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## FOREWORD

*After a year in which Romania achieved the fastest growing economy in the European Union, 2017 comes with a unique set of challenges.*

*In 2016, the economy was the main driver of consumption and economic analysts expect it to slow down, while prices will increase. The government estimated an increase of 5% for the Romanian economy in 2017, but the World Bank warns that this could be too optimistic and expects an advance of only 3.4% of the economy. However, growth remains above the EU average, which is why 2017 could be a year at least as good as 2016.*

*Romania gained a privileged status among the countries of Central and Eastern Europe. Many multinationals brought their operations in Romania, attracted by relaxing fiscal policies, cheap labour force and modern office spaces, which make an available comfort like abroad. Moreover, the office market has thrived even during the crisis, representing one of the pillars of strength.*

*The National Prognosis Commission estimates a rise in gross domestic product (GDP) from 758.5 billion lei to 807.4 billion lei, that given an average annual inflation of 1.9% compared to -1.6%, as it was in 2016. According to Mediafax, the GDP per capita will increase from 38,487 to 41,199 lei in 2017.*

*The exchange rate had large oscillations in 2016, except for two key moments: the vote of British to leave the European Union led the pound to a historic low and caused an abruptly rise of the Euro, while elections in USA determined a negative appreciation of the Dollar towards the end of 2016.*

*On this fond of changes are coming our articles referring to quite varied topics, from ethics, social responsibility and corruption as risk factors to electoral populism versus economic stability.*

*Professor Ph.D. Alexandru Gribincea from the International University of Moldova addresses the article to the financial risk that characterises the variability of net profit, subject to the financial structure of the insurance. He stresses that the capital of the insurance company has two elements (the equity and the borrowed one) that differ fundamentally in the cost they generate. If the company uses loans, it will bear systematically the related financial expenses, too. Through its size and cost, indebtedness leads to the variation and changes the size of financial risk.*



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*Resorting to the debt is justified through the high remuneration of equity in relation to borrowed capital, thus increasing the financial return. In conclusion, the author believes that making the decision to internationalize, without taking into consideration the risk involved, leads to the wrong designing and dimensioning of the business and the quality of the decision is improved if the country risk analysis is correlated with other aspects of the process of internationalization as well, so that the decision-makers would benefit of an as accurate and complete image as possible of the action environment.*

*With regard to the sovereign risk, it only deals with loans granted by banks to foreign governments, loans that make up the foreign debt of that country. This type of risk, meaning the sovereign risk, arises from the possibility that, at some point, the government of the debtor country cannot or does not want to repay the external debt.*

*Professor Ph.D. **Petru Roșca** addresses the economic efficiency and the role of the state in market economy. Economic efficiency emerges after comparing the effects of some action with the efforts needed to produce it and has general applicability in decision-making in any country. It can be said that economic efficiency is closely related to the use of resources in the economy and its essential feature is the stress/effects of causal ratio.*

*In the competitive system of the free market, the activity of the economic agents provides performance to the extent that it has a high efficiency. Any human activity is, at the same time, resources consuming and effects producing.*

*In the economic theory, the concept of efficiency characterizes the activity developed in various fields: economic, social, educational, health, sports, etc. More concretely, it reflects the physical, intellectual and moral (in the deontological sense) effort made to achieve a goal or the pre-established objective, respectively the relationship between two waves: the resources spent and the resulting effects, expressed in physical (pieces, kg, and meter) or value (lei) units of measurement.*

*In his article, named **Internationalization of Economic Activity and Government Interference in the Market Economy**, professor Ph.D. **Nicolae Țău**, from the Academy of Economic Studies of Moldova says that expanding economic relations and creating an international business environment, international business and the internationalization of the commercial transactions across national borders have become a prerequisite for companies, regardless of the activity they carry. Thus, internationalization is seen as a set of strategic methods, techniques and tools necessary to the companies to function abroad. As the effects*



*of – fiscal and monetary – policies on the global demand and supply are unpredictable in time and space, it appears the requirement to substantiate, develop and put into practice a stabilizing strategy.*

*Besides the indexes showing the evolution of the demand and supply, the market can offer economic agents other analysis and decision parameters as well, such as: economic and financial instruments for influencing the behaviour of the business environment. Obviously, the results depend also on how the authorities (legislative and executive, central and local) work for a friendly business environment. There are two mechanisms that can be used for this purpose: fiscal policy (measures to enhance or reduce taxes, dues and public spending) initiated by the Government and approved by Parliament; monetary policy (setting the interest rate and the money supply, respectively of the money stock for a specified period of time) emitted and monitored (supervised) by the National Bank.*

*Another interesting article is that of Professor Ph.D. **Ilie Mihai** who says that it is well-known that in election years, political parties compete in measures and promises that are more or less extravagant, designed to attract votes from voters. The situation is understandable to a certain extent, this practice being common in other countries as well, important being not to “jump the horse” as unfortunately happens in Romania, where in four years the politicians, in their desire to obtain a mandate in local or parliamentary elections, replete with all kinds of promises, without regard to the impact that their application might have on the stability of the overall economy. As the electoral legislation has become more stringent, attracting voters by giving them attentions and gifts (buckets, packages of food with sugar, oil, etc., or gourmet) was forbidden and election promises have climbed the first rung of the strategy of attracting voters. On the other hand, the old local and central political structures at the end of their mandate try, for the last hundred meters, to adopt populist measures, hoping both to renew mandates and to solve personal interests relating to special pensions bonuses and all sorts of pecuniary advantages, according to the principle “after us the deluge”.*

*Saying that starting from the premise that sustainable development is an overall objective of EU Member States, another two young researchers from Bucharest University of Economic Studies highlight an important point in our country strategy of development. The sustainable development can be achieved through international cooperation that aims at economic growth, social development and environmental protection. The European Commission analysed the socio-economic and investment context of the member states, identified risks and opportunities and made some recommendations. This paper presents the best*



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*practices of the European funding system to improve the accountability of business or institutional operators accessing European funds and the measures taken by some member states for good governance. The authors emphasize the need to know the socio-economic and investment context by all stakeholders and initiate concrete measures of action to ensure real and sustainable economic growth by identifying feasible and lasting solutions, such as: what is the role of business or institutional operators at local and regional level and how it could ensure good governance at local and regional level by applying for grants.*

***Ionela Mădălina Gheța**, from the same institution of higher education, wrote an article about the influence of culture upon the style of leadership which is really interesting and currently used in the economic field. She says that the level of development of a country is defined based on indicators such as population size, GDP and country area. Although it's easy to identify countries like the USA, France and Spain that are part of developed countries and countries such as Senegal, Gabon, Greece or China ranked as emerging countries, where there is no universally accepted the definition of developing countries. The "emerging countries" are often listed in terms of their differentiation from the developed countries; a common problem is that some organizations don't take into consideration all the variables, a country located on a higher position in terms of GDP is possible to not have the same position at the social development or quality of life. For the last 25 years, China has known continuous economic expansion, it's forecasted that in the next 20 years it will become one of the world's superpower. China encountered a relatively fast development after the deployment of the "cultural revolution". In China, the long standing cultural tradition influences till today the economic area, more than other countries encounter from this category. The youth's mentality is to learn and to work very well with the solely interest to serve the country completely. This desire of the Chinese people is positively influenced by the state – the Chinese Communist Party encourages the state to raise the development of education and the level of life.*

*As we have seen, all the articles are interesting and deserve to be appropriated by those who are interested in understanding the specific issues of the economy.*

*If you liked our articles please visit our website. If you want to write an article in our journal, we are waiting for you to expose your ideas in the new studies published by us.*



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*Finally, hoping that you found interesting the Issue 1/2017, I strongly invite you to address your comments and suggestions at [office\\_analeserieeconomie@spiruharet.ro](mailto:office_analeserieeconomie@spiruharet.ro) and, of course, to submit your own paper via the online submission system.*

*Let's build together a better world!*

***Associate Professor Elena GURGU, Ph.D.  
Deputy Chief Editor***



# **ACADEMIC PAPERS**





## ETHICS, SOCIAL RESPONSIBILITY AND CORRUPTION AS RISK FACTORS

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### Abstract

*The financial risk characterises the variability of net profit, subject to the financial structure of the insurance. The capital of the insurance company has two elements (the equity and the borrowed one) that differ fundamentally in the cost they generate. If the company uses loans, it will bear systematically the related financial expenses, too. Through its size and cost, indebtedness leads to the variation and changes the size of financial risk. Resorting to the debt is justified through the high remuneration of equity in relation to borrowed capital, thus increasing the financial return.*

**Keywords:** *economic risk; financial risk; bankruptcy; institutional motivation; macro-risks.*

**JEL Classification:** A<sub>20</sub>, M<sub>16</sub>, O<sub>39</sub>

### Introduction

*The economic risk* is the sensitivity of the gross profit and can be analyzed from two different points of view: in terms of the insurance company that aims to increase patrimony and profit-equity for investors' remuneration as well as from the point of view of the investors seeking optimal placement of capital depending on the opportunities offered by the insurance market.

