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FORCED INDUSTRIALIZATION IN ROMANIA AND FOREIGN TRADE CHANGES DURING SOCIALISM

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Abstract

During the 40 years (1949-1989) of centralized management of the economy, Romania was transformed from an agrarian-industrial country into an industrial-agrarian country, but not beyond the stage of a developing country.

Planning the formation of the accumulation fund and the fixed funds allocation made possible to faster diversify and increase the industrial production.

In a first stage, during the 8th decade (1971-1980), the increase in imports of capital goods needed in industries' technology revamping engendered the growth of Romania's foreign debt.

In the 9th decade, the policy of forced payment of previously accumulated foreign debt was achieved by aggressive compression of imports and boost of exports.

At the end, in 1989, Romania's foreign trade structure corresponded almost completely to the structure of the supply from the countries producing industrial processed goods. From this point of view, Romania became, after four decades of accelerated development, an acceptable client to Western exporters.

Keywords: *economic growth; industrialization; development dictatorship.*

JEL Classification: B25, O10, O43, Q56, Z13

Introduction

The increased pressure entailed by the payment of the external debt as well as the agrarian-industrial character of the Romanian economy until 1940 led to the adoption of the accelerated industrialization solution.

The need to adopt a consistent policy of industrialization was already consecrated by the overwhelming majority of economic works in the interwar period, as industrialization was considered the only effective way of achieving the macroeconomic balance.

The experience of the 80 years of (1859-1939) transition to capitalism had highlighted serious inadequacies of the economic systems of the 'lagging behind' countries slow pace of economic growth, internal inequalities in regional development, ever more pronounced social segregation, dependence of the capacity to pay the country's foreign debt on the instability of the agricultural production respectively on the exports of raw materials and semi-products, maintaining a relatively small internal urban market, the agricultural relative overpopulation, lack of qualified personnel for non-agricultural sectors, maintaining a high level of illiteracy, etc.

Countries at the beginning of industrialization could hope for an intensive development, partially recovering the gaps towards industrialized countries only by accelerating industrial development. It was relatively easy to justify and support such an imperative, but almost impossible to achieve it within the capitalist system already applied for 80 years.

Forecasting calculations were daunting about the possibilities of interwar Romania. The most delicate problem was the chronic shortage of funds, the scarcity of capital for public and private investment. Foreign capital invested in Romania contributed sequentially in several sectors only, and as duration in the short and medium term to the development of economic sectors.

Government budget revenues would not have been able even in the most optimistic estimates to cope extensive investment programs. One example is illustrative: developing national energy system (not to mention upgrading the infrastructure or mechanization of the agriculture).

Until 1940, the Romanian capital private initiative remained relatively dominant at the small and medium enterprises level. For "peak" sectors at the time (mining, oil refining, wood) foreign capital was

prevailing which, as we were saying, could have only a limited and temporary positive influence for overall economic growth of the country.

The industrialization of the country would become the axis of socialist economic policy. Domestic capital accumulation and planned investments distribution on sectors of the economy were to ensure high growth rates, specific to a forced, accelerated development, impossible to achieve within the conditions of the market economy known until 1940.

The international institutional framework – solving the problem of the external market to accelerate the development of socialist economies

Dating back to the sixteenth century, the debate of ideas on ways to ensure the economic growth of a country focuses more strongly, since the second half of the nineteenth century, on the importance of foreign trade.

Foreign market expansion in terms of the classical theory of international trade (Smith-Ricardo-Mill) would not have to be a significant problem, as each country could participate in the international values exchange “with what had been destined”.

Thus, if a country could naturally produce satisfactory amounts in cereals, bananas, coffee, saltpetre, oil or diamonds, for example, according to the principles of free trade, that country only had to change its products for those of other countries ensuring the demand for those goods that could not be *naturally* achieved from salt, pepper, oranges, glass, mirrors, nails and rails to machinery, drilling rigs and refinery and, nowadays, computers.

Thus, the international trade of goods and services produced in compliance with the international labour division and free trade principles should vouch to all participants’ advantages and benefits, enshrining peace and universal harmony.

The period of new great powers industrialization, such as Germany and the US, led to a reassessment of the international trade theory and, especially, to questioning the effectiveness of the application of generalized free trade. It developed so with increasing virulence, especially after 1880, the re-escalation of *mercantilist* practices from the dawn of capitalism, now called *protectionism*.

The most serious curtailment of confidence in the “healthy” character of free trade principles brought by the *protectionist theory* targeted the very foundation of these principles: within the international trade were not exchanged goods based on equivalence according to the *prices* of goods and services, but exchanges of non-equivalence given by disparities between the levels of productivity of production factors (natural factor: the *soil*, human: the *labour*, social-economic: the *capital*).

The expansion of the European market after 1850 brought with it a worsening issue: the acknowledgement of economic disparities between countries and their aggravation. The limits of expansion of the *developed Europe* economy revealed with increasing obviousness.

By 1914, however, the general operation of the two fundamental systems (the *gold standard monetary system* and the *multilateral trade*) assured an overall development of the European economy, even though the widening gaps continued to become chronic.

Following the serious distortions of the international economic relations during the 1930-1940 period, became clear the need for a radical restructuring of the international trade regime, as well as the imperative of accelerating growth in the areas designed for the developed economies expansion.

Increasingly striking warning signals began to be heard highlighting a serious threat to the continued economic growth of developed countries: through the further aggravation of economic disparities, the competitive advantage held by these countries resulting from the international division of labour risked to be left without the appropriate markets, clearly leading to the decline of large or small industrialized states.

In order to regulate international economic relations after 1944, in addition to the reorganization of the League of Nations under its new name of *United Nations Organization* (UNO), a number of new institutions was established such as the *International Monetary Fund* (IMF), the *World Bank*, the *International Bank for Reconstruction and Development* (IBRD), the *General Agreement on Tariffs and Trade* (GATT), the *United Nations Conference on Trade and Development* (UNCTAD), etc.

The chances of the countries at the beginning of their industrialization to compete with industrial competitive products in the international market along with the increasingly progress due to faster technological change in developed countries were virtually nil.

For the new bloc of socialist countries shaped after 1945, the solution to the *foreign market issue* was the establishment of the *Council for Mutual Economic Assistance (CMEA)* in 1949.

Among other functions (planning correlation, foreign exchange, financial assistance, etc.), the CMEA market was meant to ensure the supply of raw materials and the sale of industrial and agricultural products of each member country on more favourable terms than those offered by the Western markets.

The purpose of the industrialization policy

The stated objective of socialism was the country's transformation from agrarian-industrial to industrial-agrarian. Romania was to develop "multilaterally" to acquire a structure of sectors and a quantitative and qualitative level comparable to those of developed countries.

For countries with a low level of industrial development, the prevalent development of heavy industry was considered the unique and secure way to ensure a rapid and seemingly sustainable development of economies as a whole. Moreover, the Soviet experience itself (1927-1945) represented a confirmation of the expected success in other developing countries.

Historical prerequisites of Romania's industrialization

During the eight decades of capitalism establishing (1859-1939), the Romanian economy was gradually drawn into the circuit of Western values. In this new context Romania *had to* start its modernization process.

The modernization of the Romanian society required public borrowing which brought about the foreign debt increase. In order to pay the foreign debt tontines, Romania *had to* secure the necessary foreign currency liquidity. But the Romanian economy depended largely, especially until the early twentieth century, on its agricultural output. Romania's export

capacity and therefore the ability to import were determined by the annual level of agricultural production.

The seasonal nature of agriculture and the influence of the climate engendered the instability of the agricultural production. Therefore, the fluctuations in agricultural output caused serious imbalances both domestically and in the international economic relations. Depending on agriculture, Romania's international payment capacity was uncertain, affecting the financial potential to support imports.

Industrialization was supposed to attract a large part of the labour force surplus in rural areas, while the phenomenon of *relative agricultural overpopulation* had become a serious demographical and economic problem during the interwar period.

In academia, in the press, as well as among politicians and even in the business environment the necessity of developing a powerful industry had become a dominant idea until 1940. Moreover, under the *dictatorship of development*, the accelerated and forced industrialization of Romania has become the main focus of the leadership of socialist Romania.

The industrialization strategy during socialism

The policy of industrialization meant developing with priority the heavy industry producing investment goods (capital goods) or "means of production", as they used to say at that time.

The idea of the priority development of these sectors was neither by the Bolsheviks nor by the communists inspired. The economic literature had already shaped a school of thought which argued the meaning of this strategy: developing the *national productive forces* [List, 1841] could be complete and real only by developing mainly the sectors with a labour productivity above the national average [Manoilescu, 1929].

Particularly encouraging for LDCs industrialization imperative argument, were also the findings of the League of Nations study *Industrialisation et commerce extérieur* published in 1945. The solution

suggested by the authors of the study targeted the financial sources for industrial investments in national accumulation.¹

The historical experience of the previous 80 years of establishing capitalism in Romania had shown that domestic capital accumulation was extremely low compared with the needs of economic and social modernization. On the other hand, it was estimated that autonomous foreign capital investments in industries of the countries at the beginning of their industrialization will not be sufficient to cover the necessary.

Therefore, one of the functions of the socialist government was **to force the domestic capital accumulation**. On that effect, the planned distribution of the national income as *accumulation fund* and *consumption fund* was the way of achieving the necessary investment funds. The trend of the single (communist) party policy aimed at achieving a certain balance between the two funds.

Planning extremely high growth rhythms resulted in high rates scheduled for the accumulation fund to the detriment of consumption. Basically, within the framework of the *development dictatorship*, the totalitarian leadership aimed at raising increasingly larger investment funds (during 1961-1980) from a five-year plan to another, by restricting the household consumption.

The industrialization policy adopted in socialism has followed from the beginning the intensive development of heavy industry (the Group “A” sectors, producing capital goods) i.e. the extractive, metallurgical, chemical, electrical industries, etc. and especially the machine and equipment industry. Machine and equipment industry was considered the “backbone” of the national economy: on its development depended the **real economic independence** of the country.

The funds allocated to Group “B”, respectively to sectors of industry producing consumer goods (food, textile, footwear, etc.) were significantly lower than those allocated to Group “A”.

¹ See *Industrialisation et commerce extérieur*, Société des Nations, Genève, 1945.

Increasingly more pronounced in the 80s were felt the Romanian economy autarky attempts, focusing on severe curtailment of imports, relying on domestic industry's production capacity, which was not really stimulated.

