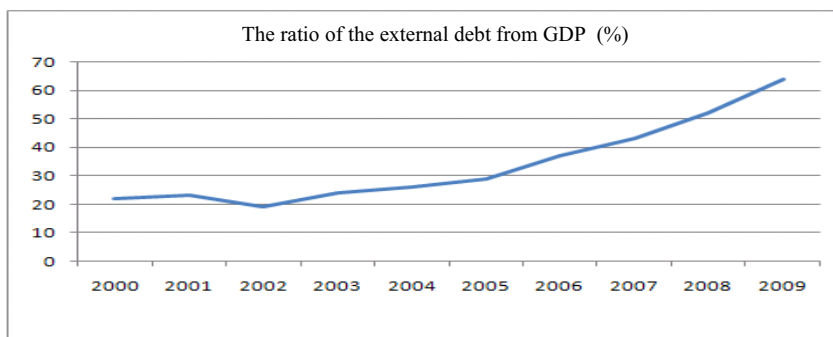
Table 2

The World's Biggest Debtor Nations 2009

Nation	External Debt	GDP 2009	External debt (as % of GDP)
Ireland	2.39 trillion USD	77.3 billion USD	1,352%
United Kingdom	9.26 trillion USD	2.17 trillion USD	427.6%
Netherlands	2.58 trillion USD	652 billion USD	395.6%
Switzerland	1.23 trillion USD	316.1 billion USD	390%
Belgium	1.32 trillion USD	381.4 billion USD	345.6%
Denmark	627.6 billion USD	99.1 billion USD	315.2%
Sweden	916.42 billion USD	333.2 billion USD	275%
Austria	869.13 billion USD	323.2 billion USD	268.9%
France	5.22 trillion USD	2.11 trillion USD	247.2%
Portugal	538.1 billion USD	232.4 billion USD	231.5%
Hong Kong	659.27 billion USD	301.3 billion USD	218.8%
Norway	577.80 billion USD	276.5 billion USD	208.9%
Finland	376.8 billion USD	183.1 billion USD	205.7%
Germany	5.33 trillion USD	2.81 trillion USD	189.4%
Spain	2.53 trillion USD	1.37 trillion USD	184.7%
Greece	594.60 billion USD	339.2 billion USD	175.3%
Italy	2.71 trillion USD	1.76 trillion USD	154.6%
Hungary	231.33 billion USD	186.3 billion USD	124.2%
Australia	891.26 billion USD	819 billion USD	108.8%
United States	13.67 trillion USD	14.25 trillion USD	95.9%

Source: www.cnbc.com.

Regarding Romania, the external public debt continues to be a main component of the total public debt. Thereby, in the 1990-1995 period Romanian authorities' constantly turned to foreign loans to cover budgetary deficits; in 1990 the external public debt ratio to gross domestic product (GDP) was 0.9% and in 1996 this ratio increased at 22.8%. Afterwards, at the same time with the decrease of the state's rating given by international agencies, Romanian authorities quit the foreign loans and the focus is on the internal loans. Since the year 2000 Romania is gradually returning to foreign loans. During the 2000-2003 period the relationship between external and internal debt was increased from 156,66% in 2000, to 292,44, which shows a much slower growth of the internal public debt than the external one. Overall, during the 1990-2009 period, foreign public debt was 60% from the total public debt, while the internal public debt was just 40%.

External debt ratio evolution from GDP between 2000-2009

Source: BNR; www.logec.ro

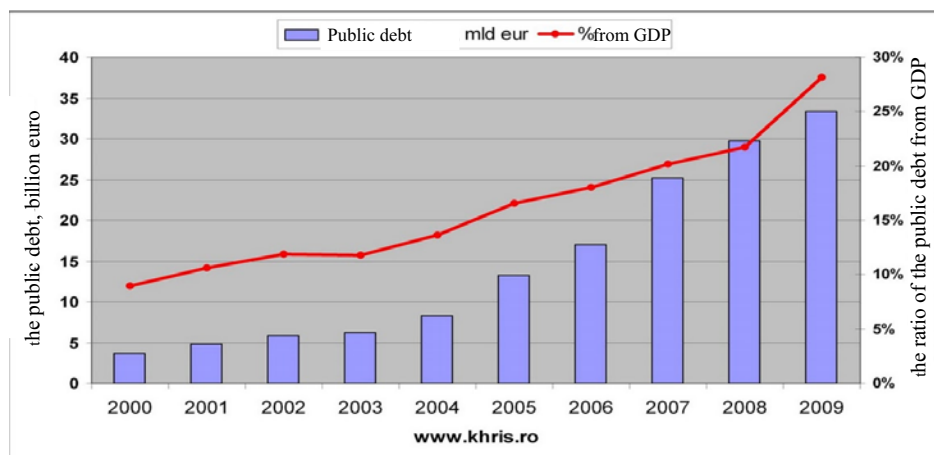
Since 2000, when the external debt ratio in GDP was registering a value of 22.2% and until 2002 when the percent got to 21.3%, the foreign debt registered a decline. Besides this period of evolution, the external debt ratio evolution is a progressive one.

4. Conclusions

Although in the recent years (2007-2009) the public debt just exploded, the main public indebtedness indicators calculated show that Romania has a sustainable debt. Romania's public debt is low compared with other countries' debt, but it will continue to grow; this is one of the reasons why the state must strengthen the system of taxes to reduce future budget deficits, 3% of GDP according to the conditions set by the Maastricht Treaty.

The Romanian public debt is fitting into the maximum of 60% from the GDP; this limit is characteristic for UE members states and was established by the Maastricht Treaty. At the end of 2009, the Romanian public debt is registering a value of 30% from GDP, as shown by the graph below:

Graph 2

Public debt ratios from GDP between 2000-2009

At the end of 2009, the Romanian public debt ratio from GDP is 29.29%. This ratio is comfortable because a public debt ratio from GDP lower than 60% is a highlight condition for euro taking up.

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**V. THE ECONOMIC THEORY – CATALYST
OF THE CONSOLIDATION
OF THE KNOWLEDGE SOCIETY,
OF THE NEW ECONOMY RECOVERY**

PARADIGMS OF THE e-ECONOMY. OPPORTUNITIES FOR ROMANIA

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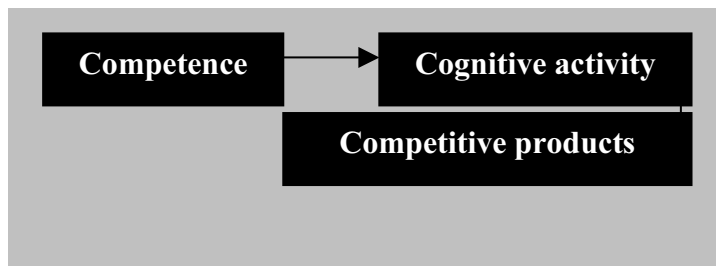
Abstract

The new economy or e-Economy represents the surging of growth generated since the end of the 1991-2000 decade by New Technologies of Information and Communication (NTIC). Consequently, the shift to the knowledge-based economy has triggered significant structural mutations in the GDP evolution, such as: the prices cutback, changes on the labor market (unemployment rate decrease), the multi-factor productivity strengthening, etc.

The most meaningful are the modifications occurred in the international environment and in the mix politics in the United States of America. Strangely enough, the shift to NTIC finds our country in a quite advantageous position, in the sense that the generalized crisis may be overcome by investing in NTIC; the resources are at hand, except for the capital for the non-involvement of the national economy into large industries that feature new technologies, but rather morally worn out.

Key-words: *NTCI, open source, knowledge-based economy, multifactor productivity*

In USA, the new economy or e-Economy means the surging of growth generated since the end of the 1991-2000 decade, by means of the New Technologies of Information and Communication (NTIC), according to a relatively simple logic (see graph 1 below): competence (the ability to generate knowledge) → cognitive activity, guided by the competence → viable projects, i.e. effective, competitive solutions.



Graph 1. *The logic of information technology development*

At the beginning, while the change was perceived as an authentic *industrial revolution*, its proportions might be very much modest. Such an economic evolution is characterized by the lack of inflation and the full use of labor force, a reminder of the good old times of the 50's and 60's in the developed countries [8, p. 54]. Estimated at 4 billions USC in 1994, the Internet-generated turnover reached the amount of 301 billions USD (318 billion EUR) in 1998, which brings the Internet earnings to the level of the American top industries, i.e. the auto industry (350 billions USD); currently, the value exceeds 10,500 billions EUR [13].

In France, NTIC contributed with 5% to the GNP building, 3,5% to the national wealth and 15% to the economic growth in the year 1998. A similar favorable situation (see the United States of America) suggests the access into a new economic era of intense growth, where we have low unemployment and inflationist tensions almost close to nothing, and which led to the '*new economy*' phrase [7]. To talk about the New Economy is to bring into equation the old economy. What are the facts that allow noticing the change of economies? Is the concept itself of 'new economy' confirmed? If yes, then how do we explain the emergence of this new economy and the gaps among the national economies?