Gross profit is determined based on the turnover as an indicator of measuring the insurance activity characterized by a volume of the variable costs, of the fixed costs, including depreciation, and through a certain threshold of profitability.

*The financial risk* characterises the variability of the net profit, subject to the financial structure of the insurance company. The capital of the insurance company has two elements (own and borrowed capital) that differ fundamentally in terms of



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the cost they generate. If the company uses loans, it will systematically bear the related financial expenses, too. Through its size and cost, indebtedness leads to the variability of the results and changes the size of the financial risk. Resorting to indebtedness is justified by the superior remuneration of the own capital compared to the borrowed capital, thus leading to the increase of the financial profitability. Through indebtedness occurs an increase of the financial risk determining the shareholders to demand a higher financial profitability to cover the increased risk. Thus, increasing profitability and minimizing the cost of capital require the society to determine an optimal structure of its capitals. This proves that the financial risk is generated by the financing policy of any society.

*Bankruptcy risk* analysis can be performed in static manner by analyzing the financial balances in the balance sheet or dynamically by analyzing the flows contained in the financing picture. Regardless of the method of analysis, the diagnosis of bankruptcy risk implies assessing the ability of the enterprise to meet its commitments to third parties, thus assessing the solvency of the enterprise.

The functional static bankruptcy risk analysis uses as operational tools the need for working capital for exploitation and the net treasury, the state of insolvency being reflected by the way in which the functional financial balance is achieved.

Patrimonial static analysis of the bankruptcy risk uses the net patrimony of the shareholders and the economic asset as a whole, as a guarantee for the creditors. The instruments used for this purpose are the financial working capital and the liquidity rates supplemented with the indebtedness rates. If the company's financial difficulties become regular, they can endanger the fundamental balances and affect the company's reputation, categorizing it as "bad payer", image that unfavourably influences its future work.

The dynamic analysis of the bankruptcy risk, performed inside the financing picture, starts from the flows of funds determined by the exploitation operations as well as by the capital and explains the financial imbalance evidenced by static analysis.

Ethics and social responsibility have become a sensitive issue, especially in economically developed countries. Underestimating this phenomenon, called reputational risk, can lead to loss of customers, to the reduction of the operational activity volume, and to difficulties in attracting new customers. The consequences of these situations are implicit for business: reduced profitability, reduced growth prospects, a significant decrease in the market value of the company.



One of the consequence of economic integration, globalization, is a greater risk of being the target of a process of money “laundering”. The rivalry between economic and financial actors, the areas free of restrictions and rules of law, the expanding of the means of communication, the dematerialization of the financial flows, the technical facilities for transferring funds are elements that favour the “laundering” of the criminal money.

The ethical character of the struggle against money “laundering” should not be underestimated. The volume of “laundered” money each year is considerable. The method used, otherwise quite unreliable, in determining the volume of “bleached” cash flows consists in *comparing the volume of expenditure officially registered in a country with the volume of the amounts officially received by the same country*. There is a deficit that can be explained only by “black money”. “Off-shore” countries, also called tax havens, are the main vectors for the flow of “black money”, given the quasi-inexistence of taxation, the absolute banking and business secrets, the total absence of control over transactions, over the origin of funds or over the business activity.

But what are the resorts of ethics in business in particular or those of ethics in society, generally speaking? Each of us, as social actors, has its own system of beliefs and values that reflects their own social and cultural environment as a result of adapting to the problems and difficulties from the external environment and the integration of religious norms.

Here are some figures that reveal the extent of the phenomenon: the US drug market represents between 100 and 300 billion dollars annually; the volume of money being washed worldwide amounts to about 3-5% of the world’s gross product or from 600 billion to 1.5 trillion. Moreover, some analysts believe that religion is the most ambiguous socio-cultural aspect, commonly used as a pretext for triggering and supporting the terrorist acts and the war, both extremely dangerous and risky, not only for the business environment but also for the human society.

The responsibility of social actors is the result of the power relations between them and of the existing institutional environment, in particular of its structure and functionality. Freedom of decision is the essential component of morality and is, from an ethical point of view, more relevant than any other criterion. That is why the democratic system and the free market mechanism offers the possibility of solving the conflict of interests between social actors in a much fairer way than the system based on oppression and domination of others – the right environment, moreover, for amplify corruption and opportunism.



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Corruption is a risk with direct implications, regarding the reputation, but also indirect implications, regarding the market, for the business world. The list of countries politically and economically destabilized because of corruption is quite long. The slow reform from the Central and Eastern European countries is largely the result of this phenomenon. The exercise of discretionary power and, the often, monopolistic market position of the public enterprises are the premises of corruption. The convergence of the political, bureaucratic and economic interests forms the environment conducive to the development of corruption. Reality proves that the phenomenon can occur at all levels, from high-level corruption (senior officials in the political power hierarchy) to petty corruption (civil servants at the core of the public organizational system), with different implications, undoubtedly, for the society and for the environment business.

Corruption involves a tacit agreement between companies, pressure groups and citizens who are trying to maximize their own interests by paying bribes, on the one hand, and the public bodies (their officials) and politicians that tend to maximize their income by illegal means, making use, for the personal purpose, of the power they have, through the nature of the position they hold, on the other hand.

Political analysts and sociologists consider that the civil society would have had a greater control over the political power if the phenomenon of corruption would not have had the magnitude of today. But, nevertheless, morally speaking, the democratic system and the free market mechanism are superior to the centralized or state system, concerned only with its own interests, because there is not and/or does not function an institutional mechanism that should sanction these behaviours, the confidence and the social stability being severely affected.

The conclusions of some studies reveal significant differences between developed and developing countries, in terms of the magnitude of corruption. Of course that the phenomenon exists in developed countries as well, but their institutional environment did not allow the transformation of corruption in a systematic phenomenon. In the case of the developing countries, where the institutional environment is non-functional or nonexistent (ownership is undergoing (re)establishment, leaving room for many abuses), corruption has become an endemic phenomenon, favouring the clientelism, incompetence and inefficiency, feeding underground economy, incites to tax fraud, distorts programs that combat poverty and undermines international programs that support the economic reconstruction.



Although the cost of corruption is difficult to assess, however, some effects are of indisputable evidence. Corruption, as a phenomenon, reduces the volume of investments in the economy, threatens the economic growth, leads to increasing taxes and duties, and influences the allocation of public funds (favouring projects or programs that allow the collection of some substantial illegal incomes, hence the proliferation of some unnecessary and ineffective projects).

The phenomenon, globally speaking, can be described in a suggestive manner, using the concept of market structure and taking into consideration the two parties involved: “the carriers of the demand” – public entities or their representatives – and “the carriers of the offer” – private entities.

The situation of bilateral monopoly occurs when the balance of power is relatively balanced between the public and private sectors, and political and economic elites are reduced in number and relatively homogeneous. The situation is typical for the Western Europe and the United States. The institutional environment and the democratic system allow voters to punish those involved in corruption.

If the *demand* dominates the *offer* we deal with the phenomenon of “kleptocracy” characteristic for the developing countries, where the civil society and the private sector are underdeveloped, human rights and property rights are nonexistent or under (re)establishment, the political power is fragmented (often between regions, ethnic groups or factions belonging to the same political party). In this case, the beneficiaries are those who set the “transaction” price, using various means to this end: violence and intimidation. This situation leads to negative consequences. The over-exploitation of the raw materials, hijacking or non-use of international financial funds, degradation of the social system, of the social cohesion, which are typical for a system with an endemic corruption.

The second case, when the “offer” dominates the “demand” is typical in cases where the state is intimidated by criminal organizations who seek to exercise their power over it through violence. Sometimes, the *demand* and *offer* are fragmented, situation that corresponds to a relative atomicity, which generates competition between corrupters.