Despite the controversies related to the usefulness, purpose and effectiveness of industrialization, it is obvious that after 40 years of forced development, in 1989 Romania's economic structure was significantly changed: the industry became the main sector.

The relation between industrialization and foreign trade

The transition to socialism, in general, and in the countries of South-eastern Europe in particular was done forcibly, through the intervention of Soviet troops. For a number of countries, socialism was considered the most effective solution to accelerate the development and growth in as short as possible historical times. Imposing "*the good*" *by force* was achieved by the "dictatorships of development" under socialism.

Forced development, labelled as *socialism*, was largely the continuation of *civilizing by force* – the *force of the market* – under the label of *modernization and capitalism*, which began in Romania with the reign of Alexandru Ioan Cuza.

The association of the industry evolution with that of foreign trade is not accidental. Until the First World War and then until 1940 all been written and talking about the difficulty, not to say "impossibility", to develop industry in Romania, namely generally in little or no industrialized countries, first due to the limited internal and external market.

The domestic market problem would be solved by socialism through urbanization and increasing rural demand for industrial products. The limits of foreign market remained a challenge to identify the outlets inherent in the forced industrialization of the socialist countries. The industrialisation required external transactions growth, not only for raw materials supply but especially for exports of processed (manufactured) products.

It was easy to imagine that Romanian industry products and, generally, of the industry of most socialist countries in different stages of the early industrialization would not have faced competition in Western

markets. To be “competitive” in the foreign market, the socialist countries needed an own market, relatively isolated from competition specific to large industrial producers.

The solution adopted was the creation of the *Council for Mutual Economic Assistance* (CMEA) in 1949.

Synthetic indicators of the industry evolution between 1950 and 1989

The industry’s development and modernization is reflected by the summarized evolution of the number of enterprises, labour input and the dynamics of synthesis indicators.

The share of financial resources for achieving industrial investment respectively the share of accumulation fund in national income were greater than those destined to other sectors. The intense focus on industry development materialized in the increase in number of the industrial units.

The number of industrial enterprises increased from year to year, from 1658 in 1950 to 2102 in 1989, the republican subordinated being net “favourite” to local subordinated ones. It should be well understood that the number of enterprises is not an eloquent indicator by itself. What mattered in the first place was the size of the enterprise; the republican subordinated had a much larger size.

The investment effort inherent in the establishment of such industrial “mastodons” was exceptional. The evolution of locally subordinated enterprises was tortuous, reflecting the diminishing interest in local industry development.

It was thus confirmed the need for priority development of large industrial enterprises stipulated by Mihail Manoilescu, Ștefan Zeletin and others, thus being virtually diminished the importance of National Peasants’ Party’s vision about the development of industries connected to agriculture, located mainly in rural areas.

The structure of employment has radically changed in 1989 compared to 1938 and 1950. In 1930 the share of employment in industry was 7.7% of total employed population, while the urban population share was 21.4%.

Romania's transformation from an agrarian-industrial country into an industrial-agrarian country is reflected, among other indicators, by the ratio change of industry and agriculture employment shares.² In this respect, the period 1970-1980 was decisive: the share of employment in agriculture decreased from 49.1% to 29.4%, while the share of employment in industry increased from 23% to 35.5%.

Consequently, compared to the beginning of the period (1950), in 1989 the demographic indicators structures distributed by urban-rural areas and labour distributed by sectors were radically altered. The population employed in industry increased more than fourfold, from 1 million in 1950 to 4.1 million in 1989; the share of employment in industry increased from 11.9% to 38.1% of total employed in the economy, while the share of employment in agriculture declined from 74.1% to 27.5%.

Forced industrialization also engaged the accelerated urbanization process. In 1989 the urban population had a share of 53.2% of the total population, having increased from about 3 million in 1938 to 5.5 million in 1956, namely more than 11 million inhabitants in 1989, i.e. almost four times compared to 1938.

Industry's contribution to the formation of Social Product and National Income

The increased importance of the industry in the national economy is reflected first by the contribution of this sector to the formation of social product (SP) and national income (NI).

Industry's contribution to the formation of Social Product increased from 39% in 1938 to over two-thirds in 1989, while the share of industry in National Income rose from 30.8% to only 58.1%. The differences between the weights of the two indicators, for example in the years 1938, 1960 and 1989, were caused by sharper increase in material costs. Thus, the share of expenditures made in industry in total material costs rose over the same period from 36.6% to 71%.

² *Romanian Statistical Yearbook*, 1990, p. 51; A. Bondrea, *Starea națiunii 2000. România încotro?*, Editura Fundației România de Măine, București, 2000, p. 195.

The investment effort devoted to industrial development was remarkable. The investment in the industry held the largest share of total investment in the economy, i.e. between 43% and 50% (maximum reached in 1986), increasing from about 2.4 billion in 1950 to over 124 billion lei in 1986.

Increased investment brought about the **industrial production** growth which recorded the maximum increase (calculated in comparable prices) of 44 times in 1989, compared with an investment increase (calculated at current prices) of only 37.2 times versus base year 1950.

The apparent increase in investment efficiency can be inferred from the comparison with the investment dynamics of industrial production compared to 1980 as a year of reporting. While investments diminished from 93% in 1985 to 83% in 1989, industrial production increased from 120% to 133%, showing a slight decrease in 1989 compared to 1988. The industrial production growth however was not the result of net investments, but of the average longer operating period of fixed assets in previous periods.

The efficiency of fixed assets in the industry, after a real growth recorded during 1970-1980, diminished in the last decade. National income realized in the industry related to the value of fixed assets in the industry fell on average annually by 3.4% during 1981-1985 and 8.5% during 1986-1989. [Constantinescu, 2000]

Factors leading to reduced efficiency of fixed assets were: the over-endowment with fixed assets of enterprises; long-term effects of the energy and raw materials world-crisis (1973-1979) which led to early degradation of imported technologies; reducing domestic and external demand for some industrial products (tractors, agricultural machinery, energy and oil equipment, lathes, etc.); imbalances within enterprises through retrofitting gaps between sections; breakdowns and faults caused by the lack of spare parts or the incomplete providing of fixed assets servicing mainly after imports restricting during 1982-1989.

Dispersion of investment destination in the last decade of socialism has generated unsustainable programs and planning of production and labour. These causes have led to run time extending and delaying to operate the objectives by 2-5 years and more.

The evolution of output and investments by industrial sectors between 1950 and 1989

The structure of industry sectors has changed, focusing on the development of heavy industry sectors (Group A). Group A share in total industrial production increased from 45.5% in 1938 to 52% in 1950 and 72.5% in 1989 with a corresponding reduction of the Group B share (consumer goods).³

For the Group A the highest increases in the share of production volume were recorded by the following sectors: the share of industry engineering and metal processing increased from 10.2% in 1938 to 13.3% in 1950 and 27.7% in 1989; similarly the share of chemical industry production went from 2.7% to 3.1% and 9.8%, while non-ferrous and ferrous metallurgy increased from 6.7% to 7.5% and 9, 8% respectively.

Group B sectors producing consumer goods marked shares decreases, even if their production has increased in the period under review. The share of food industry production decreased from 32.4% in 1938 to 24.2% in 1950 and 11.6% in 1989. For textile industry, the evolution of its share in total industrial production was upwards, from 9.4% in 1938 to 11.1% in 1950 and declining to 6.6% in 1989.

Increasing production of the different sectors followed the same array of development with emphasis on heavy industry.

The most significant increases in production were recorded by the chemical industry – 221 times, and machine building – 158 times, far above the industry average as a whole, while light industries increases were below the average of industry's total respectively 24 times for the textile industry and only 11 times for the food industry.

In the period 1950-1989 the average annual growth of industrial output as a whole was 10.2%, being surpassed by Group A (11.1%) represented by the *Chemical* industry (14.9%) and *Non-metallic minerals extraction and abrasive products* industry (14.7%), *Engineering and metalworking* (13.9%), *Coke-chemical* (12.8%), *Electricity and Building materials* (11.2%).

³ *Romanian Statistical Yearbook*, 1990, p. 452-455.



Table no. 1. Industrial production dynamics of some main branches between 1950-1989

- % -

	1950	1960	1970	1980	1989
Industry, total, of which	100	340	1100	3300	4400
Chemical industry	100	658	5400	17800	22100
Machines engineering	100	585	2700	11000	15800
Building materials	100	409	1600	4700	6200
Wood processing	100	317	986	2000	2600
Food	100	238	489	939	1100
Textile	100	235	655	1900	2400
Apparel	100	241	736	2400	4100

Source: *Romanian Statistical Yearbook*, 1990, p. 432-433.

The main beneficiaries of intensifying investments were *oil processing industry, electricity and thermal energy, metallurgy and chemical industries* in which there were invested between 48%-75%. [Constantinescu, 2000]

The investment effort has not been evenly distributed over the 45 years. Completion of industrial investments and fixed assets operating required different periods of time by the industry in question. Therefore stepping up investment process is best reflected by the *investment dynamics outmatching by fixed assets dynamics index* – 1.16 in the period 1966-1975, namely 1.32 between 1976 and 1980.

Between 1980 and 1989 statistical data on *production and investments* in the industrial sector reflect contradictory developments of the two indicators.

Overall, with a few exceptions (the garment industry, for example), the last decade of the reviewed period investment growth was below the level reached in 1980, while the industries output was considerably higher than in 1980 (*Machinery industry and Metal processing, Chemical, etc.*).

The explanation for increased production, while reducing investment growth to 1980, is the time gap between the period of maximum investment

efforts and the lag to operate the respective fixed assets. In the case of highly productive sectors (most industries in Group A), increased investment was made approximately between 1960 and 1980. In a limited number of sectors, investment effort continued after 1980.

With a diversified structure, providing the bulk of the domestic demand of consumer goods and, in the 9th decade, most demand of capital goods, **despite halting the refurbishment and despite the extension of the useful life of fixed assets**, the Romanian economy was far from being “a pile of scrap”.

The lucid observation of maintaining and worsening the gap from the front-developed and even some developing countries must be supplemented by a clear understanding of the realistic possibilities of a forced-accelerated, artificial development. The industrialization of Romania had achieved its historic *goal: the compatibility of the domestic demand for consumer goods with the developed countries supply structure*.