The internet history highlights the development of one of the first telecommunication networks. The idea of a computer-based network to have the users with various PCs communicate to one another has developed in stages. The sum of all such developments has turned into the '*networks of networks*', as we know it today under the name of Internet. It is also the technological development and the regrouping of the existent network infrastructure and of the telecommunication systems. The first versions implemented the above towards the end of the 50's. The practical application of these concepts happened ten years later, in the 60's. Since 1980, the techniques that are accepted as the modern Internet fundamentals have been spreading all over the globe. In the 90's, the coverage skyrocketed by the emergence of *World Wide Web*. Upon the gradual increase of the Internet users number, from 23 computers linked by ARPANET in 1971, to 1,000 computers in 1994 – based on the first server as a functional site since 1983, to 2,320,000,000 users worldwide in the year 2007.

Every year, the *World Economic Forum* issues the '*Networked Readiness Index*', an index defined in terms of the place, usage and the benefit that a country derives from Technologies of Information and Communications. This index takes into account a certain number of countries (122 in 2006-2007) and allows setting a world ranking (see chart 1). This index is still under the desired level, should we look at the needs and limits inflicted on by the current situation.

Rank	Country	Score	Rank evolution in a year
1.	Tunisia	5.71	+2
2.	Sweden	5.66	+6
3.	Singapore	5.60	-1
4.	Finland	5.59	+1
5.	Switzerland	5.58	+4
6.	The Netherlands	5.54	+6
7.	U.S.A.	5.54	-6
8.	Iceland	5.50	-4
9.	Great Britain	5.45	+1
10.	Norway	5.42	+3
11.	Canada	5.35	-5-25

Source: *World Economic Forum*, 2007. Number of countries: 122.

Chart 1. *The top countries in the electronic usage*

1. **Models of the e-Economy.** The New Economy includes certain models, specific to it, where the most significant are as follows:

1.1. *Model of the Logician Owner.* At first, the Logician programming (Software) was a scientific activity whose developments were open, public and lacking property rights. The Model of the *Logician Owner* emerged towards the end of the 60's, when the computer science left the scientific environment in order to branch out itself into the commercial field. Its super-profitability proved when *micro-informatics* came forth, along with the *Microsoft* means to sell a logician for each computer on the planet – the 'Windows' Operating System. This model, which is about the preservation of the secret source code, is based on the *author rights* (or, in some countries, the *logician patent*), granted to the logician-inventor, in order to help him sell his creation. Because of that, each user was bound to purchase a user license – that does not allow, among others, any retro-engineering. The Logician sale is quite lucrative, thanks to the fact that the reproduction cost (quasi-nul) is very expensive. For instance, the value of *Microsoft* – a company perceived as the locomotive of the New Economy, had a 280 billion USD as a stock quote in 2008. The Logician Owner has a rather confuse relation with the pirating – on the one hand, he relies on it to turn it into a standard; on the other hand, he fights against it to maximize his earnings. Besides a constant conflict with pirating, this model is interfered with other free models, as the *Free Logician* and the *advertising model*. It might find an escape in the SaaS logician model, as shown below.

1.2. *Model of the Free Logician.* This model is a reply to the owner model explosion, even if its principle is foregoing; in the 80's, this model was turned into a form by *Richard Stallman* and the *GNU GPL* license (called '*Open Source*'), involving their publication of the logician's source code and provision to all the users of the rights to copy, study, transform and re-deliver the changed versions of the logician that they have received. Therefore, it consists in making the logician

conception mutual by NTIC technologies, calling upon the good will of hundreds of engineers worldwide. ‘The Common Senses’ are the counterpart for the Reproducible Art (music, images, video, etc.). The Free’s Economy relies on the additional services and products recommended by hundreds of specialized companies – services of maintenance, code change or payable modules; and operating products as the MP3 readings, of the video lectures/DVD, ADSL boxes or complete computers. The Free’s Economy helps more companies live on than the owner model.

1.3. *The Portal Web Model.* Emerged simultaneously with the Web burst and derived from the old media, this is the 1995-2000 window dominant model of the *Internet Bubble*. The Portal Web Model is about to provide information free at charge, with the purpose to get the largest possible audience and capitalize on it by advertising sale, called ‘push’ (non-targeted banners). During the Bubble, all the companies of New Economy are only aiming to become a Great Generalist Portal (leaving out the Web Research, model-less back then, which disperses the audience) – this is the direction that Yahoo, MSN and AOL (the furthest degree) steered to. Their strategy describes as the diversification of the information offer, in order to retain the internet users the longest possible on their Portal. One of their weaknesses, though, is their intrusive advertising and poor rentability. This model, which is far from keeping its promises, is based today on *Longue Traîne* that allows it to have a wide range of specialized Portals.

1.4. *The Longue Traîne Mode (economic model of the long trail).* The model has been turned into a concept by emulating the Internet Bubble burst, starting from the zero cost of managing an infinity of products. Let’s imagine that we are placing the earnings of a New Economy company in a graph that has the *sold products* on the x-axis and the *turnover* on the y-axis, divided to those products (graph 2). On the one hand, the turnover is limited and, therefore, finite. On the other, the management of the products infinity permits the emergence of a ‘longue traîne’ of products that are very little connected individually, but whose total turnover exceeds the best-sellers’ by far.

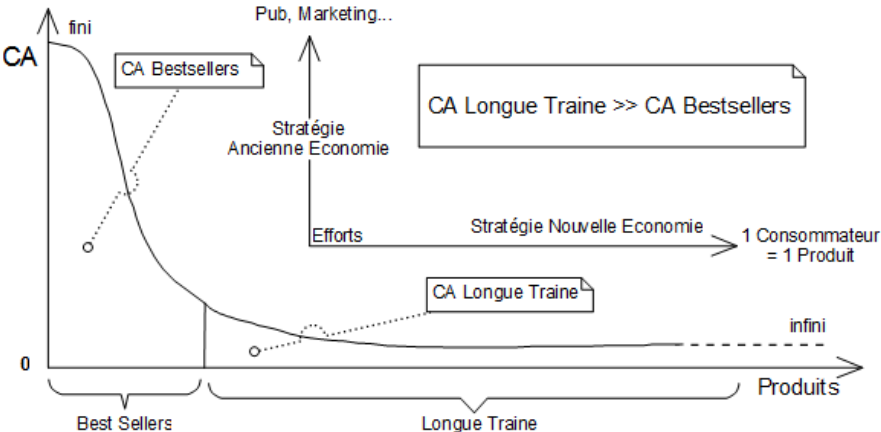


Chart 2

This model has witnessed an unmatched success and is currently implemented by all the individuals of the New Economy, i.e. *Google* (the key words), *Ebay* and *Amazon*. The strategy lies in the fact that each consumer has the chance to find the hyper-specific products he is looking for. Certain companies directly place themselves on a market niche, called '*longue traîne*' – making an abstraction of the best-seller concept but displaying itself as ultra-specialized. This is a model which a huge number of companies benefits from.

1.5. *Model of the search engine*. The research model has been invented by Bill Gross and the *Overture* company during the Bubble Internet. Today, Google dominates it worldwide (75%), and seems the most lucrative model of the New Economy, estimated to have reached 25 billion USD in 2008. In 2012, it is expected to quadruple its turnover. Its strategy lies in providing the internet users a Search service on the most stretched webs. Equipped with a state-of-art technology of results ranking, Google has had not a problem to set itself apart as the best search engine, drawing a huge audience to other sites. In order to capitalize on this audience, the model suggested the 'get'-type advertising. The 'get'-type advertising is a target advertising by key words, based on the natural research results, and proves to be the best advertising on the earth, the moment the consumer takes the decision to buy something. Along with Google and thanks to the pay-per-click purchase, the buying by means of key words (AdWords) is, at present, the most lucrative advertising and a direct turnover generator. Google is the cornerstone for a long-term gigantic economy, with the help of an assortment of small specialized companies. The main weak point of this model seems to be the 'clicks fraud', where a competitor continually accesses your advertising and buys nothing: as Google directly and invisibly profits from it, it will take no measures to bring a remedy to it. Consequently, Google holds the second place as a New Economy company, trailing Microsoft, with a quote of 160 billion USD in 2008.

1.6. *Model of service-type logician*. This model is quite recent, simultaneous with the Web 2.0 practices, following the Internet bubble. The principle of the logician as a service, called SaaS (Software as a service) represents a service available on the internet, relying on the servers at hand. The logician and its files are then available worldwide, by a simple automated connection to the internet; thus, pirating is avoided. Hence, the system is no longer sold, but rented, and the other 'actor' is the *Microsoft Office Live*. And as an alternative of being rented, the logician may be capitalized on by advertising – this model is perceived as the future Logician Owner.

2. Structural mutations imposed by the e-Economy-based growth. The most significant impact shows below:

2.1. *The GDP trends increase and prices decrease*. During the last decade, three countries in OECD (Australia, Ireland and the Netherlands) have witnessed a trendy growth of GDP/capita even stronger than in the 80's. The same growth applied and improved in other countries, mainly in the EU. On the contrary, it has slowed down in countries like Japan, France, Germany, England, etc. (see graph 3).