Political risk is defined as an adverse consequence resulting from the political events. However, a definition of political risk focused only on the negative consequences is inadequate to determine the impact on the cost of capital. If the political risk is diversifiable, than it does not affect the investor’s gain or the capital cost of the company, although it may affect the company’s cash flow.



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If a particular political risk is diversifiable or not, this depends on the relevant market portfolio against which the systemic risk is measured. The results depend on the extent of the integration or segmentation of the local capital market compared to the global one.

When the stock market is integrated, the relevant market portfolio is the market portfolio of the global market. When the domestic market is segmented, the relevant market portfolio is the internal market portfolio. The empirical evidence suggests that the real world of the capital market ranges from perfect integration and complete segmentation. Given the specific variation of the countries regarding the degree of segmentation of the capital market, choosing the market portfolio against which the diversifiability or the non-diversifiability of the political risk sources will be measured must be made from a case to another.

Governments impose restrictions when the market conditions deteriorate, which may be relaxed when local conditions improve. The influence of the political risk sources on the cost of capital that depends on the degree of correlation of the consequences of such events to the gain of the relevant market portfolio.

In all charts and international rankings, Romania takes high marks for corruption and opacity. Broadly, the term of opacity includes all underground economies: black money, money laundering, black holes, hostility of the business environment. Opacity index, as an average of the coefficients associated to the CLEAR (Corruption, Legal, Economic, Accounting, Regulatory) acronym, reveals the economic, political, administrative and cultural causes of the lack of transparency and refers explicitly to the corruption of the governmental structures, the laws regarding the property and agreements, economic policies, especially the monetary and fiscal ones, accounting and auditing standards, as well as the regulation of business environment. In other words, *high risk*.

### 1. Locating Investment and Political Risk

The strategic investment decision of the multinational companies (MNCs) is built on two coordinates:

- “institutional motivation” behavioural type that assesses the potential implantation environments from the economic point of view;
- “international location” spatial type that assesses the potential implantation environments from the political and institutional point of view.

The decision to invest should be taken by balancing the balance between capitalizing on the winning opportunities through foreign direct investment (FDI),



on the one hand, and the possibility that the political factors from the implantation space may cause undesirable interferences in the unfolding of specific investment operations, on the other hand.

Throughout history, the state has had the role of maintaining order and reducing business uncertainty, but as time passes, it not only fails to provide security, but is itself a source of uncertainty. Therefore, political risk is a major problem for companies acting through investment in the international environment.

The term of *political risk* has not been universally defined and accepted because of its complexity, being determined by a multitude of variable factors, some of them in interdependent relationships, more or less controlled by the host country and more difficult to position and evaluated by the MNCs. Clark E. defines the political risk as “the events of macroeconomic, social, political nature or the strategic factors specific to the host country that may affect the company’s interests”.

In the conventional approach, the political risk is considered as arising from the conflicts between the MNCs and the governments in host countries related to the aims and objectives pursued by each of them. The economic basis of the conflict is represented by the resource allocation control by the MNCs and the distribution of earnings from the company’s operations in the host country.

Theoretician Stephen Kobrin, considered authority in the field, says that the political risk is classified according to two dimensions:

- first dimension distinguishes between the risk specific to the host country (the political macro-risk) that affects all foreign companies operating in the host country, regardless of the field of activity, and the risk specific to the investing company (the political micro-risk), manifested at an industry, company or investment project level.

The risk specific to the host country, also known as country risk, is of particular interest to international banks and the risk specific to investing firm matters to the MNCs;

- the second dimension distinguishes between the political events affecting ownership of assets and those that affect the operations of the company.

Changes induced by political events involve a number of restrictions with respect to freedom of price fixing, freedom on the use of expatriate managers or workers, as well as regulations on locally processed products.

Conflicts between the objectives of the MNCs and those of the host-governments are generated by problems such as the impact of MNCs’ activity on



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the economic development of the host country, the interference of MNCs on national sovereignty, the foreign control over key national industry, sharing ownership and control of assets with local business groups, the impact on the balance of payments from the implementation country, influencing the exchange rate of the national currency from the host country, control over export markets, using foreign managers and workers at the expense of the domestic ones, exploitation of the natural resources of the host country. So looking at things, it appears that for MNCs the government's economic, political, social, cultural and ideological targets, as well as the instruments to realize these are parameters that circumscribe the investment activities. Sometimes, the governmental policies are ambiguous or even contradictory. Therefore, MNCs must anticipate the changing national priorities.

As a conclusion, it can be noted that the conventional view of the political risk, of a conflicting nature between the objectives pursued in good faith by MNCs and the host governments, has unintentional character, being a problem of passive assumption and adaptive reaction to the reality of the friction state. This implies the correct assessment and measurement of the political risk and the location decision must be taken, either by assuming the political risk, or by taking measures to counteract or reduce it.

### 2. The risk in international businesses

The internationalization of businesses, as a particular form of the economic activity, is a complex and lengthy process, employing significant financial, material and human material. Conducting businesses on foreign markets will be achieved only if there is a strong enough incentive, able to motivate companies to take the implied risks and needs to include the concepts of risk and uncertainty in the structure of the decision-making process.

International risk can be regarded as the exposure to the total or partial loss of the capital invested in businesses located in different foreign markets. These potential losses are caused by specific events that can be known in a lesser or greater extent by the capital owner or the manager (administrator) of that business.

The risks faced by a company operating business on international markets can be classified according to several criteria: the degree of assumption, their amplitude and probability of occurrence, the degree of diversification, the nature of these risks etc.

A. *Assumed risks and excluded hazards.* Of all the international risks, most fall into the category of identified risks (the company can identify with a certain



precision the risk factors and the effects of their materialization), but the company will assume only some of them, namely the major ones (capable to cause substantial losses). Thus it remains a category of identified risks, which the company will voluntarily exclude (minor risks) and a category of risks involuntarily excluded because they cannot be identified. The difference between major and minor risks is given by the magnitude of the loss that may be caused both by their materialization and their likelihood of occurrence.

B. *Macro-risks and micro-risks.* The risks that a company that invests abroad is facing are classified, depending on the perspective from which they are addressed, in macro-risks and micro-risks. The macro-risks are the result of the evolution in a certain sense of the business environment conditions where the investment is located. In the category of micro-risks fall all environmental risks such as the country risk, the transfer risk, the sovereign risk, the political risk, the market risk etc. Micro-risks are determined by endogenous factors, specific to the field of activity, to the company and to the project itself and/or by the insufficient correlation between the specific features and the limits imposed by the general framework of the host country. In the category of micro-risks fall most of the company risks and project risks: the risk of implantation, the currency risk, the interest rate risk, the price risk, the commercial risks, the staff related risks, the legal risks, etc.

C. *Systematic and unsystematic risks.* From another perspective, transnational companies face mainly two types of major risks: systematic risks (non-diversifiable) and unsystematic risks (diversifiable). The difference between the two is given by the factors underlying their production. The systematic risk depends on the general economic factors (such as inflation or political unrest), which determine the economic situation of the host country, while the unsystematic risk is determined by those risk factors that directly depend on the company's internal conditions. The investor can minimize the unsystematic risks by adopting some measures capable of improving the current situation of the company. Regarding the systematic risks, the investor accepts the possibility of their materialization without having too many minimizing means within ones grasp (generally, it is believed that companies cannot significantly influence the economic situation of the host country). In this case, it is more important the analysis of the systematic risks, because a smart investor can eliminate through its decisions the unsystematic risks.

*The main risks encountered in international businesses.* Another criterion for classifying the risks in international businesses has in view their specific nature.



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Looking from this perspective we can make a systematization of those on several types of risks: environmental risks, financial risks, commercial risks, legal risks, risks of implantation (or operational), etc.

D. *Environmental risks.* These risks derive from the quality of the overall business environment from a country. The frequent change of the policies promoted by the government of the host country, the takeover of power by nationalist or extremist parties, the establishment of some political or military dictatorships, the proliferation of corruption, profound economic crises, reducing the popular support for power, the change in the attitudes of the masses towards foreign investors and their activity, the lack of promoting an appropriate institutional and legal framework are just some of the major events that may implicitly lead to the worsening of the business environment from a country and that could cause significant losses to the foreigners who intend to perform or develop activities on that external market. The main environmental risks are: the country risk with its two components: the political risk and the economic risk, the sovereign risk and the transfer risk.