Reducing the volume of investments in the decade 1980-1989 was caused both by restricting imports and the sustained effort to pay the foreign debt, as one of the major sources to cover investments in the economy in general, and in particular in the industry, was consisting of external loans by the *International Monetary Fund (IMF)* and the *International Bank for Reconstruction and Development (IBRD)*.

The foreign debt of Romania between 1976 and 1989

Insufficient domestic financial resources for investment were one of the defining characteristics of the economic evolution of Romania between 1859 and 1939. The appeal to foreign capital had become more insistent during conservative governments (1888-1900), respectively during the National Peasants' Party ruling between 1929 and 1933.

The domestic capital accumulation achieved through the autarkical policy applied by socialism, as well as the cooperation relations within the *Council for Mutual Economic Assistance (CMEA)* should have been sufficient for providing growth resources. But the development acceleration efforts after 1965 proved these were not sufficient.

Promoted openness to the West after 1965 and especially after 1968 brought Romania within the *International Monetary Fund* since 1972.

Table no. 2. The foreign debt of Romania during 1976-1981
- Million US dollars -

	1976	1977	1978	1979	1980	1981
Romania's foreign debt	2876	3684	5170	7342	9810	10546

Source: N.N. Constantinescu, *Istoria economică a României*, vol. II, Editura Economică, 2000, p. 376.

In, we could say, a *necessary* way, given the highly accelerated growth planned for the period 1976-1985, Romania began to make increasingly more consistent loans abroad to cover the imports of technologies, machines, equipment, and machinery from the industrialized countries. Foreign currency commercial loans designed to support these imports came from various banks, as well as from the *International Bank for Reconstruction and Development* (IBRD). In 1976 the foreign debt consisted of \$ 864 million from banks and \$ 2.012 billion from international financial institutions. In just six years the total debt reached \$ 10.546 billion, of which 10.160 billion in convertible currencies, marking an increase of 3.6 times.

Most of the external debt consisted of medium and long-term loans for development or modernization to provide the industry with advanced technology and equipment. Medium and long-term debt increased 3.2 times, from 2.4 billion in 1976 to \$ 7.7 billion in 1981. Current revenues coming in mostly from exports could not cope with increasing debt pressure incurred particularly in the period 1978-1981, so in 1981 the arrears had reached \$ 1.1 billion.

Therefore, at the beginning of the 9th decade Romania was facing a real *foreign debt crisis* occurred **only eight years after becoming an IMF member**.

Romanian state **foreign debt crisis** was caused, in addition to massive imports of capital goods, by the following factors:

a. Changing of oil and raw materials market conjuncture by oil crisis outset (1973-1979), which created an exceptionally heavy burden by increasing the prices of these products (the *oil bill*).

b. Higher oil prices added the increasingly higher crude oil imports, inherent in the 8th decade of accelerated development, which had reached 45% of the total Romanian imports in convertible currencies.

c. In addition to collecting medium and long-term debt, an aggravating role was played by the increased short-term foreign loans, which share in total external debt went from 4% in 1976 to 22% in 1980.

d. Western banks have tightened credit conditions for socialist countries following the collapse of Poland.

In order to solve the foreign debt crisis, Romania has turned to the IMF support, which was conditioned by the achievement of an adjustment program to ensure the necessary currency liquidity and rescheduling loans from foreign banks.

Following the implementation of the adjustment program, since 1982 the current account recorded surpluses:

**Table no. 3. Evolution of the current account balance of Romania
1981-1989**

- Million dollars -

	1981	1982	1983	1984	1985	1986	1987	1988	1989
Foreign trade balance	103	1814	1869	2312	1772	1680	2178	3750	2050
Current account balance	-833	1040	1160	1719	1381	1395	2043	3922	2514

Source: N.N. Constantinescu, *Istoria economică a României*, vol. II, Editura Economică, 2000, p. 377.

It is remarkable that after six years (1982-1987) of foreign trade balance surpluses that ensured a current account positive balance, in 1988 and 1989 the current account surpluses exceeded net exports (by \$ 172 million in 1988, and \$ 464 million respectively in 1989)!

Before unfolding the process of forced payment of foreign debt, after rescheduling the public debt, the external debt service was the following:

**Table no. 4. Rescheduling and repayment of external debt during
1986-1989**

- Million dollars -

	1986	1987	1988	1989	1990	după 1990	Total
Foreign debt rescheduled	6395^{*)}	5013	3456	2386	1710	-	-
Rescheduled reimbursements	-	1382	1557	1070	676	1709	6394
Effective reimbursements	-	356	4252	1790	-	-	6398
Effective external debt at 31 December	6912^{**)}	6556	2304	514	-	-	-

Sources: (1) *NBR Annual Report*, 1998, Statistical Section, Table 17, p. 57*.
(2) N.N. Constantinescu, *op. cit.*, p. 378-379.

Notes:

^{*)} Rescheduled foreign debt was calculated using data from source (2) from the opening balance of \$ 6.395 billion and then successively decreasing the reimbursed rescheduled amounts in the second row. Rescheduled foreign debt (6.395 billion dollars) differs from the actual of 6.912 billion dollars, according to NBR updates “considering rescheduling and some loans renewal”.

^{**)} According to the source (1), p. 8* of the *Statistics Section* of the same *1998 NBR Report*, the external debt published series in the period 1986 to 1989 is different from the one published in the same report at p. 57*:

986	987	988	989
875	272	106	74

Officially, on March 31, 1989 was declared the conclusion of Romania’s foreign debt repayment. As evident from the table, the maximum repayment effort was in 1988 and 1989 when they were paid more than \$ 6 billion. The ambition to fully pay the external debt was interpreted as a “foolish megalomania” and as “foolish pride” generally attributed to Nicolae Ceaușescu.

The currency liquidity hoarding effort intended for the payment of Romania’s foreign debt had dramatic effects for the national economy:

– Imports of raw materials, technologies, equipment, machinery and cars were severely restricted, being affected the continued economic growth in most sectors of national economy;

- Exports were boosted by aggressively restricting the investment fund and domestic consumption;
- Diminished domestic consumption affected the material living conditions of the population:
 - limiting food and non-food goods consumption in what was left of the domestic output following the exports;
 - excessively reducing consumption for a wide range of imported products;
 - rationalization of utilities (supply of electricity, heat, water, etc.).

Forcing the foreign debt liquidation in the same period when there were engaged large unproductive investments (*People's House*) or with a long period of investments return (*Danube-Black Sea Canal*) led to serious decrease and even stagnation of economic growth committed in previous decades.

The investment effort and forcing the foreign debt liquidation seriously affected the livelihood of millions of citizens.

On the other hand, one can say that the performance of achieving Romania's financial independence in such a short period was remarkable, perhaps unique in history. The overwhelming majority of experts have stated categorically that the so-called "achievement" was a "negative performance", with catastrophic consequences for ensuring the continuation of the upward trend of economic growth. However, on 31 December 1989 Romania had \$ 1.8 billion foreign exchange availabilities and had to receive loans from developing countries amounted to US \$ 2.9 billion. [Constantinescu, 2000]

The evolution of the Romanian economy after 1990 was to confirm or deny the *gratuity* or the *uselessness* of the extraordinary effort to which were subjected the inhabitants of the country during the last decade of socialism.

Evolution of the Romania's foreign trade between 1950 and 1989 Dynamics of Romania's foreign trade

The industrialization of the Romanian economy brought about significant increases in foreign trade.

Taking as a basis the year 1950, when net imports (trade deficit) reached 187 million *currency-lei*, until 1980 the exports dynamics was

approximately equal to that of imports - 40 times growth. In 1989 exports increased 42 times, while imports only 29 times compared to 1950.

The trade balance was mainly negative between 1950 and 1980. The trade deficit accumulated in each of the past three decades passed from 1.7 billion *currency-lei* in the period 1950-1959, to 4.5 billion *currency-lei* in the decade 1960-1969 and to 18 billion *currency-lei* between 1970 and 1980.

The currency-leu had no material existence. It was just a monetary unit of account used in the trade with western countries. The name comes from the procedure applied to transform in lei the value of goods denominated in other freely convertible currencies based on the definition (parity) of those currencies into gold.

According to the 1954 Law, a lion was defined by an amount of 148.112 mg gold. The dollar was defined by the Law of 1934 at the parity of 888.671 mg gold. The ratio between the two amounts of gold determined an official exchange rate of 6 lei per dollar. With the crisis of the US dollar, after 1971, the official exchange rate of lei has appreciated against the dollar, after 1980 following the currency market quotations.

For non-commercial relations (tourist trips, for example) were used exchange rates with premium which evolved from 100% in 1957, i.e. one US dollar was exchanged for 12 lei, until the completion of 200% premium in 1968, which meant that one dollar was equal to 18 lei. [Kirîţescu, 1997]

Forcing the external debt payment was materialized into external trade surpluses, of about 300 billion lei in the period 1980-1989, large enough to ensure the necessary currency liquidity.

The evolution of Romania's export and import between 1950 and 1989

Before the end of World War II Romania's foreign trade was dominated by exports of agricultural commodities and oil respectively imports of finished and semi-finished products.

Romania's forced industrialization policy applied during the period between 1950 and 1989 is reflected by the **change in foreign trade structure**.

Export and import structure analysis is based on products grouping according two criteria: *provenance of traded goods* on the sector of origin (agricultural or industrial) and *the degree of products' processing* (stage of manufacture: basic-raw, semi-processed or manufactured respectively).

The structure of exports has radically changed over the period analyzed. At the beginning, the agricultural products accounted for 55-60%, while the industrial goods (including raw materials supplied by extractive industries) 45-50% of total exports. After 1980, the industrial products had reached a share of 75-80%, while agricultural products 20-25%.

At the beginning of the 6th decade, the unprocessed, basic, and intermediate goods (with a low processing degree) accounted for about 70% of exports, finished products accounting for only 30%. In the 9th decade manufacturing goods considerably diversified had reached 65-70% of total exports, as the share of raw materials decreased to only 30-35%.

The literature often mentions that most Romanian products with varying processing degrees were not competitive on foreign markets, as reflected in the prices at which these products were traded.

This lack of competitiveness fully corresponds to the League of Nations forecast study, *Industrialisation et commerce extérieur*, 1945: developed industrialized countries will always keep a technological advantage to countries undergoing industrialization. In other words, the risk of an industrial real competition from countries like Romania, Poland or Yugoslavia was planned since 1945 as insignificant.