If we look at the EU, for instance, we see a strong and durable growth of GDP, in a context of a controlled inflation. Since 1996, GDP has gone beyond 4%, the prices have lowered and the productivity earnings have risen. The fact that we notice a significant increase of GDP brings back the changes of the initial trend by the New Economy, starting with the 90's. Similarly, other meaningful changes in economy may have us think of a new cycle in the world economy.

2.2. *Significant changes on the labor market.* In the 90's decade, the unemployment in the United States of America registered a decrease, from 7.5% to less than 4.5% between 1992 and 1999. Also, the employed population has been more active. In France, this evolution is also remarkable. The estimations of the Forecasting Department suggest that the structural unemployment has lowered by two points in the mid 90's, as a consequence of the decrease in the expenses and the capital cost dropping off. As for the equilibrium unemployment, it has also gone down by two points and reached almost 8.5% in 2000. 'The employment per centage increase' has triggered a decrease of the labor productivity and a slowing down of the *factors general productivity*. Instead, the employment per centage has built up at the potential population level, thus transitorily influencing the potential growth. Of course, such a phenomenon, distinct from the new economy, implies a constant growth of the increase rate. The progress on the labor market is a true indicator for change, since it greatly contributes to a better *multi-factorial productivity*.

2.3. *The multi-factorial productivity (MFP) in the rise.* The combined utility of the capital and labor seems more effective at the present moment. During the 90's, MFP has stepped up in the OECD countries. For the new activities, the MFP acceleration is partly due to the young companies that mix the labor and capital more easily than the more stable ones. According to OECD, this MFP improvement is indebted more to the latest ways of organization and high qualification level, initiated by ICT. The dissemination of such technologies has sparked a leveling off for the technological goods prices, which resulted into more dynamic investments than the traditional ones. We have been noticing a serious adjustment of capital since mid 90's, when the investments into technological information goods rose at a higher speed than the global investments. The ICT rise during the 90's decade is the core reason for the potential growth of the American economy.

3. Factors of the change and role of the electronic technologies. The list of the relevant factors includes:

3.1. *The international environment.* Debuting with 1996, the American economy has benefitted from a macro-economical environment, favorable to the extension of the growth cycle. Between 1996 and 1999, the import prices decreased by 10%, which allowed for the inflationist tensions to lighten. This phenomenon may be explained by the combination of three factors: the USD appreciation in nominal terms since 1995, the oil quote decrease between 1997 and 1998, and a lower increase in other economies than in EU, which helped the international trade accumulate substance. The United States of America have, thus, benefitted from

massive capital input during the Asian crisis (the quality rush' phenomenon) that propped up the economy. The European economies had also a piece from this international context, with a slight falling behind.

3.2. *The mix politics in the United States of America.* Since the Ronald Reagan Administration ended, the North-American mix policy has witnessed many changes. The entire 1990 decade is the best described as the economic policies going hand in hand with the improvement of the national economy. The monetary conditions are less restrictive than in the 80's, going on during the 90's (the short-term interest rate is lower). The monetary politics become more pragmatic and adjust themselves to the contemporary times. Instead, the budgetary politics are more strict in terms of public finances recovery (diminished structural expenses, increased structural expenses). The change of the politics mix, favoring the capital accretion, may count for the new economy standing out in the USA, with a more pessimistic scenario compared to the latest technologies. Such arguments make the idea of a technology exclusively based on these technologies invalid. They delineate the importance of a companion in terms of the growth public policy. The mix politics has built an environment where the new economy has acquired specific dominance.

4. **Perspectives of the e-Economy in Romania.** The main resources of Romania are as such: *land* or nature (the riches of soil, underground, tourism, etc.), *people* (who need to be trained and educated for solidarity – if we consider the lack of democratic education nowadays) and *ideas* (i.e the permanent innovation, derived from the association among technology, merchandise (products and services) and *market* [12, page 519], found in an interdependency relation. As a consequence, the succession $T_1 \rightarrow T_3$ generates a spiral evolution of the products and market, as seen in the chart 3.

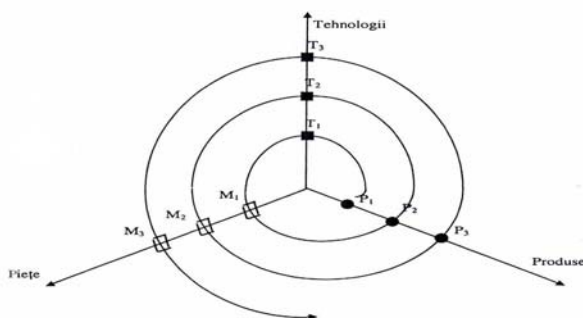


Chart 3. *The interdependency relations among technology, products and market*

Even though our country has beautifully assimilated the latest technologies, information and communications, the general crisis situation may be overcome should the authorities invest in NTIC. We do have resources, except for the capital and the non-commitment of the national economy for large industries, owning state-of-art technologies but morally worn out. Besides the NTIC domains,

significant investments should be made in agriculture, zootechnics, fish farming, which have been still waiting for important resources since 1990. The capital vacuum may be filled up by issuing securities through the State Treasury (internal efforts), as well as by fiscal facilities granted to the internal investments for such domains, plus the direct external ones, if a legislative and political stability is set right.

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INVESTMENT DECISION IN HUMAN CAPITAL AND MACROECONOMIC IMPLICATIONS

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Abstract

To emphasize the importance and influence of human capital on economic growth of a country and also to base decisions on the need to invest in such type of capital, studies have been conducted and different models for analysis macroeconomic and demographic indicators have been used.

We present the main indicators and dynamics of human capital, placed in the economic context of Romania, with reference, in bringing out statistics data, to an average period of time (between 1994-2008) characterized at macroeconomic level, both by recession and economic growth periods.

There were also highlighted indicators and dynamics, both at national and individual level.

Key-words: *human capital, indicators of human capital, dynamics of human capital, macroeconomic indicators, individual indicators*

JEL Classification: J₂₄, J₄₈, M₅₄

In a market economy it is necessary, in our view, regardless of activity domain, a process of conscious economic adjustment, aimed at reducing the amplitude of oscillations between demand and supply, the process resulted in the establishment of a favourable legal framework, the use of economic and financial levers, as well as some prevision, by which the activity is anticipated and guided. One can say that various types of prevision – prognoses, strategies and socio-economic policies, plans, programs and projects – have a complementary nature to the market mechanism, supporting it and enhancing its valences, by reducing the risk and uncertainty. At the same time, the previsions can contribute to solving interrelated economic, social and environmental matters by developing the capacity to address these issues in an integrated manner and a global perspective, thus contributing to the durable development of the country.

In determining the period of time for what the main indicators and dynamics of human capital are presented, we started from the following considerations:

➤ in the last decade, Romania has experienced a fairly turbulent macroeconomic way with episodes of recession (1990-1992, 1997-1999, 2009-present), return (1993-1996) and growth (2000-2008);

➤ the most important reforms started only in 1997, as mentioned in the monograph on professional training and employment services in Romania (by European Training Foundation – ETF);

➤ the effects of investment in educational capital (the most important component of human capital) are visible on the medium and long term;

➤ lack of data or inconsistent data from different sources as well as reviewing the definitions and coverage domain for a data series aiming at, in particular, labour power (in 2002), making it impossible to compare with previous years data series.

Given all these issues we considered that the period 1993-2008 is representative of a study on human capital, except that not all statistics presented cover the whole period.

The evolution of main macroeconomic indicators characterizing socio-economic development of Romania during 1993-2008

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	<i>in per centage</i>			
													2005	2006	2007	2008
Real GDP growth	1,5	3,9	7,1	3,9	-6,6	-5,4	-3,2	1,6	5,3	4,9	4,9	7,5	4,2	7,9	6,3	7,3
Inflation	295,0	61,7	27,8	57,0	151,0	40,6	51,4	40,7	30,3	17,8	14,1	9,6	9,1	6,6	4,9	7,9
Unemployment	10,4	10,9	9,5	6,6	8,8	10,3	11,5	10,5	8,6	8,1	7,6	7,0	7,2	7,3	6,4	5,8
Gross fixed capital formation, % GDP\	17,9	20,3	21,4	23,0	21,2	18,2	17,7	18,9	20,5	21,1	23,5	24,0	23,0	26,0	30,0	33,0
Deficit / GDP	2,6	4,2	4,1	5,0	3,6	2,8	2,5	3,6	3,1	2,5	2,4	1,6	7,5	3,0	3,8	3,9

The main demographic indicators in the years 1993-2008

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Population (million)	22,75	22,73	22,68	22,61	22,54	22,53	22,49	22,44	22,4	21,8	21,7	21,7	21,65	21,61	21,56	21,53
Natural increase of population	-133	-194	-350	-548	-424	-319	-305	-213	-392	-591	-541	-493	-411	-386	-373	-313

Source: National Institute of Statistics: www.insse.ro; Social Trends – NIS – UNICEF, Bucharest, 1998; Romania in figures – NIS, Bucharest, 2005.

It results that reducing of the natural increase caused the decrease of absolute number of people, taking place major changes in the structure of the population by age groups. The average age of the population has increased in recent years, reaching in 2004 to 38.3 years, an age that characterizes the adult population countries, this age is higher in the female population, and, respectively, in the rural areas. It is estimated that by 2020, while maintaining constant the level of the main events, the Romanian population will diminish by almost 2.9 million inhabitants, the reduction being particularly marked in relation to school-age population.