*The country risk* is often assimilated by some economists with the political risk, which is actually its main manifestation form. The evaluation of this risk is a fundamental stage in the decision-making process of the company's internationalization. The country risk is generated by the combined action of a varied number of factors of economic, political or social nature, whose subsequent development the company must consider. The probability that the country risk would materialize depends both on the occurrence of some events capable of causing losses (strikes, social convulsions, civil wars, changes of government, policy changes, natural disasters provided that they do not occur regularly, economic recession) and on the specific conditions of the surveyed country. The internationalization of the businesses is a complex process usually available to powerful businesses (transnational, multinational or global), which have managed to accumulate sufficient resources in order to cope with the demands of the international market. Market and product experience are also crucial in deciding the internationalization. This decision is a strategic one, aimed at a longer time horizon and the country risk has a central role in substantiating the decision to internationalize.

Between the country risk and the degree of internationalization on a market of the foreign companies there is a relationship of inverse proportionality. We can thus appreciate that the commercial operations (direct export, indirect export, licensing, etc.) represent the shape with the lowest degree of internationalization



which is practiced when the country risk is very high. At the opposite pole are the foreign direct investments (in marketing or production) and mixed capital companies, complex forms of internationalization involving high value of invested capital.

In the decision-making process of internationalization, the evaluation of the country risk is not limited to an analysis of the “GO-NOT GO” type (enter this market or not). The analysis of the country risk goes further, offering foreign companies the possibility of choosing from the many forms of market penetration that form of internationalization appropriate to the level of risk and that leads best to achieving the goals. Also, depending on the risk level of the extern market, companies will be able to substantiate their response to the further deterioration of the environmental conditions that may affect the investment (for example, companies reduce their involvement on a foreign market – disinvestment as a response to a strong economic recession).

Concerning the capacity (speed) of response to the change in the risk level, this is determined more by internal causes:

- how to understand country risk and its implications for the international operations;
- by the attitude towards risk;
- by managers’ ability;
- by the organizational structure;
- by the speed of data collection, handling and processing.

Consolidating the decision of internationalization without considering the risk involved leads to the wrong design and size of the business. It is undeniable the importance of the country risk analysis (part of the overall risk of the international business) in selecting the foreign market and the appropriate form of internationalization, as well as in the further adaptation of the investment to the environmental conditions. The quality of the decision is improved if the country risk analysis is correlated with other aspects of the internationalization process, so that the decision-maker to have an image as correct and complete as possible of the environment of action.

In developing a risk strategy, companies must take into account that:

- are “guests” in a completely foreign environment (often hostile) and must act as such;



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– the earnings obtained do not belong exclusively to the foreign company, from the investment must as well benefit greatly the employees (typically local) and the economy of the host country;

– the investment risk reduces substantially by carrying out some initial training programs for managers (and their families) for a good knowledge of the foreign environment in which they will work;

– can easily penetrate the market if they engage in a series of economic and cultural projects of public interest;

– it is less risky to lead the foreign investment with the help of a management team in which local managers could eventually be attracted as well (the managers from the mother country supervising the operations performed), than to be led directly from the mother country.

The difference between country risk and sovereign (sovereignty) risk is given by their sphere of coverage. Operations such as the implantation of a company abroad or loans from various financial institutions to some companies from a foreign country are subject of the country risk. The sovereign risk concerns only the loans granted by the banks to some foreign governments, loans that make up the foreign debt of that country; this type of risk arises from the possibility that at some point the government of the debtor country cannot or does not want to repay the external debt. As forms of materialization of this risk, there is the risk of rescheduling, of renegotiation or repudiation of the external debt, which occurs the moment a country refuses to pay the debt or is unable to pay due to the worsening of its economic situation.

*The transfer risk* is somewhat similar to the sovereign risk and it takes into account cash flows arising from investing abroad. The risk occurs when an investment project makes a profit in local currency and the mother company wants to convert it into foreign currency and transfer it abroad. To discourage the outflow of funds outside the country, the state can refuse or delay the foreign exchange. In some cases, the refusal of the authorities to allow currency exchange is based on the lack of some sufficient currency funds to honour these requests. Thus, foreign companies are “pushed” to unwillingly reinvest the obtained profits into the economy of the host country or are forced to find other forms of recovering the profits. Since these profits are included in the balance sheet of the mother company, sometimes this risk is dealt with within the financial risk together with the currency risk or the interest rate risk.



### Conclusions

We conclude that making the decision to internationalize, without taking into consideration the risk involved, leads to the wrong designing and dimensioning of the business and the quality of the decision is improved if the country risk analysis is correlated with other aspects of the process of internationalization as well, so that the decision-makers would benefit of an as accurate and complete image as possible of the action environment.

With regard to the sovereign risk, it only deals with loans granted by banks to foreign governments, loans that make up the foreign debt of that country.

This type of risk, meaning the sovereign risk, arises from the possibility that, at some point, the government of the debtor country cannot or does not want to repay the external debt, and the influence of the sources of the political risk on the cost of capital depends on the degree of correlation between the consequences of such events and the gain of the relevant market portfolio.

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## ECONOMIC EFFICIENCY AND THE ROLE OF THE STATE IN MARKET ECONOMY

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### Abstract

*Economic efficiency emerges after comparing the effects of some action with the efforts needed to produce it and has general applicability in decision-making in any country. It can be said that economic efficiency is closely related to the use of resources in the economy and its essential feature is the stress/effects causal ratio.*

*In the competitive system of the free market, the activity of the economic agents provides performance to the extent that it has a high efficiency. Any human activity is, at the same time, resources consuming and effects producing.*

*In the economic theory, the concept of efficiency characterizes the activity developed in various fields: economic, social, educational, health, sports, etc. More concretely, it reflects the physical, intellectual and moral (in the deontological sense) effort made to achieve a goal or the pre-established objective, respectively the relationship between two waves: the resources spent and the resulting effects, expressed in physical (pieces, kg, and meter) or value (lei) units of measurement.*

**Keywords:** *economic efficiency; effects; efforts; performance; productive efficiency.*

**JEL Classification:** A<sub>12</sub>, A<sub>20</sub>, M<sub>16</sub>

### Introduction

Economic efficiency is used for decision-making, is synonymous with effectiveness, so that the terms of efficiency and effectiveness are used ever since antiquity.

In the field of economy, references to efficiency can be found in great thinkers of the last century, such as Adam Smith or Karl Marx.



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Economic efficiency emerges after comparing the effects of some action with the efforts needed to produce it and has general applicability in decision-making in any country. It can be said that economic efficiency is closely related to the use of resources in the economy and its essential feature is the stress/effects causal ratio.

In the competitive system of the free market, the activity of the economic agents provides performance to the extent that it has a high efficiency. Any human activity is, at the same time, resources consuming and effects producing.

In the economic theory, the concept of *efficiency* characterizes the activity developed in various fields: economic, social, educational, health, sports, etc. More concretely, it reflects the physical, intellectual and moral (in the deontological sense) effort made to achieve a goal or the pre-established objective, respectively *the relationship between two waves: the resources spent and the resulting effects*, expressed in physical (pieces, kg, and meter) or value (lei) units of measurement.

For example, at the level of a certain  $S$  (from system) agent, having as object of activity the production of footwear (pieces), a series of expenses ( $C$ ) are made for providing *the production factors* (people, raw materials, machinery and equipment, information or knowledge, time) by whose optimal combination the result  $R$  is achieved, meaning the goal: the required footwear.

So, in terms of costs, efficiency is the lowest cost to achieve the production unit required on the market.

*Value* is the general criterion for assessing the economic efficiency, value that is proportionally connected to the demand-supply ratio, involving regulations and procedures regarding the market and competition development, highly dynamic space due to the successive changes that occur in the business environment, under the influence of several factors coming from inside and outside the economic agents. Depending on the costs  $C$  and the results (production)  $R$ , efficiency or profitability  $E$  can be expressed by using:

1. *The allocative role of the state*, according to the economic efficiency criteria, equivalent to achieve *productive efficiency* (maximizing results or minimizing the consumption of production factors per unit of product) and allocative efficiency – the optimal adaptation of the demand to the supply. The most original and rigorous evaluation of the optimum resource allocation we owe it to Vilfredo Pareto, according to whom a state of the economy must be preferred to another one if at least one person wins without any other to lose (relative criterion), and the allocation of resources is optimal and, therefore, the collective welfare is maximum if it is not possible by a change in allocation to improve the welfare of a person, at least, without any other one to lose (absolute criterion). Starting from



these assumptions, Pareto's criterion or optimum can be illustrated by means of a graph highlighting *the limit of the utility possibilities*, that is the maximum potential well-being that can be achieved by a community composed, for simplicity reasons, of only two people (*A* and *B*) based on knowledge (skills) and resources available at a certain time (Figure no. 1).