“The competition from the newly industrialized countries can lead to losses in the market of a particular item; but normally these losses tend to be offset by gains from the new application that creates, in different ways, the competition in question.”⁴

The composition of imports reflects in turn, changing of the domestic production structure. Imports of capital goods (machinery,

⁴ “La concurrence pratiquée par les pays récemment industrialisés peut entraîner des pertes sur le marché de tel ou tel article; mais normalement, ces pertes tendent à être compensées par des gains résultant de la nouvelle demande que suscite, de différentes façons, la concurrence en question.” *Industrialisation et commerce extérieur*, p. 145.

technology, transportation) were in the beginning predominant (38.3% in 1950); its share diminished until 1989 to only a quarter of total imports. Reducing the share of the first group was compensated by the increase of imports of fuels and raw materials utmost for the productive consumption (from less than a quarter of total imports in 1950, this group held more than half of Romania's imports in the period 1980-1989).

The evolution of the two groups of goods reflects the trade policy decisive orientation towards supplying the national economy with the means to accelerate the industry development. The two groups represented in 1989 over 80% of total imports. Overall, consumption of capital goods approached a share of 85-90% in 1990.

Consumer goods intended for population consumption became less significant in imports, reaching only more than 15% of the total.

Corresponding to this evolution of the structure of imports, industrial products in all three processing phases (raw materials, semi-finished and finished products) mark a permanent increase, contributing at least three quarters of the total and a maximum of 85%, the difference being represented by products of agricultural origin (raw materials and food).

Foreign trade flows between 1950 and 1989

In the period 1950-1989 the countries with which Romania has maintained foreign trade relations were grouped into two broad categories: *socialist countries* (mainly countries CMEA) and *capitalist countries*.

At the end of 40 years, according to data reported in 1989, Romania's foreign trade was distributed as follows:

- 60% of total trade was run with socialist countries (52% with CMEA countries and 8% in other socialist countries);
- 40% of the total volume of foreign trade was run with capitalist countries, of which 25% of the developed capitalist countries and 15% in developing countries. [Constantinescu, 2000]

The evolution of geographic orientation or, better said the geo-economic development of Romania's trade was not linear. If at the beginning of the 7th decade almost three quarters of the foreign trade ran with socialist countries, after 1965 the trade with the West increased year after year, so that

between 1975 and 1980, the capitalist countries held between 55 and 59% (of these, over a third were developed capitalist countries).

Significant is the pattern of the different categories of countries. The technology import was originally, respectively in the first decade, developed as a priority from the socialist countries (mainly the USSR); after 1965, the importance of imports of machinery, plant, equipment from the West grew significantly.

On the other hand, it is necessary to highlight the orientation of the exports of machinery and equipment in the decades 7, 8 and 9 to the developing and least developed countries. It is not insignificant that after declaring Romania's foreign debt payment in 1989, Romania's outstanding debt to these countries amounted to \$ 2 billion. [Constantinescu, 2000]

Along with the effort to pay the external debt in the 9th decade, the imports of consumer goods for the population declined from 11% in 1970 to 7% in 1989. The domestic consumption situation was also aggravated by the growth of exports of increasingly diversified and high quality consumer goods.

Conclusions

The historical time for a possible reduction of disparities through industrialization was extremely short for Romania. Basically, given that in the 6th decade (1951-1960) the economic growth recorded moderate rates, it's only 25 years, from 1964 to 1989, during which the accelerate pace of industrialization has reached the maximum. The increase in volume and the diversification of import and export structure reflected and enhanced the development of industry.

As a consequence of the socialist industrialization, production diversification and domestic supply of consumer goods, as well as the imports from both CMEA and the West markets have reshaped consumer habits and managed to stir up, to a large extent, the "lust" for consumption of the population.

Socialism had fulfilled its *historic mission*: **domestic consumer demand structure became compatible with the supply structure of the major international industrial producers**. In 1990 the West had a serious

outlet in Romania, a country which has become in less than half a century a good potential customer for Western products manufacturing firms.

Most economic and sociological analysis on Romania's socialist industrialization stressed that most technologies imported during 1950-1980 were mainly energy-intensive, polluting and uncompetitive in relation to the dynamics of technological progress in developed countries. The analyses on the worsening gap between the level of industrial development in Romania and in European countries are flawed, however, by a dangerous bias, as if taken from the socialist ideology: the premise of the approach of Romanian economy growth is the *continued growth at any cost!*

Moreover, the myth of perpetual growth based on the permanent industrial revolution conquered the minds of economists and politicians since the nineteenth century. For the good of the peoples that had been isolated from the benefits of the "industrial production", the policy of *artificial* industrialization was considered a vital necessity since the second half of the nineteenth century. Promoted with maximum intensity during socialism, industrialization has radically changed the consumer habits, as well as the structure of actual and potential demand for food and non-food consumer goods.

In 1990 the structure of the Romanian economy corresponded to the standards of an *industrial-agrarian economy*. Consequently, the structure of consumer and most of investment demand had become compatible with the structure of the processed industrial products supply from developed countries.

The artificial growth in socialism has generated a series of negative reactions already anticipated by the study of the League of Nations in 1945, *Industrialization and foreign trade*. Still striking is the study's accurate prediction about the cancellation of the industrial development support when the international interests will require.⁵

By restricting imports, the policy of foreign debt forced payment applied in the period 1981-1989 had led to the abandonment of technology

⁵ "Toutefois, ce développement [industriel] exige généralement de lourds sacrifices dans le pays où il se produit et il s'avérera, en partie, antiéconomique lorsque les relations internationales normales seront rétablies", *Industrialisation et commerce extérieur*, Société des Nations, Genève, 1945, p. 142.

transfer and modernization efforts undertaken in the previous decade (1971-1980). The partial sacrifice of domestic consumption and economic growth in favour of the forced payment of external debt was unable to totally compromise the chances of resuming growth after 1989.

The potential of the Romanian economy in 1990 was long called “the heavy legacy of Communism”. Indeed, the accumulation of socialism decades has proved to be extremely difficult to manage after 1990. With very few exceptions, the “achievements of socialism” were wasted mostly in the first decade of transition.

However, without being advanced in the hierarchy of European countries, despite the structural imbalances “bequeathed” by the socialist regime, **the industrial and agricultural potential of Romania in 1989 was considerable**, constituting a starting stage of EU integration.

The end of socialism brought with it the hope that all the evils of the authoritarian leadership, more and more distant from the reality of the Romanian economy, would disappear. Many people dreamed then, in the early 90s, the years that were to come were to summarize what was good in socialism with what was enshrined as good in capitalism.

Further development of domestic production, the composition of foreign trade and the position of foreign trade balance were influenced and determined by the European and international economic conjuncture, as well as by the interests of the *new political elite* to carry or not on the accelerated growth policy specific especially to the “Ceașescu era”.

Restructuring and harnessing the potential of the Romanian economy depended on the economic policy of governments during transition (namely pre-accession to the European Union). What they did with the “heavy legacy” will be presented in another article.

Here we must conclude that socialism was nothing but a *historically necessary stage towards globalisation*. Who regards globalisation as an unavoidable process should also praise the “socialism achievements”! This, at least, if we follow out J.A. Schumpeter, considering that “the subject matter of economics is essentially a unique process in history time.” [Schumpeter, 1954]

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HISTORY OF MILITARY STRATEGIC THOUGHT

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Abstract

The article presents the origin of the strategy and focuses on the historical development of theories of strategy and strategic management. It presents the fundamental theories of strategy; ancient treatises on strategy; thoughts and practices of European military strategists and the American influence on the strategic thought.

Keywords: *strategy, theories and treatises on strategy, military strategists.*

JEL Classification: N00

Introduction

Modern organizations operate in an environment comprising expansion of integration processes, formation of financial-industrial groups and globalization of business. Global companies view the world as a single market in which volatility and unpredictability constantly increasing. In this situation, it is extremely important to use this type of management that will ensure to the company way to adapt to rapid changes in the environment. Strategic management is the process of determining where the organization wants to be and how quickly to go there. Strategic management is a critical success factor in the survival of the organization in increasingly difficult market conditions. It is a philosophy and ideology of the business and is a symbiosis between the intuition of leadership, etc. professionalism and

creativity of employees and their active participation in search of the best ways to achieve the organizational goal.

Literature review

The article presents the origin of the strategy and focuses on the historical development of theories of strategy and strategic management. It presents the fundamental theories of strategy; ancient treatises on strategy; thoughts and practices of European military strategists and the American influence on the strategic thought.

Theoretical background

In the 80s of 20th century business strategists realize that there is a huge knowledge base that extends thousands of years back in time and turning to military strategies. Today, main business strategies are significantly close to the military strategies. As examples can be mentioned offensive marketing strategies; defensive marketing strategies; accompanying marketing strategies, strategies of guerrilla warfare, etc.

Genesis of the theories for strategy

The word “strategy” comes from the Greek word “στρατηγία” (“strategia”), which means “headquarter, command, military art”, which derives from “στρατηγός” (“strategists”) translated as a leader or commander of the army and the combination between “στρατός” (“stratus”) – “army, host” and “γός” (“agos”) – “head, chief”, derived in turn from “γω” (“ago”) – “will, lead, leader”. Initially, the strategy was defined as the science and art of placement of troops in war. How we should lead a battle is a matter of tactics, and whether to start it is a matter of strategy. In the field of martial arts Russian school talks about “strategy”, “operational art” and “tactics” while within the Western school for “strategy” and “tactics”, the actions highlighted in the Russian school as “operational” in the Western school are defined as “small strategies”.

“Art of War” is a Chinese military treatise written by Sun Tzu, military strategist in the state of Wu in the late 6th century BC or at the beginning of the 5th century BC. The work examines the strategies that need

to be followed for the implementation of basic management goals. Today this treatise underlies the strategic SWOT analysis, which shows the relationship between the strengths and the weaknesses of the organization and the opportunities and threats arising from the external environment. Leaders, as different as Mao Zedong, Antoine-Henri Jomini, Napoleon and even Nazi commanders, drew inspiration from the treatise. “Art of War” has an impact not only on military thinking, but also on economics, business and management. Sun Tzu believed that the strategy should not be a plan in the form of pre-established list, but rather required prompt and appropriate actions in a response of changing conditions. [Sun-Tzu, 2003] Today the work of Sun Tzu has captured the world of business. It gives advice on how to outwit the enemy, so the battle not to be necessary.