Correlating respective indicators with the indicators of material resources shown above (providing a picture of the economic development of society) one can say that the presence of well-educated and healthy human resources causes a high productivity of labour, a better organization of economic activity, a higher production and higher incomes which in turn allow new investments in education and health, causing the production of better educated and healthy human resources.

Referring to human capital we should keep in mind, in particular, its two components, namely: biological capital and educational capital.

Biological capital consists of physical abilities of individuals, most often synthesized by **health**.

At the aggregate level, many indicators can be used to characterize the health of a group, community or society, but those most often found in international statistics are tied to life expectancy, mortality by age groups and incidence of some diseases, usually associated with poverty (tuberculosis) or contemporary epidemics (HIV/AIDS, SARS, etc.).

Regarding *life expectancy*, this indicator reflects quite accurately the effect of care accumulated over many generations, depending on a complex of factors related to economic development, living standards, cultural traditions regarding medical treatment etc.

Life expectancy in the period 1991-2008

	1991-1993	1992-1994	1993-1995	1994-1996	1995-1997	1996-1998	1998-2000	1999-2001	2000-2002	2001-2003	2002-2004	2004-2006	2006-2008
Life expectancy	69,52	69,48	69,40	69,05	68,95	69,20	70,6	71,25	71,3	71,1	71,4	72	72,75

Source: National Institute of Statistics: www.insse.ro; Social Trends – NIS – UNICEF, Bucharest, 1998.

It results that life expectancy has decreased until 1997, after which, with economic growth, has taken a slightly upward trend.

Of indicators that reflect the extent to which medical care that most people have access ensures good health, we mention: *mortality rate* (calculated as the number of deaths per 1,000 inhabitants) and *infant mortality* (representing the number of deaths under one year to 1,000 live births). These indicators may be associated to *birth rate* (per 1,000 inhabitants), reflecting both the effect of education, progress of medicine and health system development and the quality of life and social development levels.

Health indicators in the years 1993-2008

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Mortality rate	11,6	11,7	12,0	12,7	12,4	12,0	9,1	8,9	9,0	9,8	9,7	11,9	12,1	12,0	11,7	11,8
Infant mortality rate	23,2	23,9	21,2	22,3	22,0	20,5	15,2	16,1	15,6	14,5	13,7	16,8	15,0	13,9	12,0	11,0
Birth rate	11,0	10,9	10,4	10,2	10,5	10,5	8,9	8,09	8,4	8,5	8,7	10,0	10,2	10,2	10,0	10,3

Source: National Institute of Statistics: www.insse.ro; Social Trends – NIS – UNICEF, Bucharest, 1998.

Birth rate had a very low level making the final descent of the younger generations to remove more from necessary level of simple replacement of generations. Also it results a very high rate of general and infant mortality.

Regarding **educational capital**, it can be argued that this conditions economic progress but it is also determined by it. Indicators reflecting the accumulated stock of education are, however, difficult to determine, especially if we consider the aspect of non-formal and informal or qualitative aspect of it.

We present the most important indicators covering the formal and quantitative component of educational capital.

Based on financial resources from public and private contributions to education and professional training, there are presented in Table 5 the public expenditure on education. Although the law stipulates that a minimum rate of 4% of GDP be allocated to education, the education system was long time underfunded, the objective being achieved only in recent years. However, we can say that investment in education remains very low in real and relative terms. Following a temporary increase of participation in education, by extension of compulsory education from 8 to 10 years, it should consider education as a national priority in the next period, while implementing a strategy of decentralizing education and mobilization of financial resources.

Public expenditure on education in the years 1993-2008

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
As % of GDP	3,2	3,1	3,4	3,6	3,3	3,6	3,4	3,4	3,1	3,0	3,5	3,4	3,5	4,3	5,5	6,0
% of total public expenditure	-	-	-	13,5	13,0	13,2	10,9	14,0	15,6	-	8,2	-	-	8,8	17,54	-

Source: National Institute of Statistics: www.insse.ro; Social Trends – NIS – UNICEF, Bucharest, 1998; Romania in figures – NIS, Bucharest, 2005; ETF data base

Another aspect of funding education is related to the distribution of expenditures by level of education, given the different importance that funding represents it, depending on educational level, for society or for individual. Information on this issue can be obtained by aggregating of existing data: the share

of expenditure for higher education in total public expenditure on education, respectively, the evolution of average cost/pre-university student, in conjunction with the school population.

Public expenditure on higher education in the period 1993-2007

	1993-1994	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
% of public expenditure on education	11,7	14,0	14,2	17,8	15,9	18,6	-	-	-	-	-	-	22,8	22,1

Source: Social Trends – NIS – UNICEF, Bucharest, 1998; www.insse.ro; www.edu.ro.

Public expenditure on pre-university education in the period 1993-2008, absolute data

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Average cost / student *)	180	217	222	163	202	-	-	-	232	279,66	291,42	339,16	486	682	855
Total students (thousands)	4319	4339	4367	4333	4282	-	-	-	4554	4497	4473	4404	4361	4346	4405

*) expressed in: USD (period 1993-2001) and EURO (period 2002-2008).

Source: National Institute of Statistics: www.insse.ro; www.edu.ro, Social Trends – NIS – UNICEF, Bucharest, 1998.

The main indicators regarding the *participation in education and professional training* are: the school population by educational levels and school enrolment rate by educational levels.

Another indicator used in international statistics is the *participation rate in education of young people aged between 15 and 24 years*. According to EUROSTAT database, in the year 2003 (reference for university education due to its restructuring and increase the duration of compulsory education), Romania is placed at a rate of 41.9%, below the average EU countries – 15 (57.4 %) and countries of the region: Hungary (51.6%) and Poland (63.4%). We should not neglect the qualitative aspect of education in Romania, compared with recorded performances of education systems in Europe.

School population by educational levels in the period 1993-2004, number

	1993-1994	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004
School population in which:	469285	494513	470377	488311	463351	461164	478383	466279	458466	446786	447243
Preschool education	72136	71554	67888	69226	62553	62478	61613	61066	61014	62708	63679
Primary and gymnasium education	253491	252169	254195	254231	259766	256030	249839	241516	230636	219312	212226
High school education	72221	75673	78211	79288	76908	71807	69476	67919	71063	74004	73917
Vocational education	30043	28674	28540	26157	24729	22785	22234	23950	25247	27015	27914
Post high school education	5007	4521	5462	7521	8300	96134	9470	82117	7285	61855	5432
Higher education	25087	25162	33641	35488	30690	40720	45321	53152	58221	59627	63785

Source: National Institute of Statistics: www.insse.ro; Social Trends – NIS – UNICEF, Bucharest, 1998.

School enrolment rate by educational levels in the period 1993-2008

	1993-1994	1994-1995	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008
Primary education	96,9	99,7	99,5	99,1	97,5	99,8	95,5	94,2	97,2	96,5	98,2	106,1	103,8	97,8	97,3
Gymnasium education	86,5	84,3	86,7	86,4	92,3	94,3	96,9	95,5	93,2	94,1	94,2	97,4	96,7	100,5	99,5
High school and vocational education	63,7	66,1	68,6	69,1	68,6	67,8	65,9	74,6	73,9	73,7	73,0	75	80	84,9	89,3
Higher education *)	22,7	22,7	20,9	22,2	22,7	25,4	28,9	32,9	36,4	40,7	43,3	47,5	49,5	56,3	54,9

*) including non-university tertiary education (Post high school education).

Source: National Institute of Statistics: www.insse.ro; Social Trends – NIS – UNICEF, Bucharest, 1998; Romania in figures – NIS, Bucharest, 2005.

Training participation rate of population aged 25-64 years (period 1997-2008)

	1997	1998	1999	2000	2001	2002	2004	2006	2008
UK	-	-	19,2	21,1	21,7	22,3	29	26,7	19,9
EU – 15	5,8	-	8,2	8,5	8,4	8,5	10,7	11,2	10,9
Spain	4,5	4,3	5,1	5,1	4,9	5,0	4,7	10,4	10,4
Poland	-	-	-	-	4,8	4,3	5	4,7	4,7
Hungary	2,99	3,3	2,9	3,1	3,0	3,3	4	3,8	3,1
Romania	0,9	1,0	0,8	0,9	1,1	1,1	1,4	1,3	1,5

Source: EUROSTAT.

For *workplace training*, according to EUROSTAT data, Romanian companies invest on average only 0.5% of the human resources in vocational training, which is the lowest among countries in the region (Czech Republic – 1.9%, Hungary – 1.2%, the average EU countries – 1.15%).

To provide sufficient information on educational capital it is added formal unauthorized components, of which the most important are the use of computers, Internet access and use (with indicators such as, for example: the level of investment in information and communication technology – ICT).

Indicators have to be corroborating with **key indicators of labour power**. Data are presented only for the period 2001-2008, because they are not comparable with data series from previous years.