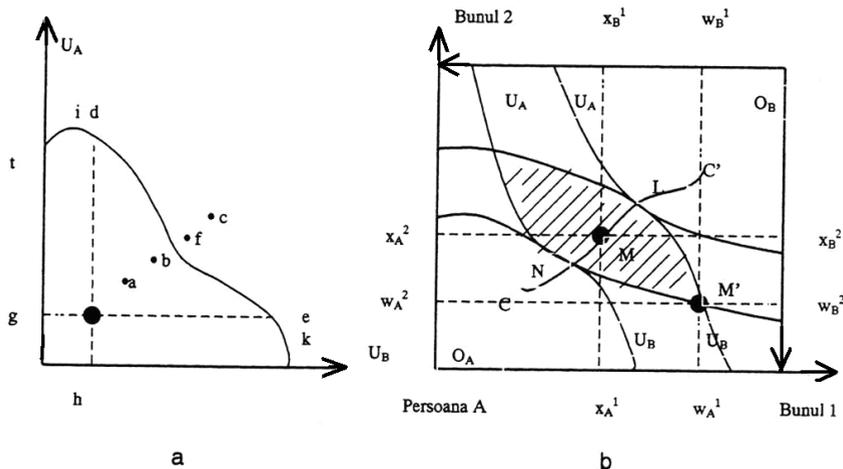


Figure no. 1. Pareto's optimum

The limit of the utility possibilities defines the maximum utility that can be reached by *B* depending on the utility achieved by *A*, and the lower case letters designate the possible situations caused by the allocation of resources, namely: *a* is characterized by a non-primate allocation of the resources as it is situated under the line designating the limit of the utility possibilities (the movement from point *a* towards *NE* improves the welfare of an individual so that no one should lose); *b* is the result of an allocation of resources superior to the *a* situation, because both *A* and *B* obtain a greater utility, but do not represent an optimal allocation, as they are located below the limit of the utility possibilities; *c* cannot be touched because it entails knowledge and resources above the limit of the utility possibilities; *d*, *e* and *f* situations satisfy Pareto's optimum with reference to the initial situation *a*, as it improves the situation of at least one so that no one else loses (it represents optimal situations because is located on the limit of the utility possibilities); *i* and *k* situations do not satisfy Pareto's optimum in relation to the initial *A* situation,



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because it improves  $B$ 's situation to the detriment of  $A$ , respectively,  $A$ 's to the detriment of  $B$ .

The points situated within the  $adfe$  zone represent situations superior to the initial a situation, but only those located on the limit of the utility possibilities line from  $d$  to  $e$  designate situations of optimal allocation.

Also, the points within the  $aditg$  and  $aekzh$  zones represent situations inferior to the initial one ( $a$ ), although the points located on the limit of the utility possibilities line from  $t$  to  $d$  and from  $e$  to  $z$  designate optimal allocation situations. In summary, there is an infinity of optimum allocation situations, in the present case the infinity of points situated on the limit of the utility possibilities line from  $d$  to  $e$  denotes an infinity of optimal solutions. Therefore, it can be said that the transition from  $a$  to  $d$  is more favourable to  $B$  than to  $A$ , respectively the transition from  $a$  to  $e$  is more favourable to  $A$  than to  $B$ .

If we note by  $A$  and  $B$  the two persons, with  $1$  and  $2$  the two available goods, with  $x_A = (x_A^1, x_A^2)$   $A$ 's consumption set and with  $x_B = (x_B^1, x_B^2)$   $B$ 's consumption set, and  $x_A^1$  and  $x_A^2$  represents the amount consumed by  $A$  from good  $1$ , respectively from good  $2$ , and  $x_B^1$  and  $x_B^2$  the amount consumed by  $B$  from good  $1$ , respectively from good  $2$ , then a pair of consumption sets  $x_A$  and  $x_B$  is called "allocation". Known as "Edgeworth's box", this may be a "possible allocation", in the event in which the total consumed amount from each good is equal to the total available quantity.

$$\left\{ \begin{array}{l} x_A^1 + x_B^1 = w_A^1 + w_B^1 \\ \qquad \qquad \qquad \S 1 \\ x_A^2 + x_B^2 = w_A^2 + w_B^2 \end{array} \right.$$

Wherein:  $w_A^1$ ,  $w_B^1$  and  $w_A^2$ ,  $w_B^2$  represent the initial allocation, corresponding to the endowment for  $A$ , respectively for  $B$  and represents the quantity of each good that  $A$  and  $B$  consumers bring from the market.

Following the exchange, we will reach the final allocation. In point  $M$ , the quantities consumed by  $A$  are measured using the  $(x_A^1, x_A^2)$  coordinates, having as origin  $O_A$ , and the quantities consumed by  $B$  are measured using the  $(x_B^1, x_B^2)$



coordinates, having as origin point  $O_A$  and, respectively,  $O_B$ , we can find out the allocations preferred more by  $A$  or by  $B$ .

The exchange between  $A$  and  $B$  is carried out starting from point  $M'$ , representing the initial allocation, owing to which both  $A$  and  $B$  targets the increase of the utility, respectively of the satisfaction in relation to the initial state.

The region that provides superior utility to the initial endowment is determined by the consumption sets situated above the indifference curve passing through  $M'$ , the intersection of the two regions corresponding to  $A$  and  $B$  and representing the geometric locus of the allocations better than the initial ones both for  $A$  and for  $B$  (the shaded area in Figure no. 1, b). In the  $L$  and  $N$  points,  $A$  and  $B$ 's indifference curves are tangent, so the marginal substitution rates for the two customers are equal. In the event that the "contact curve"  $cc$ , that is the geometrical locus of all the points for which the marginal substitution rates between the goods of the two consumers are equal, then the points located thereon, between  $L$  and  $N$  correspond to Pareto's optimum.

There are also other strictly economic aspects, including the balance of allocation (within "Edgeworth's box"), the optimum balance-efficiency ratio, as well as market's dysfunctions of allocations, but they go beyond the reason and the framework of the present paper. However, we are interested in knowing the state's involvement in resources' allocation, which must to be determined depending on the extent of the market's dysfunctions of allocation (lack of perfect market transparency, monopolization of production or demand, technical or natural monopoly, existence of collective goods and externalities), such as that the loss of wealth generated by the public action to be inferior to the welfare loss caused by market's dysfunctions of allocation. From this perspective, in solving specific problems, it would be preferable for the State to use, primarily, incentives means rather than the coercive ones.

2. *The distributive role of the State* that highlights that the optimal allocation of the resources appropriate for the productive efficiency and allocative efficiency imperative is a necessary condition, but not also a sufficient one of the social optimum. Not once, optimal solutions in terms of resources' allocation were unacceptable in terms of social justice. A well it cannot be indifferent the reality that, above state's method of involvement into the economy, the income distribution clearly determines the deterioration of the initial state of Pareto's optimum, although this is more fair, more just and more balanced in terms of distribution. Therefore, State's involvement presupposes defining the adequate methods of distributing the incomes and the favourite wealth, thing that suggests



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the possibility of treating the role of the State's distribution in terms of costs/benefits comparison. Public and private income distribution and redistribution aim to maximize the welfare of the whole community, giving absolute priority to those underprivileged.

3. *The regulating role of the State*, which aims in particular the elimination of the serious economic imbalances and the stabilization of the economy, the assurance of the economic growth. To this end, the State intervenes in the competitive mechanism by adopting specific regulations, attracting much criticism, especially coming from the liberals and neoliberals, but not only. There is an opinion that by exercising such a role, the State can become the absolute master of the society, leading to totalitarianism or the hypertrophy of the bureaucratic apparatus, generating economic inefficiency. In this case, as well, it is about a rather large registry of dysfunctions, mainly changes in the evolution of the macroeconomic variables (global demand and supply, demand and supply for currency), which causes the deviation of the production volume, of the prices' level or of the interest rate.