“Arthashastra” is an ancient Indian treatise on government, economic policy and military strategy, which is traditionally associated with the name Kautiliya or Vishnugupta, identical to Canakya. It is believed that the author lived 350-283 BC, taught in Takshashila, and later was the Prime Minister of Empire Mauro. [Mabbett, 1964] “Arthashastra” justifies an autocratic rule of an effective and stable economy and describes a strategy for state management. The scope of the work is far wider than the government and provides a description of the entire legal and bureaucratic framework for management of a state, enriched with topics: mineralogy, mining, extraction of metals, agriculture, animal husbandry, medicine, and wildlife utilization. It focuses on the problems of welfare, redistribution of wealth during times of famine, and collective ethics. The main idea in the treatise is the active participation of the ruler in the management of the state’s economy. The root of wealth is considered to be embedded in economic activity and the lack of such leads to decline of the state. In the absence of economics activities, the current prosperity and future growth will be destroyed.

Miyamoto Musashi (1584-1645) was a Japanese swordsman turned into a legend. Musashi came from an old Samurai family. At the age of seven, he remained an orphan and was sheltered by his uncle – priest in a Buddhist monastery. He mastered the basics of the strategy to combat with sword. Watching the movements of the drummer in a Buddhist monastery, Musashi developed technique to fight with two swords, making his defence

impenetrable. Only thirteen, armed with a stick, he defeated in his first fight a well-skilled swordsman. In Japan he is known as “sensei” – the warrior-saint. [S9.com (1997-2015)]

Miyamoto Musashi wrote *The Book of Five Rings* in 1643. It has been considered as a classic treatise on military strategy. Five “books” in the book are related to the idea that there are different elements of the battle, just as there are different physical elements in life.

The first book is “Earth”, which refers explicitly to the strategy for fighting. The second is the book of “Water”. The author speaks of the spiritual attitude in the way of strategy and warfare, including ways of holding the sword, approaches to fighting, martial hit, ways of protection, principles of the fight and others. [Musashi, 2005] In the book of “Fire” the hostilities are likened to the fire, and decisions instantly. Typical elements of the strategy that are mentioned are: to imagine that you are your enemy; to upset the enemy; to scare the opponent; to get the enemy to fall into indecision; to divert the enemy; to crush and eradicate deep. The author advises: “in every respect take the initiative.” The fourth is the book of the “Wind.” An important part of understanding your own course of action is to understand opponent’s mode of action. The fifth is the book “Emptiness”. It is connected with what cannot be understood. According to the author, the strategy becomes free and undistorted and is the result of natural and spontaneous reaction.

Strategikon is a handbook dedicated to strategic actions in war, written at the end of the 6th century by the Byzantine Emperor Maurice. Effectiveness of the Byzantine military system was laid through the reforms of Emperor Maurice (582-602) reflected in *Strategikon*. The text consists of 12 chapters on various aspects of the strategy and tactics used by the Byzantine army in the sixth and seventh century, focusing mainly on cavalry, infantry, various military formations types of tactics, training, surprise attacks, ways of siege, drilling and others. The seventh and the eighth chapters contain practical advice in the form of instructions and maxims on the strategy. Chapter 11 characterizes the main Byzantine enemies, including Franks, Lombards, Avars and Slavs. Its purpose is to introduce the various methods of warfare of the enemy. The book also contains a list of military offenses and appropriate penalties for them.

The book is very similar to Sun Tzu's *The Art of War* in some pieces of advice, which are given: [Maurice, 1984] "A ship cannot cross the sea without a pilot or an army cannot defeat the enemy without tactics and strategy." "To conquer the enemy army is better than to destroy it", and in addition "It is necessary to know the opponent in order to avoid his strengths and strike at his weaknesses."

Strategikon promotes the use of spies and deserters from enemy's army and misleading the enemy with disinformation. "The enemy must be deceived by false reports and plans submitted to him by deserters" [Maurice, 1984] wrote Emperor Maurice and offers a wide range of tricks of which the commander to choose the most appropriate for the situation.

Strategikon (Cecaumeni Strategicon) of the Byzantine commander Cecaumenus (Kekaumenos), written at the end of 11th century, is a handbook offering advice on keeping of war and internal state affairs. The book is composed between 1075 and 1078 and is divided into six parts. Part I refers to obligations and services due to ruler. Part II contains general strategic advices. Part III contains pieces of advice for inland questions, like growing children, house and family management and social relations. Part IV contains tips for proper implementation of actions in cases of rebellion against the Emperor. Part V contains pieces of advice to the Emperor about management and defence of the state. Part VI contains pieces of advice to autonomous local rulers about their relations with the Emperor.

Leo VI the Wise (866-912) was a Byzantine emperor who strengthened absolutism, limited the role of the Senate and removed urban governance. Work *Tactics* (Táctica) is a military treatise written by/or on behalf of the Byzantine Emperor Leo VI about 895-908 years. The treatise is one of the largest works on Byzantine military tactics. It consists of 20 chapters, an epilogue and 12 additional chapters. It affects a wide range of issues, such as nature and content of the tactics, the general qualities, ways of decision-making, health of the officers, equipment of cavalry and infantry, military sanctions, camping, military training, preparation before the battle, sieges, actions after completion of the battle and after the war, surprise attacks, study of enemy military units.

Leo VI updated and expanded Emperor Maurice's *Strategikon* and emphasized the use of prayer before battle. He believed that having the "divine help" his fighters would fight in "high spirits" and postulated: "all who are struggling through Christ, our Lord and on behalf of their families and friends and country, and for the entire Christianity easily will overcome the grief, thirst, lack of food, cold, heat, pains ..." [Leo VI, 2010] and those who died in battle were considered as blessed.

European military strategists

The most famous works of Niccolo Machiavelli are *The Prince*, *Discourses on Livy*, and *The Art of War*. Machiavelli dedicated his treatise *The Prince* to the ruler of Florence, Lorenzo de Medici. This work remains in history as the first detailed analysis of the art of power. Regarding the qualities required of the Prince, Machiavelli wrote that he should be merciful, lenient, humane, honest and religious, but most important of all is to look like he possesses all these qualities.

The Art of War by Machiavelli is a treatise written between 1519 and 1520 and published in 1521. It describes how it should be trained and organized an army. Machiavelli was one of the first writers who talked about size, composition, used weapons, moral and logistical capabilities of the army. The work is focused on the following elements: [Machiavelli, 1560]

- Selection of the soldiers;
- Preparation of the army;
- Ways to maintain order;
- Leading battles;
- Clothing during the war;
- Troops strength;
- Qualities and actions of the Commander;
- Leadership of the army;
- Halting siege fort;
- Provisions;
- Possible penalties;
- Secrecy in writing and transmission of letters and others.

On military strategy, Machiavelli said that if diplomacy failed, war was a natural extension of the policy. *The Art of War* also stresses the need for state militia and promotes the concept of an armed citizenry. Machiavelli believed that the whole society, religion, science, and art were based on security.

Frederick the Great (1712-1786), King of Prussia, is considered a brilliant military leader. He skilfully held off armies of Russia, France and Austria during the Seven Years' War from 1756 to 1763. After his accession to the throne, he indicated qualities of decisive leader. His tactical and strategic views arouse the admiration of Napoleon Bonaparte and have a significant influence in military science. Friedrich relied on an alliance with Russia, which army almost beat him in the Seven Years' War but his rivalry with Austria in Germany continued. In the area of domestic policy, his primary objectives were the creation of order and discipline in the army, carrying out a number of important legislative reforms, the establishment of new industrial enterprises, and support for education and improving the infrastructure of Prussia.

He wrote his work *Anti-Machiavelli*, which was a refutation of the theories of that author. He says: "Every art has its rules and maxims. One must study them: the theory makes practice easy. The life of one person is not long enough to let him to acquire a perfect knowledge and experience." [Air war gateway College (2013)] and "For having break it is necessary the enemy to be busy." [Air war gateway College (2013)].

Napoleon Bonaparte (1769-1821) was the first French Emperor. In the course of little more than a decade he established control by conquest or concluded unions on almost all-continental western and central Europe to his defeat in the Battle of Nations in 1813. At the Battle of the Nations near Leipzig, Napoleon fought against Russians, Swedes, Austrians, Saxons, and Prussians. Napoleon was defeated and after the entry of the allies in Paris demised. He got in possession of the island of Elba in the Mediterranean and was headed into exile by decision of the allied monarchs. In the spring of 1815 he left the island and returned to France. It was a period of "100 days" of his rule. On June 18, he lost the battle of Waterloo. Napoleon was exiled to the island of Saint Helena, where he died in 1821. His works

Memoirs of Saint Helena Island and *Memoirs* have been published after his death. [Academic (2000-2014)]

Napoleon significantly altered the state structure of the country. He strengthened his personal power, held administrative reform, established a National French bank to store gold stocks and paper money, and centralized system for collecting taxes. His economic policy was aimed at ensuring the leading role of the French industry and finance in the European markets. During his campaigns, Bonaparte won more than 60 battles and carried out reforms in the army, which turned the French troops into the most efficient force on the continent.

In terms of strategy, he considered: “The personalization of general is absolutely necessary, he is the commander, and he is the whole army. Gauls were not conquered by the Roman legions but by Caesar. Rome trembled not before the Carthaginian troops but before Hannibal. The Macedonians did not penetrate into India but Alexander. Prussia was not protected for seven years against the three most formidable European powers by the Prussian soldiers but by Frederick the Great.” and “Nothing is more important in times of war than the unity of the command”. [Air war gateway College (2013)]

On War was written by the Prussian General Carl von Clausewitz (1780-1831) after Napoleonic wars between 1816 and 1830 and published posthumously by his wife in 1832. It is one of the most important military treatises and has a significant impact on strategic thinking. The book contains a range of historical examples in which Frederick the Great and Napoleon are central figures. Clausewitz played a direct role in the reform of the Prussian army, which led to the victory over Napoleon.

According to Clausewitz, war should never be seen as an end in itself but as an instrument of politics: “War is not merely a political act, but also a real political instrument, a continuation of politics by other means” [Carl von Clausewitz, *On War*, 1874]. He associated “strategy” with art and “tactics” with science. Clausewitz argued that the main task of an army is to enter into battle and destroy the main forces of the enemy in a decisive battle. Thus, the overall strategy must be focused on the destruction of the enemy army.