Key indicators of labour power in the years 2001-2008, thousand of persons

	2001	2002	2003	2004	2005	2006	2007	2008
Active population	11447	10079	9915	9957	9851	10041	9994	9944
Employed population	10697	9234	9223	9158	9147	9313	9353	9369
Unemployed ILO (in accordance with methodology of International Labour Office)	750	845	692	799	704	728	641	575

Source: Romania in figures – NIS, Bucharest, 2005.

1990 was characterized by the highest migration rate in the last decades (33.9%). Profound transformations in the socio-political system in Romania after 1989, which led to the emergence of rules that favour the free movement of persons, constituted/represented the premises of an unprecedented growth of the level of international migration (particularly emigration) at the beginning of the decade.

Indicators of internal and external migration in the years 1993-2008

	1993	1994	1995	1996	1997	1998	1999	2000
Internal migration rate (1000 inhabitants)	10,6	11,7	12,8	13,0	13,4	12,3	-	-
Emigration rate (1000 inhabitants)	0,81	0,75	1,13	0,95	0,88	0,78	-	-

	2001	2002	2003	2004	2005	2006	2007	2008
Internal migration rate (1000 inhabitants)	12,7	14,7	15,3	17,1	12,6	15,5	17,4	18,1
Emigration rate (1000 inhabitants)	9,9	8,2	10,7	13,1	10,9	14,2	8,8	8,7

Other categories of indicators

At the individual level, the main indicator is the monthly personal income of an individual, correlated with his level of training.

In general, in European countries, income level is well related with level of training (education). There is an increasing trend, although the relationship is influenced by many factors such as age, individual skills, inherited wealth, distributional inequities, etc.

The relationship between education and income at the individual level in Europe

Level of education	Income decile									
	1	2	3	4	5	6	7	8	9	10
Primary	31%	24%	17%	12%	7%	4%	3%	1%	1%	1%
Gymnasium	13%	20%	23%	17%	11%	7%	5%	2%	2%	1%
Lower secondary – level 1 qualification	15%	13%	16%	16%	14%	10%	8%	4%	2%	2%
Secondary – level 2 qualification	7%	8%	10%	11%	10%	13%	14%	11%	10%	8%
Upper secondary – level 3 qualification	7%	10%	12%	15%	16%	10%	10%	8%	5%	5%
Tertiary non-university	4%	5%	8%	10%	12%	15%	14%	14%	9%	9%
University	5%	5%	9%	11%	13%	13%	11%	11%	9%	14%

Source: EVS 1999

From researches undertaken in Romania results the same relationship, although the groups given by level of education are not homogeneous in terms of income, especially for categories that have a lower education level.

The relationship between education and income at the individual level in Romania

Level of education	Monthly personal income (millions lei)				
	Average	Median	Maximum	Standard deviation	Coefficient of variation
Without education	0,7	0,5	2,5	0,7	106%
Primary	1,2	1,0	8,0	1,1	91%
Gymnasium	1,6	1,4	10,0	1,4	87%
Lower secondary	1,9	1,8	12,0	2,0	103%
Vocational	2,5	2,4	12,0	1,8	75%
Upper secondary (high school)	2,6	2,5	35,0	2,9	111%
Tertiary non-university (Post high school)	3,9	3,0	20,0	3,1	80%
University – short duration	5,2	4,5	20,0	3,9	75%
University – long duration	5,2	4,0	25,0	3,8	73%

Source: BOP – OSF – October 2003.

Correlations are also confirmed by statistic data, resulting that the higher income is received by employees working in banking, financial and insurance activities, as well as in public administration, post and telecommunications, where are usually imposed studies conditions too.

Salary disparities are also evident in urban areas compared to rural areas, as well as on the macro-regions of socio-economic development.

Another factor that expresses strong impact on the *level of education* attained by an individual is the education level of parents. Studies show that socio-cultural structures are reproduced so that the present educational structure will

depend on the past, people from educated families tend to become more educated and vice versa. Also it results an increase of the average level of school training, the trend being determined by cultural modernization, technological progress, quality of life and level of aspiration, etc.

The relationship between the education of parents and highest level of education attained, according to research BOP – OSF (Public Opinion Barometer – Open Society Foundation) in October 2003, on a sample of the population aged over 25 years (whose studies are generally completed), is presented below.

The relationship between the education of parents and highest level of education attained

in per centage

Education level of the subject	Education level of most educated parent						Total
	Primary	Gymnasium	Lower secondary	Upper secondary (high school)	Tertiary non-university	University and post university	
Primary	27	3	1	2	3	0	14
Gymnasium	29	19	7	2	0	0	20
Lower secondary	26	31	26	7	12	0	25
Upper secondary (high school)	11	28	38	37	22	21	21
Tertiary non-university	5	12	19	23	29	15	11
University and post university	2	7	10	29	35	64	9
Total	100	100	100	100	100	100	100
	46	28	12	7	5	3	100

From statistical data also follows that employment status and level of education of household head significantly influences the level and structure of disposable income, being an important factor of poverty distribution. Integrated survey in households conducted by the National Institute of Statistics – NIS shows that the most exposed at the risk of poverty are members of households headed by unemployed or farmers (60%), while members of employers households are the least exposed to below the poverty line (10%). In terms of education level, the survey shows that households headed by graduates from primary, lower secondary or vocational education are greater below the poverty line (40%), the risk of these categories of members to be in the poor category is double that of households headed by persons with secondary education. The least affected by poverty are members of families where the reference person has university education, with a constant poverty rate of about 5-7 times lesser than the overall average.

In the case of aggregate indicators, it is worth highlighting the importance that may have information on the extent to which individuals possess skills related to the use of information and communication technology as well as communication skills in one or more languages.

Conclusion: The evolution of categories of indicators presented leads to the conclusion that the decision to invest in human capital influences significantly the level of socio-economic development of a country, justifying the approach of such an investment not only as an individual decision or at the level of an organization but also having in attention its implication at macroeconomic level.

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INDUSTRIAL POLICY IN THE EUROPEAN UNION

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Abstract

Regarding industry, the bank in broad acceptance it consists of all firms producing identical or substitutable goods and services, these companies are engaged in a close race to meet similar needs as the same type of buyers.

The evolution of industries is influenced by several factors: the pace of structural adjustment, adaptability to market requirements, the level of technological endowment, technical and financial capacity to attract financial resources for investment and technological upgrading, attractiveness to investors, usability of effective workforce, the development of services for industrial activity.

The main objective of EU industrial policy is to strengthen international competitiveness, while providing its customers quality products at competitive prices. In shaping industrial policy, EU experience can provide a benchmark reference for defining the objectives, ways of action, specific tools and concrete measures to implement the policy.

Key-words: *industry, industrial policy, European area, a single market, competitiveness, competition policy*

JEL Classification: O₂₅

1. Introduction

In a first sense, industrial policy represents all the actions and policies of a state in its relations with industry. Industrial policy's goal is to build high extent market mechanisms, including the correction of its failures. The concept of industrial policy typically covers the policies and related instruments that affect companies and industries. The European Commission proposed a definition of the relevant industrial policy that relates to effective and consistent implementation of all policies affecting the structural adjustment of industry in order to promote competitiveness [European Commission (1994)].

Various definitions of industrial policy focus on different aspects:

- a) industrial policies include government intervention favoring certain firms or industries to others;
- b) industrial policy fundamentally affects competition policy, R&D and innovation policies, trade policy and regional policies;

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c) industrial policy is mainly directed towards the industrial sector of the economy, but may be applied also in primary and tertiary sectors.

At EU level, it refers to horizontal policies (fiscal, competitive, regional, social, labor factor, the environment, etc.), as components of industrial policy. This more so because, with these policies, was made the European Union's single market.

In another sense, industrial policy is an area where flexibility is encouraged and the private sector facilitated its adaptation to emerging shocks to the economy.

2. Evolution of the concept of industrial policy in the European Union

In the first two decades that followed the Treaty of Rome, establishing an industrial policy to scale all EU countries has not been a concern for policy makers, each Member State is free to set its own policy in this period, sectoral policies have been successfully applied widely, is one of the driving forces of economic growth and strengthen the most advanced Member States.

In the decade 1975-1985, in Western Europe characterized by economic stagnation, inflation and unemployment, the Community began to interfere with specific industrial policy measures aimed at ensuring the return of large firms and Member States to increase competitiveness.

Over the next five years, the Single Market was launched, aimed at policy, particularly the creation of economies of scale, improving competitiveness, developing European "champions" rather than national champions, taking a good part of the proposed legislation on Single Market. 1990, when was adopted the programmatic document "Industrial Policy in an open and competitive environment: Guidelines for a Community approach," marked the first milestone to establish a coherent industrial policy at Community level.

The document stated: "The concept of industrial policy for the community as a whole is characterized by seeking a balance between three objectives: fixation in sound and long-term conditions for an effective functioning of market economy (structural adjustment of prior assumptions); indicating the main catalysts for structural adjustment; development tools to accelerate structural adjustment and more competitive.