The objectives pursued by the State by exercising the allocative distributive and regulating roles in the economy are: *efficiency* (insurance of collective property with compulsory use – national defence; augmentation of the private initiative for the rest of the collective goods in cases of technical or natural monopoly as well – industrial, energetic policy, etc.; correction of externalities – environmental policy, positive externality support policy; correction of the monopolistic trends of demand and supply – fiscal, budgetary, regulatory policy, etc.), *equity* (income distribution, social protection insurance, support of the underprivileged categories), *economic balance and growth* – unemployment control and decrease, stabilization of prices and increase of the purchasing power, inflation control and decrease, balance of payments balancing and stimulation of an active balance of payments, general economic stability, economic growth and development. Once the strategic objectives of economic policy have been established and approved by the Parliament, we proceed to identifying the appropriate means and techniques for achieving them.

## Conclusions

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## INTERNATIONALIZATION OF ECONOMIC ACTIVITIES AND GOVERNMENT'S INVOLVEMENT IN THE MARKET ECONOMY

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### Abstract

*Expanding economic relations and creating an international business environment, international business and the internationalization of the commercial transactions across national borders have become a prerequisite for companies, regardless of the activity they carry. Thus, internationalization is seen as a set of strategic methods, techniques and tools necessary to the companies to function abroad. As the effects of – fiscal and monetary – policies on the global demand and supply are unpredictable in time and space, it appears the requirement to substantiate, develop and put into practice a stabilizing strategy.*

*Besides the indexes showing the evolution of the demand and supply, the market can offer economic agents other analysis and decision parameters as well, such as: economic and financial instruments for influencing the behaviour of the business environment. Obviously, the results depend also on how the authorities (legislative and executive, central and local) work for a friendly business environment. There are two mechanisms that can be used for this purpose: fiscal policy (measures to enhance or reduce taxes, dues and public spending) initiated by the Government and approved by Parliament; monetary policy (setting the interest rate and the money supply, respectively of the money stock for a specified period of time) emitted and monitored (supervised) by the National Bank.*

**Keywords:** *economic relations; commercial transactions; economic dirigisme; fiscal policy; social economy.*

**JEL Classification:** A<sub>12</sub>, A<sub>20</sub>, M<sub>16</sub>



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### Introduction

Expanding economic relations and creating an international business environment, international business and the internationalization of the commercial transactions across national borders have become a prerequisite for companies, regardless of the activity they carry.

Thus, internationalization is seen as a set of strategic methods, techniques and tools necessary to the companies to function abroad. Regarding the mechanism of state involvement in the economy, there have been some differences from one stage to another, in most cases resulting clearly that individual freedom is not the guarantee of the social adhesion, and individuals need a social support and the free market as one stabilizer from the state. Among the arguments that advocate in favour of the state involvement in the economy, we may mention: the need to correct the allocation dysfunctions of the free market, caused by incomplete and imperfect information; monopolization of the demand or supply; the existence of natural or technical monopoly; the existence of collective goods and external effects; the need to correct serious economic inequalities generated by competition and regulation of market relations; the insufficiency of the private initiative in respect to the activities or goods of general or national interest (national defence, justice, roads, electricity, nuclear power or pollution); the complexity and difficulty of some general interest issues (wars, natural disasters, serious economic imbalances, social unrest, etc.) up against which the free market is incapable; changes in national and international conjuncture, which determine the need of defending the national economy from the inside and supporting the national economic actors from the outside, by the State; the attainment by the State of the direct economic player statute: consumer of goods and services (for national defence, administration), producer of goods and services-commodities (electricity, transport, postal services and telecommunications), investor, agent on the money market (owner of the issuing bank), on the capital market, the labour market and the currency market.

The objectives pursued by the State exercising the allocative, distributive and regulating roles in economy are: *efficiency* (insurance of collective property with compulsory use – national defence; augmentation of the private initiative for the rest of the collective goods in cases of technical or natural monopoly as well – industrial, energetic policy, etc.; correction of externalities – environmental policy, positive externality support policy; correction of the monopolistic trends of demand and supply – fiscal, budgetary, regulatory policy, etc.), *equity* (income distribution, social protection insurance, support of the underprivileged categories), *economic*



*balance and growth* – unemployment control and decrease, stabilization of prices and increase of the purchasing power, inflation control and decrease, balance of payments balancing and stimulation of an active balance of payments, general economic stability, economic growth and development. Once the strategic objectives of economic policy have been established and approved by the Parliament, we proceed to identifying the appropriate means and techniques for achieving them.

### 1. The importance of international economic relations

Expanding economic relations and creating an international business environment, international business and the internationalization of the commercial transactions across national borders have become a prerequisite for companies, regardless of the activity they carry.

Thus, internationalization is seen as a set of strategic methods, techniques and tools necessary to the companies to function abroad.

International economic relations have become a fundamental structure for the economic activity as the national market economy of a country can exist and be viable only within and in connection to market economies from the other countries.

Within international economic relations take place commercial, financial transactions, but also international trade in which the exchange of goods registered between strongly industrialized countries and developing countries occurs and puts a heavy emphasis on invisible trade with an increasingly important role. Capital movements not related to trade and commercial activity go beyond the trade-related financial activity.

Another importance of the international economic relations is the capital export directed especially towards developed countries.

So far, the main role in international capital flows were held by the flows of goods and services, but lately a great change in the world economy has happened by the appearance of the capital movements, exchanges of currency and credit flows.

Connecting each country to the international economic flows finds its expression, mainly, in the trade balance and external private payments balance as important means of knowing the level of development of a national economy, its structure, as well as its efficiency and the performances of its participation to the international economic exchanges.

The decisions in the field of foreign trade effectiveness are based on such correlations systematically designed and accomplished at the level of the company



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producing export goods and of the import companies. In this context, it must be underlined the particular importance that currently the management of the international economic businesses has, as a set of methods and tools necessary to determine the need for promoting, negotiating, contracting and developing the economic transactions between partners in different countries of the world.

Therefore, in order to be a good, efficient manager means, above all, to act systematically to monitor and manage the relationship between the efforts of the operating companies and the effects or results achieved, of course, in their favour.

Obviously, the results depend also on how the authorities (legislative and executive, central and local) work for a friendly business environment. There are two mechanisms that can be used for this purpose: fiscal policy (measures to enhance or reduce taxes, dues and public spending) initiated by the Government and approved by Parliament; monetary policy (setting the interest rate and the money supply, respectively of the money stock for a specified period of time) emitted and monitored (supervised) by the National Bank. It is about actions influencing the economic and social life for a certain period of time, as a result of some unfavourable circumstances or evolutions. The measures adopted by all governments of the world to limit the negative effects induced by the current financial-banking and economic crisis, unprecedented ever since the 1929-1930 period, have brought to the forefront the question of state's role in the economic and commercial evolution.

As the effects of – fiscal and monetary – policies on the global demand and supply are unpredictable in time and space, it appears the requirement to substantiate, develop and put into practice a *stabilizing strategy*.

Besides the indexes showing the evolution of the demand and supply, the market can offer economic agents other analysis and decision parameters as well, such as: *economic and financial* instruments for influencing the behaviour of the business environment (differentiated taxes and fees, preferential or, on the contrary, restrictive custom tariffs); *legislative framework* favourable to foreign capital investments, to joint ventures' establishment and operation, to the limitation of some imports and the granting of export licenses; *indicative planning* that guides the economic entities in terms of attractive and profitable products; *firm compulsory provisions regarding state fines*. More synthetically said, it's about the deliberate intervention in order to ensure the better functioning of the market, including through the use of forecasts in various fields as viable instruments for compensating the limits of the market. It is well-known that the market alone cannot solve a number of problems, especially on the long term, such as upgraded



communications networks, transport infrastructure (road and rail), requiring the intervention of the authorities to be solved. Throughout history, people have been resorting to various forms of state involvement in the economy, significant being the following:

a. *The economic dirigisme*, with the main protagonists Adam Smith (described the virtues of the liberal economy), Karl Marx (identified the contradictions from the capitalist economy) and John Maynard Keynes, who presented the solutions to avoid the collapse of the capitalist society: economic policy measures to prevent economic and environmental imbalances induced by certain “imperfections” of the market’s automatic adjustment mechanism. As expected, there are also a number of criticisms of the directional economy: the “left” from Cambridge, represented by Pierro Sraffa, argues that the State must intervene to achieve an equal distribution of the surplus value, the most effective means being the budgetary policy, the fiscal policy, the indexing, the unemployment benefits, etc.; R.F. Harod designs a model of balanced economic growth, based on three stages of growth – real, natural and guaranteed – in which the state is involved in the following ways: public works, operations on the money market, budgets on ten years (through which the surpluses from the expansion periods to cover the deficits during recessions), “buffer-fund” of commodities with regulatory fund (set up in recession periods and brought to market in the expansion periods); the American economist P.A. Samuelson proposes a mixed two-way system, meaning through the coexistence of private initiative and State’s involvement, in which the control shall be provided by the joint action of public and private institutions through the market mechanism, namely that of the organizational provisions and of the fiscal systems. His recommended measures are: appropriate *budgetary policy* (increasing public spending, tax cuts to encourage investments and the assurance of a level of savings to enable the full use of the labour market) and *monetary policy* (the intervention on the discount rate, the handling of interest rate, “openmarket” operations).