Over the years, various thinkers and leaders in the military sphere and economy as Karl Marx, Friedrich Engels, Vladimir Lenin, Mao Zedong and Dwight Eisenhower used his ideas.

Antoine-Henri Jomini (1779-1869) was a Swiss officer, infantry general who served in the armies of France and Russia. One of the famous military theorists and historians of the 19th century, he is the founder of modern strategy. He is an author of *The Art of War*, published in 1855.

The work consists of six parts:

1. State military policy.
2. Strategy or the art of properly directing the masses in the development of military action of defend and attack.
3. Basic tactics.
4. Logistics or the art to move armies.
5. Engineering – attack and defence of fortifications.
6. Small tactics.

A memorable thought of the author is: “Of all the theories about the art of the war is only reasonable that, based on the study of military history, which recognizes a number of principles for the regulation, but leaving the natural genius majority in the general behaviour of war without overburdening him with exclusive rules.” [Air war gateway College (2013)]

Basil Henry Liddell Hart (1895-1970) was a captain in the British Army. He was a military theorist and historian, author of several books such as *The Future of War* (1925) and *Strategy* (1954). His theories of armed attack laid the foundation of the German Blitzkrieg. [Liddell Hart, 1939]

The main idea of Liddell Hart is to bring the set of principles of warfare in an indirect approach to the enemy. According to him, using the longest way is usually the most correct from a strategic perspective. The direct approach to the object exhausts the attacker and increases the resistance on the other side, while the indirect approach misleads the enemy violating its balance. Hart explained that one should not use a solid strategy and direct attacks or long term defensive positions. Instead, he recommended a flexible defence and room to manoeuvre. [Danchev, 1998] His well-known thoughts are “Only short-sighted soldiers underestimate the importance of psychological factors in time of war”, “Originality is the most important from

all military virtues”, and “The principles of war could shortly be condensed in a single word: concentration”.

The American influence on strategic thought

Dennis Hart Mahan (1802-1871), a professor at the “West Point” trained military leaders for many years. His textbook written in 1847 *Elementary Treatise on Advance-Guard, Out-Post, and Detachment Service of Troops* [National Museum of American History (2013)] is the first comprehensive scientific work on tactics and strategy that appeared in America. The advantages of the speed of movement, the invasion of enemy territory and applying final blow are the principles that shape his strategic vision.

Dennis Mahan advised: “Attack the enemy suddenly when he is not ready to resist” [Air war gateway College (2013)] and “to cause the most damage to your enemy with at least exposing himself is a military axiom that cannot be followed only by strangers of the true goal – victory”. [Air war gateway College (2013)]

Admiral Alfred Thayer Mahan (1840-1914), a son of Dennis Hart Mahan, a naval historian and theorist is the author of *The Influence of Sea Power upon History: 1660-1783*, written in 1890.

The Influence of Sea Power... is the story of economic and military rivalry between nations and reveals the strong influence of maritime trade on the formation of wealth and politics of countries, their economic and military growth and prosperity. His ideas are caused by the conflict between Holland, England, France and Spain in the 17th century and naval wars between France and Britain in the 19th century, where the British naval superiority is the basis of victory over France.

The introduction presents the importance of naval strategic combinations and scope of naval strategy. The first chapter focuses on the elements of sea power; advantages of moving and transport of goods by water; the use of naval forces to protect trade; use and development of the colonies and the conditions affecting the establishment of sea power, includes geographical location, scope of territory, population size, characteristics of nations, a policy of individual governments. From Chapter 2 to Chapter 13 are presented sea wars between the 17th and 19th centuries. Chapter 14

presents elements essential to active naval war, the importance of bases abroad, the importance of the supply of resources, the increased importance of the communications, difficulties in sending and receiving information in the sea, and others. [Mahan, 1890]

The mission of the fleet, according to Mahan, is to provide naval power, while preserving trade between Members and neutralizing the enemy fleet. Mahan argued that a transnational consortium that acted to protect multinational system of free trade might exercise naval superiority. [Mahan, 1890] As a result of his ideas, the United States began a major program of shipbuilding, which displayed them in third place among the world sea forces in the 90s of the 20th century.

Mahan stressed the importance of the individual in shaping world history, extolling traditional values such as “loyalty” and “courage” and declared that “strategy is one that always keeps the aim of the war, and the purpose of the war is never military, but is always political”. [Air war gateway College (2013)]

The concept of Colonel John Warden III – Warden’s Five Rings is a strategy for establishment of political, military and economic superiority. According to him: “If we think strategically, we must think of the enemy as a system composed from multiple subsystems. We cannot think strategically if we focus on a particular element of the enemy. Instead, it is necessary to focus on the totality of our enemy” and “...As strategists we must free ourselves from the idea that the main feature of the war is the clash of military forces. In strategic war, a clash may be carried out, but this is not always necessary” [Air war gateway College (2013)]

Each system consists of five circles, comprising:

- (1) Leadership;
- (2) Basic system;
- (3) Infrastructure;
- (4) Population;
- (5) Armed forces.

Each level of the system, circle or “ring” is considered one of the centres of the enemy. Warden idea is to attack each of the rings, but the order to paralyze the enemy’s forces. To optimize the attacker’ attack must

attack as many rings as special focus is on the centre ring, which is the enemy leadership. This would lead to paralysis the enemy as a whole. [Warden III, 1995]

Conclusion

In a global context, the strategy is the art and science of developing and using political, economic, and socio-psychological and information resources to create effects that protect national and international interests in cooperation between all stakeholders – government, business, and society. At national level, it is a set of specific instruments of power to achieve the political goals of the state. Nowadays, the environment is characterized by instability, uncertainty, complexity and ambiguity. It is always in a state of dynamic instability and the role of strategy is to exert influence on volatility, to manage uncertainty, simplify complexity and to resolve the ambiguity, so that the system to be able to survive and develop itself in the ease of chaos. Therefore, the strategy suggests, predicts, examines and assesses the strategic environment in varying degrees, to manipulate it according to certain goals.

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THE USE OF DIRECT MARKETING TECHNIQUES IN SPORT MARKETING

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Abstract

Adapting marketing principles and concepts to sport related services and products domain represents a challenge for any specialist in the field because of the specific features that are characteristic for the needs, motivations and consumption process itself.

In order to achieve different quantitative and qualitative marketing communication objectives, sports involved organizations are developing a communication mix adapted to the channels used by the consumers. Among the communication tools used are found also the direct marketing techniques that have had a tremendous development during the last 25 years and so.

The article will analyze the process of building an efficient direct marketing communication with sport consumers and the implications of using such instruments and tools for the future activity of sport related organizations. Some future research lines are proposed and conclusions are stated on the matter.

Keywords: direct marketing; sport marketing; sports loyalty.

JEL Classification: M31, M39, Z29

Introduction

Direct marketing techniques have been developed and used within the marketing activity in a more functional way beginning with the 70's.

In time, it has been developed a fully integrated direct marketing system that was offering for different organizations the possibility to have a personal dialogue with customers and other groups of stakeholders (like supporters, media, administration etc.).

The need for personal contact and communication has been increasing over time and direct marketing was able to offer a one-to-one communication meant to supply for information in order to facilitate the selling process.

This type of communication is encompassing a wide range of media within direct marketing campaigns directed to specific sets of objectives.

The direct marketing process is having not only the communication activities but also the creation, development and maintenance of an entire customer information system for organizations, activities grouped under the customer databases management umbrella.

The current users and the potential ones are implied alike in the process. Databases are adapted to the specific of the organization, the customers' type and the marketing objectives identified, thus they can have different levels of complexity from a mere alphabetic list of names to an advanced computer program having the possibility to offer cross-referencing and in depth checking.

Direct marketing will bring a lot of potential ways for every organization to have a more efficient marketing strategy adapted to different types of products and services and different kinds of consumption processes.

In case of sports involved organizations, sport products and sport related services require a direct and powerful mean of communication with consumers and sport fans. In this context using direct marketing techniques can make the difference between a successful communication that stresses a quick response for the needs of sport consumers and an approach incapable to deal with the fast changes imposed by competitors and socio-cultural shifts of lifestyles and consumption cultures.

The main objectives that an organization can achieve through direct marketing are the creation of a viable relationship with consumers, the dialogue and immediate sales or transactions. Besides this, organizations implied in the sports field can maintain a strong bound with their consumers, sports fans etc., through direct marketing channels, responding to their imperative need to be informed and to have a fast feedback concerning their needs.

Latest achievements in the field of direct marketing allow producers, players and sports club administrators the possibility to create and manage different types of customer complex databases along with an impressive flow of information between these databases and them.

New achievements in direct marketing – specific traits

The constant evolution of direct marketing was determined by at least two main streams of influential factors: social ones and business type ones.

From the point of view of the social field, it can be considered: [Tapp, 2005] fragmentation of the society, proliferation of media, greater consumer sophistication, the consumers' need of control. From the business field we may take into account the following: increased competition, the need for cost-effectiveness, greater interest in customer retention and loyalty from the management point of view, the dropping costs of the information computer processing services.

Taking account of these factors, in present we can emphasize some trends that are showing the new achievements in direct marketing:

- The use of QR codes on a large scale (especially when we talk about sports products it can be seen the tremendous effect of these innovative techniques in campaigns for well-known brands like Nike or Adidas).
- Integration of different sensorial inputs within the mail packages (especially smell and touch using different layers of paper).
- The use of email messages that have integrated within them video-files using the technology called video in print.

– The use of dimensional mail – being any kind of mail greater than 75 inches’ box with different shapes and forms.

– The email has become an effective marketing communication tool with 39\$ return of investment for every dollar spent. 98% of the millennials are checking their emails at least every few hours at work [Naragon, 2015].

– The organic search will become more and more important as consumers are searching taking account of their search habits, there are over 12 billion web searches only in the US each month (<http://www.hubspot.com/marketing-statistics>).

– Mobile traffic has overcome the traffic made using desktop computers in ten countries. [Dischler, 2015] In addition, mobile devices are used for 60% of the digital media time in the US [Lella, & Lipsman, 2014].

– The technology that allows the auto-play feature of videos within social media pages makes people to favour more and more this kind of content, as the nowadays society is obsessed with speed and the quantity of information also has increased.