Prior assumptions of structural adjustment are: maintaining a competitive environment for industry, the economic criteria is essential to maintain a stable economic environment, particularly by way of a fair tax treatment, guaranteeing a high educational level, promoting economic and social cohesion and maintaining high level of environmental protection. The main catalysts for structural adjustment are: setting technical standards and quality of products at European level, the role of public markets, the abolition of national quotas, creating coherent legal framework for trans-European networks for businesses and creating physical infrastructure and human capital. "Accelerators" structural adjustments are to develop technological capacity, especially in generic technologies and distributed and dynamic action towards SMEs, which play an important role in structural adjustment. The new EU industrial policy established by this document has limited

the scope of industrial policies of the Member States and firmly rejected sectoral approaches in favor of open competition. Since 1990, the basic guidelines contained in this document have been properly applied in many industrial policy initiatives of the Community, particularly the automotive, marine and biotechnology industries. Maastricht Treaty in 1991 reaffirmed the Community Guidelines set and the ability to complete the industrial policies of the Member States.

Under the Treaty, the EU industrial policy aims to ensure basic conditions for increased competitiveness of Community industry and specified four basic directions of industrial policy in the future:

- 1) promoting structural change;
- 2) environment can promote the initiative to develop favorably, specially for the SMEs;
- 3) encourage favorable environment for industrial cooperation;
- 4) providing higher recovery results of research & technological development and innovation that has potential value for industry.

Specific regulations stipulating the conditions under which competition must take place within the industry, but it may enhance the action of factors independent of regulations, among the determinants of the intensity of competition in the fall of an industry:

- a) the degree of dispersion (atomization) of the industry, namely the number of companies in its intensifying competition between firms, when there are many companies and when any one of them is dominant;
- b) market growth rate – this rate is high when competition is weak, when competition is reduced pace – intensified as each company seeks to expand its market segment covered to maintain the level of sales;
- c) barriers to exit from the industry – when these barriers are high, competition is intense;
- d) the degree of differentiation of goods/services – where this level is high, competition is less intense, the differentiation is on price, manufacturing firms are tempted to reduce price, which may lead to a “price war”;
- e) particular industry – for example, registration of high fixed costs due to the specific work performed, the existence of excess capacity (or undercapacity), the long (or short) of manufacture, etc., according to those features which imposed prices, firms initiate action response – reducing variable costs, changes in classification of products, price reductions – which induce increased price competition;
- f) forms of manifestation of competition range extension of this range is proportional to the intensity of competition.

Another item on the industry which must be taken into account in determining strategic business development stage of that industry, which requires specific constraints on the nature and position in the life cycle curve of products/services specific to them and firm position against the dominant market. A reference document that followed is one entitled “A policy for industrial competitiveness for the European Union”, setting the major priorities for EU

industrial policy, defined in order to upgrade industrial response to global challenges that have arisen since 1990.

The main steps in the development of the industrial cooperation are provided by:

a) enhancing industrial cooperation by removing legal and fiscal barriers and developing appropriate legal instruments to promote cooperation;

b) organization of round tables to enable industrialists from within and outside the Community to identify mutual interests and encourage the development of joint projects;

c) developing a consistent approach on a common and efficient support to European investment in host countries.

3. Industrial policy principles governing the European Union

Industrial policy actions aim at:

1) single market for industrial products; completing the single market; single-improvement market instruments; single-market management;

2) promoting standardization and electronic commerce; standardization; expand the use of information technology; promotion of electronic commerce; exchange of data between administrations;

3) development of direct action in support of industrial competitiveness;

4) adaptation to the other sectoral policies.

The main industries at European level are:

1) life science and food industries (food, beverages, tobacco, cosmetics, pharmaceuticals, biotechnology, medical devices);

2) industry and machine building system (ITC, mechanical engineering, electrical engineering, motor vehicles, aerospace, defense industry, shipbuilding);

3) based on fashion and design industries (textiles, leather and leather products, footwear, furniture);

4) primary industries (basic) and intermediate (nonenergetic extractive industries, ferrous metals, cement and lime, ceramics, glass, wood and wood products, pulp, paper and paper products, printing and publishing, steel, chemical, rubber and plastics, construction).

Future industrial policy

Industrial policy priorities focus on:

- improving the business environment in the globalized world;
- coherence between the policy-environment, health, consumer protection, competitiveness and industrial policy;

- European industry, adapting to changes resulting from expansion to the south and east.

The design and implementation of the policy is consistently following certain principles:

a) subsidiarity, the European Union that not only deals with issues that cannot be tackled effectively at national level;

b) openness in dealing with markets, which means applying rules that guarantee correct operation of commercial activities inside and outside the Union, adopting a positive approach to structural adjustment policies that avoid protectionism and deceleration;

c) the prevailing approach horizontal, neutral, social, economic problems at the expense of sectoral policies, the activities or regions; the public-private partnership, which defines that public authorities private sector share an important responsibility for promoting successful industrial policy;

d) prosecution essentially aimed to increase competitiveness by speeding up structural adjustments, creating an environment conducive to development initiatives within the EU and industrial cooperation, ensuring a better exploitation of the industrial potential of research, technological development and innovation;

e) the correct market failures, which implies that public authorities intervene only when the market fails to provide allocation and efficient use of resources is necessary to eliminate failures of public authorities to consider circumstances in which they occurred, to the judicious choice corrective action;

f) the compromise between economic efficiency and social cohesion must ensure the dynamic balance between economic efficiency requirement, which calls for a strict expenditure, and economic and social requirement, which must be established structural and social policy Union.

4. Characteristics defining industrial policy in the European Union

Careful analysis of the principles, objectives, measures and actions that give substance to this policy highlight its main features:

4.1. Progressive crystallization

EU industrial policy has been built gradually over time, gradually becoming more complex and coherent. A growing consensus on the need for industrial policy at EU level and the type of policy to be followed to develop there.

4.2. Coherent

EU industrial policy combines instruments in a coherent EU policy and specific measures aimed at improving market functioning (competition and state aid policy, trade policy) and the capacity to adapt to industry changes (social policy and regional innovation policy and dissemination of technology, policy on SMEs). Coherence is often difficult because of the antinomial elements of the policies based industrial policy. It is clear that, for example, competition policy is the opposite potential of regional policy in the sense that regional support is directed to certain regions, industries and businesses, and it distorts competition.

4.3. Harmonization of industrial policies of the Union and Member States

In general, in the industrial policy of the Union, each Member State has sufficient space to establish its own industrial policy according to its specific objectives and problems. Pursuing specific objectives, the industrial policies of the Member States may contain some decisions which are not consistent with the principles, details and EU industrial policy instruments. Consequently, despite its

industrial policy, horizontal market-oriented, the Union is facing challenging and targeted industrial policies followed by some Member States. The inequalities of the Community industrial policy and relevant policies of the Member States are caused by differences between the objectives and approaches.

4.4. Register widely used instruments

EU industrial policy combines the operational requirements of all other policy instruments that have an influence on industrial activity.

The range of these tools include:

a) tools related to the functioning of markets – the control of mergers and contractual arrangements, monitoring agreements between firms, the monopolies and oligopolies of State aid to firms and industries, etc.; using such tools to maintaining the efficient functioning of markets and competitive pressure;

b) tools and industry-related; firms ability to adapt to the requirements of international markets, in the globalized world economy, incentives and facilities for research & development, technological innovation and dissemination, training activities, professional services firms, etc. to support.

According to the prevailing principle of horizontal approach, using these tools is neutral, but the operational implementation of the principle held in private markets must therefore take into account the specific conditions of each sector in this context and could appreciate the extent to which industrial policy instruments are used in order to interact with specific insurance policy to economic and social cohesion.

Conclusions

Industrial policy in the European Union is today a combination of political will, experience gained over the years and a profound economic and social reflection.

Policy provides a relevant example of how it could determine a course of action for uniform consensus Member States, which have a wide variety of conditions but are animated by a common desire to develop their industries and make them more competitive on the international markets.

Initially, the concept of industrial policy has been for many years the subject of repeated controversy within the Community. However, major changes produced within the member countries' economies and their future development prospects of confrontation with industry-leading progressive global challenges in establishing and implementing an industrial policy unit, supportive and dynamic Community. Integrating a range of measures, designed in a coherent approach to EU industrial policy seeks to achieve harmony when their policies interact and sensible coordination of these policies with those of its Member States.

At the same time, this policy is an extremely fertile ground for lessons for all candidate countries which are keen to structurally adjust and modernize their industries so as to be able to successfully meet the performance criteria established by the European Union.

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SHORT AND MEDIUM TERM OUTLOOK OF THE WORLD ECONOMY

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Abstract

In keeping with the January 2010 IMF prognoses, world output is expected to rise this year by 4 per cent in comparison with the 2009 level. This represents an upward revision of $\frac{3}{4}$ per centage point from the October 2009 World Economic Outlook.

In 2011, world economy growth is projected to reach a level of 4.3 per cent.

Reform of financial market supervision and regulation is clearly necessary to build a more resilient financial system. Here, the efforts need to focus on identifying the market imperfections that gave rise to the incentives for excess risk taking and high leverage, as well as the regulatory failures that together caused this unprecedented global financial crisis.