b. *The neoliberal orientation*, whose promoters claim that freedom of action is the rule and state’s involvement may be accepted only as an exceptional approach in case of private initiative insufficiency or misuse. In the opinion of the American economist Milton Friedman, the economic role of the state is to do what the market is not able to accomplish alone, i.e. to establish, to arbitrate and to apply rules of the game. He claims that, in a free society, the State functions are: solving the conflicts between property rights and ensuring the monetary order. Meanwhile, Friedrich Hayek shows that individual’s freedom should be designed and achieved



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only within the civil society of the market economy, noting that the action areas of the state aim at providing a legal framework in order to make competition more efficient and filling the competition's place by providing public services that have no interest for the private initiative. To prevent frauds and deception, claims F. Hayek, the state must act on a legal framework, always adapted to the realities.

c. *The social-democratic orientation*, having as main protagonists three prominent scholars: Joseph Schumpeter, in whose work is emphasized that, under purely economic report, the capitalism is performant, but its performance is not due to competition, but to the great company – promoter of innovative progress, that disintegrates the social structures, attacking the basis of the system from the inside. Recommending the support of the innovative spirit and solving the social inequalities by means of the tax on wealth, the American economist shows that as laudable as the ideals such as freedom and equality are, democracy, by definition, has no ideal attached, just interests resulting from individuals and parties' free competition for *power*; the German L. Erhardt considers that the state of the *social economy* should separate itself clearly of the liberal state, but also of the active directional state, the social policy objection being analyzing the influence, from the political, social and economic point of view, on the people in its entirety, on consumption, raise living standards, and state's involvement in the economy consists of: property distribution through social actions accessible to the employees, attracting employees in business units, increasing the income of employees for the solvent increase relative to the global supply; John Kenneth Galbraith puts forward the idea of the institutional organization of capitalism, showing that, in fact, the *contemporary economy is a dual one*, divided into two systems: *the system of market* or small enterprise and *the planned systems*, of the large company, its power to control prices, influence the consumer's behaviour, even the public authority, destroys the competitive mechanism, inducing the risk of economy's over-monopolisation. In his opinion, such a risk can be counterbalanced by the compensating power of pressure groups belonging to the other part of the market – buyers, suppliers and others, and the support of the compensating power becomes, in modern times, in peacetime, a major internal function of the government. In the real world, says the American economist, the interests of the planned system are served by the State Administration, which, through facilities and through covering the different needs of the planned system, plays a vital role in promoting its objectives, hence the need for state's emancipation and development of political awareness. To this end, political power must take measures to enable: the equalization of power as economic field and of competitiveness within the



economic system; suppression of income disparities; alignment of the planned system objectives, as well as those affecting the environment, to company's objectives; control of public spending to ensure they serve the social interests, different from those of the planned system; stopping the systemic inflationist and deflationist tendencies of the planned system; ensuring the coordination of the industrial interests, the planned system is unable to achieve.

d. *State's institutional approach*, starting from the assumption that any public action depends on a political decision process. Such an approach of the state's role consists of: the economic analysis of voting as a mechanism of political decisions, the economic analysis of the irrationality risk of the decisions adopted by majority rule; the economic analysis of the public choice and the political institutions; the analysis of the public production by analogy with the private production; the economic analysis of the political confrontation by resemblance with the confrontation of the economic actors on the market; the analysis of the public sector behaviour, starting from the canons of the economic rationality; rationalization of the private sector's activity.

Thus, internationalization is seen as a set of strategic methods, techniques and tools necessary to the companies to function abroad. Regarding the mechanism of state involvement in the economy, there have been some differences from one stage to another, in most cases resulting clearly that individual freedom is not the guarantee of the social adhesion, and individuals need a social support and the free market as one stabilizer from the state. Among the arguments that advocate in favour of the state involvement in the economy, we may mention: the need to correct the allocation dysfunctions of the free market, caused by incomplete and imperfect information; monopolization of the demand or supply; the existence of natural or technical monopoly; the existence of collective goods and external effects; the need to correct serious economic inequalities generated by competition and regulation of market relations; the insufficiency of the private initiative in respect to the activities or goods of general or national interest (national defence, justice, roads, electricity, nuclear power or pollution); the complexity and difficulty of some general interest issues (wars, natural disasters, serious economic imbalances, social unrest, etc.) up against which the free market is incapable; changes in national and international conjuncture, which determine the need of defending the national economy from the inside and supporting the national economic actors from the outside, by the State; the attainment by the State of the direct economic player statute: consumer of goods and services (for national defence, administration), producer of goods and services-commodities (electricity,



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transport, postal services and telecommunications), investor, agent on the money market (owner of the issuing bank), on the capital market, the labour market and the currency market.

As it is easy to guess, *the ways in which the state gets involved in the economy are quite varied*, among them we can mention: through Public Administration (central, local and social security) having the role to provide (supply) nonmaterial collective services, without direct counter-performance from consumers; through the allocation of some budgetary resources, but also serving to redistribute the national income; as direct economic actor, playing the role of producer and consumer of goods and services; by organizing and institutionalizing nation-wide the power through establishing the legal regime of property and of the economic activity and by creating a favourable framework for the socio-economic activity (role of the state is legal arbiter of the interaction between individual and social interests, present and future, national and international); elaboration and implementation of sectoral economic, regional and general policies and programs, the State acting as the regulator and conductor of the economy.

### Conclusions

However, we are interested in knowing the state's involvement in resources' allocation, which must to be determined depending on the extent of the market's dysfunctions of allocation (lack of perfect market transparency, monopolization of production or demand, technical or natural monopoly, existence of collective goods and externalities), such as that the loss of wealth generated by the public action to be inferior to the welfare loss caused by market's dysfunctions of allocation.

The objectives pursued by the State exercising the allocative, distributive and regulating roles in economy are: *efficiency* (insurance of collective property with compulsory use – national defence; augmentation of the private initiative for the rest of the collective goods in cases of technical or natural monopoly as well – industrial, energetic policy, etc.; correction of externalities – environmental policy, positive externality support policy; correction of the monopolistic trends of demand and supply – fiscal, budgetary, regulatory policy, etc.), *equity* (income distribution, social protection insurance, support of the underprivileged categories), *economic balance and growth* – unemployment control and decrease, stabilization of prices and increase of the purchasing power, inflation control and decrease, balance of payments balancing and stimulation of an active balance of payments, general economic stability, economic growth and development. Once the strategic objectives of economic policy have been established and approved by the



Parliament, we proceed to identifying the appropriate means and techniques for achieving them.