– Mobile video advertising grew with 192% in 2014 and reached 50% from the total worldwide volume of social ad market that will have 19.8 billion dollars by the end of 2015. [Morrison, 2015]

– The so called “personalization” of direct marketing messages like the signature of the sales/marketing manager at the end of a letter is not effective anymore. Customers are waiting for real efforts regarding the personalization of the marketing communication.

– Facebook groups will become more effective in terms of building a viable platform for news feeds that are relevant for their members, not having the quantity of annoying information that a normal individual’s Facebook feed has.

– An effective method for direct communication is related to the support actions for individual entrepreneurs. More brands are taking into consideration to improve their image through being supportive for different individual projects of entrepreneurs. These actions followed by a direct communication with the persons supported could be very effective in terms of creating a strong positive social image.



The importance of direct marketing channels like mobile media, mobile apps etc. can be seen from the graphic below, as the data shows that total time spent by users with smartphone apps, mobile apps and mobile in general is increasing, reaching 65% for mobile only until the end of 2015.

This trend is very representative for the evolution of direct marketing techniques in present time, this evolution being closely interlinked with the one of information technology itself. Year after year as much as the degree of familiarity with the technology grows for an increasingly larger part of consumers, integration of such technology within direct marketing efforts becomes not only a possibility but a necessity.

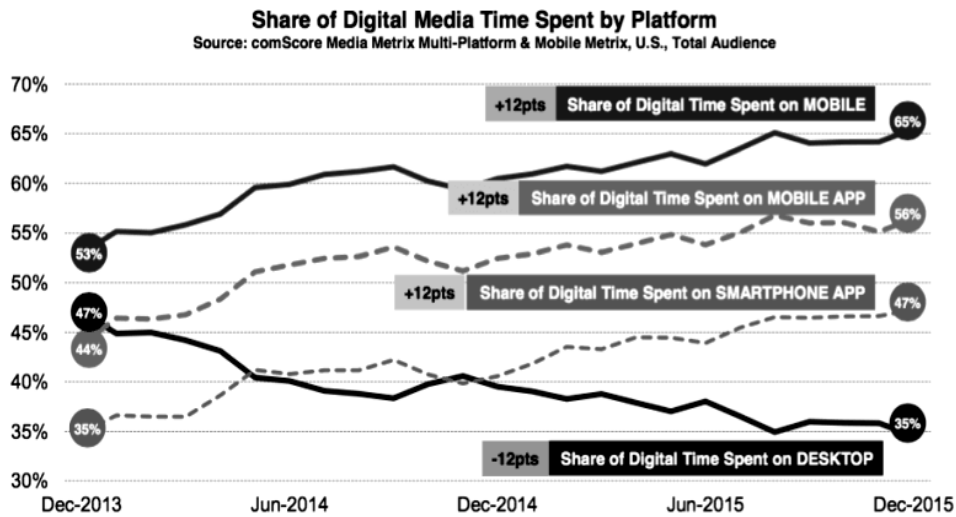


Figure no. 1. The time spent by users on different platforms

Source: Lella, A., Lipsman, A., & Martin, B. (2015), *The 2015 US Mobile App Report*, comScore Media Metrix Multi-Platform & Mobile Metrix, <https://www.comscore.com/Insights/Presentations-and-Whitepapers/2015/The-2015-US-Mobile-App-Report>

The need to be connected through internet related channels like the usual email has become so important that has transformed overnight into a

social feature of modern consumers. As it can be seen from an Adobe research, adults are spending on average 6 hours per day to check emails, from 30 hours during a work week.



Figure no. 2. The time spent by users on checking email

Source: Naragon, K. (2015), *Email, we just can't get enough*, Adobe campaign study, <https://blogs.adobe.com/conversations/2015/08/email.html>

Applying direct marketing techniques in the field of sport services and products

The field of sports, whatever we can consider sport related products or sport related services or events that are implying a particular sport practice, is addressed in a particular manner by the marketing activity.

And if we further discuss about marketing communication applied in the field of sports, we can emphasize that communication principles are the same as we can encounter in the commercial products case but the execution of the communication process is different. The differences can rely on the

fact that not every promotional effort in case of sports is made for a transactional sale. In many occasions we can talk about the effort to change attitudes, ideas and perceptions over self and surrounding reality, lifestyles etc. – the adoption of sport within the life of consumers or the persuasion related to a specific sport team, club or player etc.

Another peculiarity of the marketing communication effort within sport field is the one related to the need of integration of all communication mix instruments into an organic whole. This is needed because sport consumers are more than involved in long-lasting relationships with their teams, clubs, players etc. The emotions, trust and devotion related values are at the base of consumption acts within the sport activity. Consumers often are not seeing themselves as merely consumers but implied actors along their sport clubs or teams in their activity.

The same is happening with the individual sport consumption, the activity carried on regular basis needs full devotion and commitment from individuals, personal sport records are consumption motives along with the integration of sport into a system of beliefs and lifestyle.

To build up an effective sports loyalty scheme, organizations in the field are doing it through a certain stage related process on a long term as it can be seen in figure no. 3.

Within this process direct marketing techniques will be used at a certain point, more precisely in the social bonding stage that is implying developing mutually beneficial relationships between the sport organization and customers.

In this stage the contact between organization and customer becomes more personalized and customer databases are used to send out personalized birthday cards or holidays cards. As the consumers will move to the third stage of loyalty, the need for personal contact between them and organization will increase. Along this process, direct marketing communication will offer the support for a personalized communication.

In sports field, direct marketing will imply as in other fields the effort to integrate different marketing functions and activities such as market research, segmentation, targeting, positioning, etc. with the use of direct

response media channels such as direct mail, telemarketing, interactive TV, email, etc.

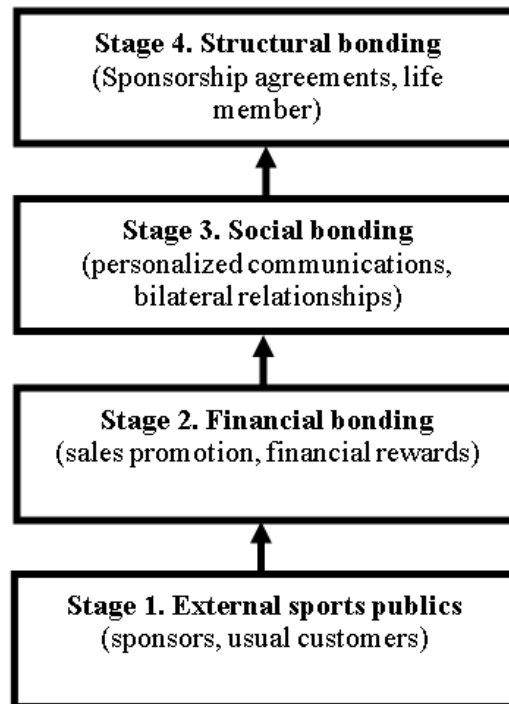


Figure no. 3. Sports loyalty scheme

Source: Beech, J., & Chadwick, S., eds (2007), *The marketing of Sport*, Harlow: Pearson Education Limited, p. 228

Because of the fact that sport consumers are very loyal and less oriented to brands switching than other categories of consumers in other product or services related context, direct marketing is suitable to support communication and consumption altogether. In order to achieve that, every sport organization can benefit of the advantages offered by a well-structured customers' database. Through a continuous management of their databases, sport organizations can achieve a superior capacity to assess the opportunities and risks from the market.

Direct marketing techniques can also be used in order to minimize the financial risks that can affect an organization. In nowadays business environment and especially when we talk about a sport club, team or other organization implied in sports activity, the effort to continuously monitor and manage different types of risks is essential. The process to manage efficiently risks implies their categorization and proper evaluation. [Militaru & Chenic, 2012]

The segments of customers that are riskier can be better managed with the help of a well-structured database. With the help of databases, sport organizations can develop four major types of marketing strategies in order to maximize their response regarding the customers' needs: customer retention strategy, customer reactivation strategy, product and service development strategy, promotion related strategy – implying cross selling between an existing customer base and a new one.

The multiple advantages offered by the email based communication with the customers' database are more visible in the field of sport consumers. Sport organizations can use this channel of communication to rapidly create customer registration within the database, to send personalized messages to different niche segments of customers, to obtain valuable marketing information from customers in real time, to offer up-to-date information about a live sport event etc.

Also, the internet by itself creates a true revolution in the way that sport marketing is done. With the help of internet, sport organizations can improve ticketing for sport events, membership programs, sales dedicated for merchandise, live broadcasting of events, players' biographies distribution, and even improve the players training through live video streaming explanations and to transform their webpages into real virtual selling space and sponsor communication channel.

Conclusions and future research

On a brief, the multiple advantages that direct marketing techniques are bringing at the level of sport organizations can be summarized as follows:

- possibility to reach very easy a great number of potential and actual customers simultaneously;
- possibility to address with coherent and substantial messages to the sponsors and partners;
- the automation of the members' registration process, ticketing and selling merchandise;
- personalized messages and support for the personal relationship between sport organization employees and customers;
- enhancement of the consumption experience of sport live events;
- better management of sports communities;
- opportunity to leverage influence on opinion leaders among sport customers.

Taking account of the last trends related with direct marketing future developments, we can assume that sport products or services consumption will be more and more shaped by direct marketing influence.

Future research in the field can focus on how it can be optimized the creation and development of sport customer databases in order to offer all the information categories needed for sport organizations. As internet and mobile communication related instruments are becoming more and more advanced, development of direct marketing techniques will imply the use of these new features to a full extent in order to offer a more personalized communication experience for customers.

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THE UNIFORM RECOGNITION ITEMS IN THE FINANCIAL STATEMENTS

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Abstract

Through the issues presented and analyzed, we want to highlight the overwhelming importance of the recognition process of the elements in the financial statements, resulted in the recognition criteria, more or less detailed, depending on the chosen normalization framework, but which helps to the accurate positioning of items in the financial statements and thus the credibility and relevance of the information contained therein.

The necessity of normalization process of recognition of the elements in the financial statements appeared at different levels of the accounting referential, and here we refer particularly to the two basic referential: the international and the American one, which will constitute the basis of our analysis on this paper. The result of the normalization process of recognition of the items from the financial statements has been the establishment of the criteria for recognition, which contribute to proper positioning of elements in the financial statements, thus giving credibility and relevance to the information contained therein.