Key-words: *world economy, recession, recovery, stimulus measures*

JEL Classification: M₁₆

1. Introduction

Following the collapse of Lehman Brothers in mid-September 2008, a generalized loss of confidence between financial institutions triggered reactions akin to a ‘blackout’ in global financial markets. Spreads in credit and bond markets surged to very high levels, paralyzing credit and money markets. Prompt and massive policy action to restore confidence and provide liquidity appears to have successfully limited the period of panic, but the need for financial institutions to operate with less leverage and to repair their balance sheets remains. This process of adjustment will take time and impair the flow of credit, and is the key factor weighing on activity going forward.

The financial crisis is not the only development shaping the projections. Other important drivers include ongoing adjustments in housing markets, which in many European economies, based on past housing cycles, still have a long way to go. The dominant downside risks include a longer than assumed period before financial conditions normalize, further failures of financial institutions, and the possibility that emerging market economies will be hit harder by the downturn in global trade and foreign investor risk re-assessments. For 2010, widespread risks

remain, but these are more equally distributed, reflecting the possibility of an earlier economic recovery.

Reform of financial market supervision and regulation is clearly necessary to build a more resilient financial system. Here, the efforts need to focus on identifying the market imperfections that gave rise to the incentives for excess risk taking and high leverage, as well as the regulatory failures that together caused this unprecedented global financial crisis.

The experience of the past year has highlighted the importance of continuing with structural reforms that boost growth and strengthen the resilience of the economies to better withstand and absorb shocks. In this respect, a quick, successful completion of the Doha Round would contribute to supporting world growth, boost confidence, and demonstrate a commitment to competitive and open markets.

2. Actual and future trends in the world economy

Following the deepest global downturn in recent history, economic growth solidified and broadened to advanced economies in the second half of 2009 and in the first months of 2010.

Within both groups of countries, advanced economy countries, as well as emerging and developing economies countries, growth performance, fragile for this moment, is expected to vary considerably across countries and regions, reflecting different initial conditions, external shocks, and policy responses.

Driving the global rebound was the extraordinary amount of policy stimulus, especially in the field of monetary and fiscal policy. In advanced economies, the beginning of a turn in the inventory cycle and the unexpected strength in U.S. consumption contributed to positive developments.

Final domestic demand was very strong in key emerging and developing economies, although the turn in the inventory cycle and the normalization of global trade also played an important role. Growth in emerging and developing economies is expected to rise to about 6 per cent in 2010, following a modest 2 per cent in 2009. Key emerging economies in Asia are leading the global recovery. For the Asia region (excluding Japan), growth is likely to exceed 7 per cent this year. A few advanced European economies and a number of economies in central and Eastern Europe and the Commonwealth of Independent States are lagging behind.

In keeping with the January 2010 IMF prognoses, world output is expected to rise this year by 4 per cent in comparison with the 2009 level. This represents an upward revision of $\frac{3}{4}$ percentage point from the October 2009 World Economic Outlook. Output in the advanced economies is now expected to expand by 2 per cent in 2010, following a sharp decline in output in 2009. In the most advanced economies the recovery is expected to remain sluggish by past standards, and still dependent on government support. This is why policy support should be maintained until there are clear signs of a recovery in private demand and employment growth. High unemployment, in particular, is a major concern – especially in Europe and the U.S.

The IMF specialists expect world trade to continue recovering and the global volume to increase by 5.8% on average in 2010 after having slumped by over 12% in 2009.

Year-by-year, in 2009, exports from **G7** countries were down 17.5% while imports were 14.6% lower.

The **United States** economy is projected to grow just 2.7 per cent in 2010 after declining an estimated 2.5 per cent in 2009.

IMF also changed its forecast for the **Canadian** economy, hiking the projected growth for 2010 to 2.6 per cent, half a percentage point above the last projection. The forecast for 2011 was unchanged at 3.6 per cent growth.

Germany. IMF specialists are optimistic that during 2010 the recovery will continue and the expected real GDP will grow more than 2% after having contracted by 5% in 2009.

This upturn, which is currently still being largely driven by monetary and fiscal policy, will become increasingly self-sustaining. This is indicated by the stabilization of the financial markets, the synchronized global economic upturn, low inflation and the improved sentiment among both companies and households.

Private consumption looks set to rise again this year by around ¾%, as households benefit from further tax relief, inflation remains low and only marginal employment declines.

With exports recovering and profits rising, investment is also likely to resume despite the gross underutilization of production capacities. Investment in plant and equipment is forecasted to rise almost 6% after tumbling 20% in 2009. Construction investment could grow nearly 1%, in particular on account of brisk public-sector construction activity triggered by the stimulus packages.

In the **UK's** economy as a whole, a growth of 0.9% is predicted this year. Manufacturing firms expect production to grow by an average of 1.2% this year, rising to 3.4% in 2011.

Japan's quarterly exports rose 11.5% in the third quarter while imports were up 7.2%. In 2009, year-by-year exports were down 25.1% while imports were 12.7% lower.

Over the fourth quarter of 2009, the Japan's GDP growth registered a level of 1.1%, compared with the third quarter, as result of the domestic consumption recovery and the industrial investment growth.

Commodity prices rose strongly during the early stages of the recovery, despite generally high inventories. To a large extent, this was due to the buoyant recovery in emerging Asia, to the onset of recovery in other emerging and developing economies more generally, and to the improvement in global financial conditions.

Looking ahead, in 2010 and 2011, commodity prices are expected to rise a bit further supported by the strength of global demand, especially from emerging economies. However, this upward pressure is expected to be modest, given the above-average inventory levels and substantial spare capacity in many commodity sectors. Accordingly, the IMF's baseline petroleum price projection is unchanged for 2010 and revised up by a small amount in 2011 (to \$82 a barrel, from \$79 a

barrel in October 2009). Other non-fuel commodity prices have also been marked up modestly.

Policymakers now face a difficult balancing act in judging the timing, pace, and sequencing of exit policies, both from the monetary and financial policies, as well as starting implementation of a medium term strategy for fiscal consolidation and debt reduction. Withdrawing policy support prematurely would leave the financial system vulnerable to a re-intensification of pressures (such as in countries with weak recoveries and remaining financial vulnerabilities), while belated withdrawal could potentially ignite inflationary pressures and sow the seeds for future crises (such as in countries with risks of financial excesses and overheating).

Policy efforts so far have addressed the immediate threats to financial stability (through liquidity support, deposit insurance, and recapitalization schemes), but they have done little to resolve the uncertainty about the long-term solvency of financial institutions. The process of loss recognition and restructuring of bad loans is still incomplete. Therefore, financial sector policies should focus on advancing this process by forcing credible and coordinated loan loss recognition and by providing public support to the viable financial institutions. Such policies should be supported by measures to resolve insolvent banks and set up public agencies to dispose of the bad debts, including possibly through a “bad bank” approach, while safeguarding public resources.

Monetary policy remains an important policy lever. The projections incorporate a substantial easing in policy rates, although the effectiveness of interest rate cuts to support activity is likely to be constrained as long as financial conditions remain disrupted. With interest rates approaching zero in several major countries, central banks are exploring alternative policy approaches that rely on using their balance sheets to ease monetary conditions further. The focus should be on unlocking key (high-spread, low-liquidity) credit markets.

Over the medium term, policies should be aimed at entrenching financial stability, which will underpin strong, sustained and balanced global growth. Public sector risks will need to be reduced through credible fiscal consolidation, while risks emanating from private financial activities should be addressed by the adoption of a new regulatory framework.

At the same time, new sources of growth are needed in most of the world’s economies to ensure a robust global economy.

First and foremost, strong growth must be restored. This will require a rekindling of private demand. In many countries, structural reforms will be needed. In particular, labour and product market reforms can boost productivity, and speed the transition. Efforts to boost the “green” economy can also support this restructuring effort.

A second goal is for growth to be sustainable. That is, to restore and sustain private demand, both consumption and investment will be needed. For sure, this will require dealing with pending fiscal challenges.

Third, global growth should be balanced. For this to happen, economic policies must be consistent with healthy external positions. This means maintaining

sound fiscal, monetary, and exchange rate policies, and also avoiding domestic market distortions.

To achieve this, all countries will need to play their part.

Countries that have traditionally run large current account deficits recognize that they need to raise saving – often both private and public – and boost productivity. In the United States, for example, this is beginning to happen, with the household saving rate already up sharply since the start of the crisis, to about 5 per cent in 2009. It could rise even higher.

Countries that have traditionally run large current account surpluses and relied heavily on export-led growth recognize that new growth drivers, will need to be found. In China, for example, the government is taking steps to boost private consumption.

These major shifts in growth patterns will not be easily achieved, and certainly not overnight. But if the countries can move in this direction in the coming year, it is possible to have a “win-win” situation, with more sustainable global growth for all.

For this economic transformation to be successful, international policy collaboration will need to be more effective.

The recent experience in dealing with the crisis gives cause for hope. The nations of the world pulled together to respond to a profound economic – and potentially human – calamity. Governments worked together on many fronts – undertaking concerted and significant monetary easing; implementing large fiscal stimulus, where possible; and shoring up ailing financial sectors.

This spirit of cooperation has produced a much strengthened framework of international collaboration. The G-20 – in which Asia is playing a major role – has emerged as a key forum for the world’s major economies to discuss policy priorities. The recent G20 meetings initiated an action plan and a process aiming to continue furthering multilateral co-ordination to overcome the immediate problems facing the global economy and to strengthen the international financial architecture over the medium term.