Keywords: *the process of recognition of the elements; the criteria for recognition.*

JEL Classification: *M40, M41*

Introduction

The necessity of normalization process of recognition of the elements in the financial statements appeared at different levels of the accounting referential, and here we refer particularly to the two basic referential: the international and the American one, which will constitute the basis of our analysis on this paper.

The approach of the process of recognition of the elements in the financial statement through various accounting referential

The general framework for the preparation and presentation of the financial statements – defines “recognition” as the process of incorporation in the Balance Sheet or the Profit and Loss Account of an article which first meets the definition of an element, and satisfies the following criteria: It is likely that any future economic benefit associated to enter or leave in/or from the enterprise; The article has a cost or value reliably measured.

We observed that the requirement of probability of future economic benefits highlights the definitions of elements, which are circumscribed to the existence of these benefits.

It should be noted that, while respecting the definitions of elements is not considered a criterion for recognition as the American Framework, it still remains the essential condition in recognizing an element in the Balance Sheet or the Profit and Loss Account.

IASB also states that an element which possesses the essential characteristics, but that does not meet the criteria for recognition, can bring information in the Annex to the Financial Statements. Such information becomes relevant when knowledge of these elements is considered useful for assessing the financial position, performance and the evolution of the financial position.

At the same time, the criteria for recognition involves the interplay between an element that meets the definition and the criteria for an ascertained fact (for example, an asset) to automatically assume the finding of another element (for example income or a liability). Also, IASB states that an element which at a certain moment does not meet the criteria for

recognition in the financial statements can satisfy these criteria later, as a result of subsequent events and circumstances.

The American conceptual framework

On the other hand, **the American conceptual framework** places a strong emphasis on the recognition process of the elements in financial statements, in this sense leaving a distinct structure within the conceptual framework, namely *SFAC 5 “Recognition and assessment in financial statements of commercial companies”*. SFAC5 defines recognition as the process of incorporating an element in the financial statements, an element that meets certain criteria for recognition, the incorporating of an item in the financial statements involving both a descriptive and numeric form, as in the case of IASB Framework.

It should be noted that the criteria for recognition of an element proposed by the FASB in the financial statements are far more detailed than those required by the IASB, but these criteria must be applied in the limits imposed by the relationship cost-benefit and materiality level.

The criteria for recognizing states: The definitions: an element to be recognized in the financial statements must first meet the definitions set out in SFAC6 “Elements of financial statements”; The assessment (measurement): information corresponding to that item should be useful for decision-making by users; The credibility (reliability): information relating to the item must be sincere (true), verifiable and neutral.

However, SFAC5 states that the recognition process includes the initial recognition, the later modifications and the un-recognition (elimination from the financial statements of that element).

The IASB Framework establishes as first criteria for recognition – *the concept of probability*. It is used in conjunction with *the uncertainty level* in which the future economic benefits associated with the item will affect the benefits or losses.

The evaluation of uncertainty level refers at the information available at the time when the financial statements are drawn up.

To understand the concept presented, *the correlation probability-uncertainty* presents *the following example*: when a claim is likely to be

charged is justified, in the absence of any evidence to the contrary (and therefore virtually no uncertainty) and the claim is recognized as an asset.

In the event that the number of claims is high, it is quite probable (so it feels a slight increase in the degree of probability) that some claims cannot be cashed, so the appearance of a certain amount of not receiving the money (in conjunction with a slight increase of the uncertainty level), a situation where the economic benefits of recognizing will be reduced.

On the other hand, the American conceptual framework does not define a distinct concept of probability among the criteria for recognition, but this is induced by the definitions of the elements set by the framework for the following elements that will be recognized in the financial statements.

The second condition that an element must satisfy to be recognized in the financial statements, a condition which can be found in both referential, more or less detailed, is that the item must have *a cost or value that can be measured reliably*.

This concept is shown in more details in the American framework, through the following three characteristics of the referential: evaluation, relevance, credibility. The two quality characteristics (relevance and credibility) come to create the context in which the assessment takes place, in terms of both its nature, by finding the most appropriate basis for the item concerned, and in terms of its size, by finding a value that is representative for the company that presents that element. In many cases the cost or value must be estimated. The use of reasonable estimates is an essential part of preparing the financial statements and does not influence their credibility. If it cannot be made a reasonable estimate, the item will not be recognized in the Balance Sheet or the Profit and Loss Account, but may be presented in the Information Notes about that item, especially if they are relevant to assessing enterprise's financial position, performance, or modification of the financial position.

The concept of probability used in the criteria for recognition is accompanied by a degree of uncertainty about future economic benefits associated. Therefore, we can say that the assessment of probability level of generating future economic benefits has a significant influence in the

recognition process and the correct establishment of an element in the financial statements. The best examples are the provisions, liabilities and contingent liabilities, where the degree of probability makes the difference between these elements.

As a basis of analysis we will use the rules of IAS 37 “*Provisions, contingent liabilities and assets*”, but also the Finance Order no. 1802/2014 regarding the Approval of the Accounting Regulations on the annual individual and consolidated financial statements.

The standard states that *the uncertainty* related to the chargeability and the size of the final amount is the one which makes the difference between reserves and debts.

According to IAS 37, *the provisions* are defined as *doubtful debts* in terms of chargeability moment, or the corresponding amount, thus having a probable character.

What interests us is their correct positioning in the financial statements for the information to be relevant and credible. This standard offers the necessary guidance, specifying that *the provisions are recognized in the balance sheet* – if these conditions are met: The entity has a present obligation (legal or constructive) resulting from a past event; It is likely that an outflow will affect the future economic benefits in order to honour the current obligation (there are more chances to happen than not to happen), meaning that the probability of generating future economic benefits is high, to be noted that this criterion of recognition is essential in positioning the provision in the balance sheet; The amount of obligation can be estimated reliably (IAS 37 specifies that only in very rare cases cannot be a reliable estimate of the amount of the obligation).

A contingent liability is an *obligation likely* to emerge as a result of past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future events that may not be entirely under the control of the entity, or *an obligation incurred* in the current past events. The question that interests us is whether the contingent liability can be recognized in the Balance Sheet, in the conditions presented above. Because it does not meet all the criteria for recognition, in the sense that: Even if it is a general obligation of past events; Is not likely that outflow of resources

which would incorporate future economic benefits to happen, meaning that the probability of generating future economic benefits is low; and The amount of obligation cannot be evaluated sufficiently credible, under these conditions in the Notes to the financial statements are given information regarding the existence of contingent liabilities, especially since the information generated by it are important in determining the financial position, financial performance and changes in the financial position.

The current national legislation – the Finance Order no. 1802/2014 regarding the Approval of the Accounting Regulations on the annual individual and consolidated financial statements defines in the same way these elements and their criteria for recognition in the financial statements. Thus, the order defines the contingent liabilities in the same manner and states that they will not be recognized in the Balance Sheet, just off the Balance Sheet, being presented in the Explicative Notes. The contingent liabilities are assessed continually to determine whether it has become probable an outflow of resources which incorporates economic benefits. When an outflow of resources, generate by an event considered previously a contingent liability, is necessary, a debt or a provision will be recognized in the financial statements for the period in which this change appeared. The order clarifies the conditions under which contingent liabilities are distinguished from provisions, namely: *The provisions* are recognized as liabilities (and recorded in the Balance Sheet) as they are current liabilities on the Balance Sheet and it is probable that an outflow of resources will be required to settle the obligations; *The contingent liabilities* are not recognized as liabilities (related information appear in the Explicative Notes) because they are obligations *that must be possible* to confirm whether the entity has a present obligation that may lead to an outflow of resources, or they are *current obligations*, but do not qualify for recognition in the Balance Sheet.

Conclusions

Through the issues presented and analyzed, we want to highlight the overwhelming importance of the recognition process of the elements in the financial statements, resulted in the recognition criteria, more or less

detailed, depending on the chosen normalization framework, but which helps to the accurate positioning of items in the financial statements and thus the credibility and relevance of the information contained therein.

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UNIVERSAL MAN: THE SEVEN LIVES OF JOHN MAYNARD KEYNES

Richard Davenport-Hines – Author

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John Maynard Keynes was one of the most influential personalities of the twentieth century. It is considered one of the creators of what today we call *Macroeconomics*. He played an important role during the *Bretton Woods Conference* in 1944, after which were put up substantial post-war financial institutions such as the World Bank and International Monetary Fund. The economic policy measures he proposed prevailed in the first decades after World War II and saw a revival in recent years due to the financial crisis of 2008-2009. His works on economics have seen many editions and have been translated into most languages.

But Keynes was more than a great economist. In the biography dedicated to him, *Universal man*, instead of a chronological deployment, Davenport-Hines chose to present seven “lives” of Keynes. Each of these lives corresponds to a chapter in the book. Thus we have seven chapters: 1. “Altruistic”; 2. “Boy Prodigy”; 3. “Official”; 4. “Public Man”; 5. “Lover”; 6. “Connoisseur”; 7. “Envoy”.

The first chapter, which substitutes the introduction, puts Keynes forward as an exemplary figure throughout his whole life. The second presents his education at Eton and Cambridge. Here we also learn about the entrance to *Cambridge Society Conversazione* commonly known as the “Apostles”, a community that has overwhelmingly influenced him.

In the third chapter is followed Keynes’ rise as a government official and his activities especially during the First World War and immediately

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after it. The fourth chapter focuses on other Keynes' activities: economist, journalist, editor and teacher.

The next chapter deals with Keynes' love life. We are given many homosexual liaisons in the first part of his life, but also the surprising love and marriage with dancer Lydia Lopokova.

Chapter six presents a Keynes who believed that money is not an end in itself but a means to a good life. This meant collecting artistic works, setting up an impressive library which contained many rare books, creation of the *Cambridge Arts Theatre*, as well as participation in various committees of patronage of the arts.

Finally, the last part presents Keynes' role in the negotiations that founded the post-war economic order, exhausting negotiations that took part in his untimely death.

What can be accused of Davenport-Hines is too much emphasis put on his love affairs (Chapter 5 – "Lover" is the longest) and too little set on the economic ideas of the character. The reported minuses do not mean that this book shouldn't be read. *Universal man* attempts by the seven instants of Keynes' life to present the man, as well as the environment that led to the development of his revolutionary ideas. And it mostly succeeds.