The G-20’s new Mutual Assessment Framework is an important step. Through this process, the world’s largest economies will be accountable – to each other – for adopting the policies needed to ensure strong, stable and sustainable growth over the medium term. This new framework can be one of the keys to the transformation of the global economy in 2010 and beyond.

Conclusions

In keeping with the January 2010 IMF prognoses, world economy growth is projected to reach a level of 4.3 per cent, in 2011. In spite of the revision, the recovery in advanced economies is still expected to be weak by historical standards, with real output remaining below its pre-crisis level until late 2011. Moreover, high unemployment rates and public debt, as well as not-fully-healed financial systems in some countries are presenting further challenges to the recovery in these economies.

World trade in goods and services volume is expected to grow by 6.3 per cent, in 2011.

There are still significant risks to the outlook.

On the upside:

- The reversal of the confidence crisis and the reduction in uncertainty may continue to foster a stronger-than-expected improvement in financial market sentiment and prompt a larger-than-expected rebound in capital flows, trade, and private demand.
- New policy initiatives in the United States to reduce unemployment could provide a further impetus to both U.S. and global growth.

On the downside:

- A key risk is that a premature and incoherent exit from supportive policies may undermine global growth and its rebalancing.
- Another important risk is that impaired financial systems and housing markets or rising unemployment in key advanced economies may hold back the recovery.
- Yet another downside risk is that rallying commodity prices may constrain the recovery in advanced economies.

On the short term, policies should be focused on ensuring that the recovery is maintained and that there is no recurrence of the negative feedback between the real economy and the financial sector. In those economies where financial vulnerabilities persist, efforts should continue to clean up bank balance sheets, ensure smooth rollover of funding, and restructure weak banks.

In those emerging market countries that are recovering rapidly, the policy priorities remain to address capital inflows through macroeconomic policies, including through greater exchange rate flexibility, and prudential measures.

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BOOK REVIEWS

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Critical marketing – defining the field

Elsevier, Oxford, UK, 2007

The aim of this book is to explore marketing less visible sub-areas – *Critical Marketing*. We are facing a significant current of research and publications in the field of marketing, and management that takes a critical stance. Critical research in marketing however has lagged some way behind other management academic subjects in its volume and visibility.

This book is the first book on Critical Marketing that provides a compilation of original papers from well-known critical authors within marketing. The idea of such a book arose from a series of Critical Marketing seminars, funded by the Economic and Social Research Council, UK. These seminars were designed to bring together an international group of scientists from a wide range of marketing areas to foster a strong critical forum within the academic marketing community.

The editors of this book were often asked, “What do you mean by Critical marketing?” But, there is no easy answer to this question. By reading the papers included in this volume, we discover that many debates on the meaning and use of the term “critical”, and consequently on the “Critical Marketing” concept, have been held.

The writing reflects this meaning negotiation and illustrates the difficulty of trying to define and to describe a concept, which still remains loosely defined and fuzzy.

Some readers will find the term “Critical Marketing” frustrating mostly because the language is not static, its evolving and defining a term it means most of the time to reflect the changing nature of the context that we are communicating.

The major problem in defining Critical Marketing is that academics are presumed to engage critically with ideas and describing someone as a critical academic is a sort of tautology.

The spirit of the book is to build on the perspectives and create a more substantial cohesive identity for critical marketing, an identity that can embrace differences as well as similarities, disagreement as well as harmony.

The volume is organized in three sections that follow the main themes subject to debate: (1) *Being a Critical Marketer – Reflections from the Field*; (2) *Critical Debates: Questioning Underlying Assumptions* and (3) *Effecting Change through Critique: Social and Environmental Issues*.

Part One focuses on the critical marketer concept and tries to cover in detail many of the debates on the subject. It is also an excellent introduction for any researcher wishing to follow a critical path in marketing.

The chapters reflect diverse ways of understanding the critical concept from various academics' perspective.

The debate is unsuccessful in defining the "critical" concept and the attempt to clarify it is useless. In fact, all initial chapters gathered in part (1), highlight the politics of representation that can undermine the critical marketing project.

The chapters of part (2) *Critical Debates: Questioning Underlying Assumptions* challenge not only taken-for-granted aspects of mainstream marketing thinking and research, but also various assumptions about marketing phenomena, often made by critical and cultural theorists from outside the marketing scope. The authors review the "marketing" concept, "marketing" questioning in the process its continued validity in relation to the full range of human activities that have become prime sites for study in this ever-expanded field. Instead, they propose the term "societing" and put forward an argument as to its greater relevance to the dynamic and ever-changing world of contemporary market-based phenomena.

Another chapter, from the same part (2), further explores and critically deconstructs the use of language within marketing, opening up questions regarding such taken-for-granted marketing axioms as "consumer sovereignty". Chapters 8 and 9 underline the power of advertising. Advertising, of course, is one of marketing's most criticized areas, particularly by those outside the marketing scope.

Finally, in this section of the book, chapter 10 questions another frequently made assumption about the inescapability of the market and the lack of consumer's agency. "Can consumers escape the market"? This is a question used to interrogate some sociological dimensions of each of the component words of this phrase, in an effort to assess the meaningfulness of the question. The author suggests the agency concept is conceptually problematic and the anti-consumption ideology that seems to underlie the overarching question is, in fact, a class-based ideology in the UK and in the USA.

The entire part (2) raises highly thought-provoking conceptual and theoretical issues and overturns many existing preconceptions. To be truly effective, however, critique needs to bring about some type of change, not only in ways of thinking, but also in ways of doing.

The chapters in part (3): *Effecting Change through Critique: Social and Environmental Issues*, unanimously explore key issues on effective social and environmental change. Chapter 11 discusses Social Marketings' potential contribution to Critical Marketing. The authors critically analyze the way in which commercial marketing impacts upon the people's health and welfare and the way in which the same marketing principles can be used to solve social and health issues and to influence policy decision-making. Generally, they argue that social marketing provides the marketers a coherent framework, probing them to consider the broader social implications of their activities.

After reading this book, one can conclude that there is a clear basis for Critical Marketing to influence both policy and practices as well as to have an indirect impact via our teaching practices.

Bucharest, 18 January, 2010

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PAUL KRUGMAN

The Conscience of a Liberal

Translated into Romanian by Constantin Dumitru-Palcus
Publica Publishing House, Bucharest, 2010

“The Conscience of a Liberal” is Paul Krugman’s second book translated into Romanian. It is issued by Publica Publishing House, recognized for issuing representative books written by winners of the Nobel Prize for Economy.

With this book, Krugman aims at stirring the present progressive movement, just as “The Conscience of a Conservative”, written by the Republican Senator and candidate for the US Presidency, Barry Goldwater, approached the right-wing movement in mid 60s. Krugman’s liberal is not the European liberal militating for a reduced state’s role. He is the opponent of the active conservatism promoted by the Republican Party, during the last three decades.

The central theme of the book is the economic equality. Krugman begins by describing a long-lasting Gilded Age, which started in 1870 and was shattered by the Great Recession around 1930. He states that this period was a time of “vast inequality in wealth and power, in which a nominally democratic political system failed to represent the economic interests of the majority”. It also describes the dominance of a very wealthy elite over the political life of the United States as well as the way in which the state’s power was used in order to protect the interests of this elite. This period was also characterized by the “uncritical acceptance of the conservative ideology which warned that any attempt to help the less fortunate would entail the economic disaster”.

However, the Great Recession put an end to this age. The reforms of the Democrat President, F.D. Roosevelt, reduced considerably the fortune and power of this elite. By consolidating the trade unions and through increased taxes for the rich, in order to support the development of Social Security and Medicare redistributive programmes, the New Deal reduced the income gap, helped the working class to overcome poverty and led to an economic boom. According to Krugman, the middle class, the engine of the US economy, was not the outcome of free market economy, but was created by the Roosevelt Administration’s reforms.

Even if the Republican President Eisenhower accepted the New Deal policy, there had always been voices inside the Republican Party, arguing these reforms. These new conservatives gradually formed the majority and imposed Barry Goldwater as candidate for the Presidency, to subsequently become members of the leading party, when Ronald Reagan entered upon office. They advocated for economic deregulation and tax decrease. This entailed once again an increased inequality. The income distribution figures in 2005 would almost match those

recorded in 1920, when the richest 10% persons obtained 43.6% of the income, while the richest 1% persons were assigned a percentage of 17.3. In 2005, these rates were 44.3% and 17.4%.

Nevertheless, Krugman believes that this active conservatism has shown its limits during the past few years and the possibility to reduce the inequality once again and to restore a middle-class America, emerges. The last months events seem to support his opinion. The Obama Administration has adopted a legislative package implementing the national health insurance system, which was not possible during the 50s.

Krugman's words stand for conclusion: "... those of us who call ourselves liberals are, in an important sense, conservative, while those who call themselves conservatives are for the most part deeply radical. Liberals want to restore the middle-class society I grew up in; those who call themselves conservative want to take us back to the Gilded Age, undoing a century of history".

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