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## ELECTORAL POPULISM VERSUS ECONOMIC STABILITY

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### Abstract

*It is well-known that in election years, political parties compete in measures and promises that are more or less extravagant, designed to attract votes from voters.*

*The situation is understandable to a certain extent, this practice being common in other countries as well, important being not to “jump the horse” as unfortunately happens in Romania, where in four years the politicians, in their desire to obtain a mandate in local or parliamentary elections, replete with all kinds of promises, without regard to the impact that their application might have on the stability of the overall economy.*

*As the electoral legislation has become more stringent, attracting voters by giving them attentions and gifts (buckets, packages of food with sugar, oil, etc., or gourmet) was forbidden and election promises have climbed the first rung of the strategy of attracting voters.*

*On the other hand, the old local and central political structures at the end of their mandate try, for the last hundred meters, to adopt populist measures, hoping both to renew mandates and to solve personal interests relating to special pensions bonuses and all sorts of pecuniary advantages, according to the principle “after us the deluge”.*

**Keywords:** *election; populist measures; political programs; economy; electoral alms; risks; economic slippage; economic stability.*

**JEL Classification:** *G<sub>01</sub>, G<sub>15</sub>*

### Legislation Approved or Legislative Proposals Made During the Pre-Election Period with Major Impact on Budget

Among the measures approved or pending approval by Parliament in the pre-election period with significant influence on budget expenses we mention:

- Increase by 15% of the basic salary in education and health services, since January 1<sup>st</sup>, 2017 according to GEO no. 20/2016, appealed at the Constitutional Court of Romania and declared constitutional;



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- Recalculation of allowances for medical staff to the level of the salary in 2016, while increasing by 25% the level of the basic salary from the National Social Insurance House;

- Multiple negotiations between the government and the unions on increasing minimum wage per economy to approx. 1500 lei/month, increase which has already been approved at the level of 1450 lei/month;

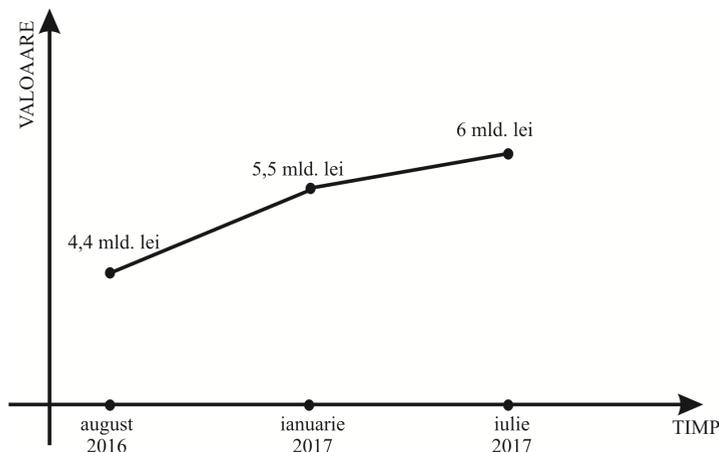
- The increase in the pension point from about 32% to 40% with effect from January 1<sup>st</sup>, 2017 and by 1<sup>st</sup> of January 2017 to 45% of the average gross wage in the economy and hence pensions by 25% in the first phase and another 10% in the second stage;

- The increase of pension for farmers from 300-400 lei/month to at least 520 lei/month.

Legislative proposals on pensions alone would have an impact of over 16 billion lei per year on social security budget expenditure, which already is deficient of approx. 18 billion lei for this year.

Graphic evolution of the budgetary effort determined by the increase in pensions (see Chart no. 1) is as follows:

**Chart no. 1**



Source: Capital Magazine, Oct 7 2016. Author: Răzvan Amariei



- The increase of meal vouchers from 9.41 lei to 15 lei;
- Growth of parental allowance;
- Approval of special pensions for MPs based on the number of mandates (that has become effective from August 1<sup>st</sup>, 2016);
- Special pensions for local officials – appealed at the Constitutional Court of Romania and declared unconstitutional.

Implementation of legislative proposals (some approved, others under discussion) prepared in the pre-election period on salary increases, bonuses and allowances other than pensions would have an estimated impact on public budget spending of about 10 billion lei annually.

### **Main Economic Measures Contained in Electoral Programs of the Political Parties**

Although at the parliamentary elections of December 11<sup>th</sup>, 2016, about 16 thousand candidates, virtually all affiliated to the political parties and several independent ones, were registered, in our analysis we will focus on the economic measures designed to attract votes from the programs of the two main political parties on the Romanian political scene, namely the left oriented Social Democratic Party (PSD) and the right oriented National Liberal Party (PNL) resulted from the merge of the old Liberal Democratic Party and the National Liberal Party.

**PSD electoral program** includes a series of populist measures, among which:

- Reducing the value added tax (VAT) from 20% today to 18% from January 1<sup>st</sup>, 2018<sup>1</sup>;
- Elimination of taxation on pensions below 2,000 lei per month, starting January 1<sup>st</sup>, 2018, measure which has been approved by the new Government as of February 1<sup>st</sup>, 2017;
- Elimination of health insurance contribution for all pensions regardless of amount, a measure already approved by the new Government as of February 1<sup>st</sup>, 2017;
- Reducing the dividend tax from 5% today to 0% as from 1<sup>st</sup> of January 2018, which creates prerequisites for Romania to become a tax haven in this regard;

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<sup>1</sup> According to the Tax Code, VAT is to be reduced from 1<sup>st</sup> of January 2017 to 19%, measure already approved by the new Government at the beginning of 2017.



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- Reduction of income tax from 16% currently to:
  - 10% starting with January 1<sup>st</sup>, 2018;
  - 0% starting with January 1<sup>st</sup>, 2018 for taxpayers who achieved an annual income less than 24 thousand lei;
- Reducing tax on turnover to 1% from 1<sup>st</sup> of March 2017 for micro-businesses (those up to 9 employees included), while increasing the annual limit for admission to this category of turnover volume from 100 thousand euro now, to 500 thousand euros.
  - Reduction of profit tax for research from 16% at present to 0% from 1<sup>st</sup> of March 2017 following the facility to be maintained for a period of ten years;
  - Reducing VAT on sale of housing from 5% today to 0% starting March 1<sup>st</sup>, 2017;
  - Reducing VAT on agricultural raw materials and services in agriculture to 0%, starting with March 1<sup>st</sup>, 2017;
  - Removal with effect from January 1<sup>st</sup>, 2018 of the tax on agricultural land which at present is 46 lei/ha;
  - Removal with effect from January 1<sup>st</sup>, 2018 of the tax on cars with a cylinder capacity of less than 1600 cc, motorcycles, vans, buses, tractors, trailers, cargo means of transport;
  - Removal with effect from January 1<sup>st</sup>, 2018 of the tax on transfer of property worth more than 200 thousand lei and a reduction to 3% for those with higher values than 200 thousand lei. The new Government has already approved the elimination as of February 1<sup>st</sup>, 2017 of the tax for real estate transactions costing less than 450 thousand lei;
  - Cancellation of 102 non-fiscal taxes, as of March 1<sup>st</sup>, 2017 (the environmental tax, taxes at the Trade Register, radio-TV fee etc.). Approval law was debated by the Romanian Constitutional Court and was declared constitutional.

**PNL electoral program includes some populist economic measures, such as:**

- Reducing VAT from 20% today to 16% and its alignment with the flat tax rate;
- Generalization of the flat tax rate of 16% for the contributions paid both by employees and employers;
- Eliminating taxes for all pensions;
- Reducing the number of taxes by 50%;



- Increasing base of taxation and budget revenues by taxing in Romania the profits and revenues made in our country by big companies (corporations, international and multinational groups);
- Introduction of fiscal facilities for companies and firms with more than 1000 employees;
- Providing fiscal facilities for companies that carry out social projects (nurseries, kindergartens, school and after school activities, etc.);
- Halving the income tax for families with at least three children, the facility will be maintained for both parents until the third child reaches the age of 7;
- Increasing child benefits from 84 lei/child at present to approx. 200 lei/child.

### **Impact of the Measures in the Electoral Programs on Economy as a Whole**

Of course raising the general standard of living, increase in welfare is an intrinsic goal of any type of society in general and each individual in particular, the action being essentially non-objectionable.

The ways, the dynamics, the levers used to achieve this goal and, especially, long term sustainability of concrete measures to achieve economic and social policies is the object of our analysis.

Here, in Romanian, there is an old saying: “Do not lie more than your blanket” to which I would add not to consume more than you produce, don't borrow more than you can repay, do not spend all the money obtained and do not forget to save “rainy days money”.

An overview of the electoral programs of the two main political parties in Romania highlights several conclusions:

- Both programs include populist measures, even if a party (PSD) is left-oriented, and another (PNL) is right-oriented, producing a mixture of doctrines;
- The PSD electoral program is focused especially on SMEs and micro-enterprises, the implementation schedule being phased for the years 2017-2018;
- The PNL electoral program is focused on large corporations and family;
- Both electoral programs are populist, but the PSD program addresses more disadvantaged entities (pensioners, farmers, micro-enterprises) and is aimed at broader categories of voters, which is the main reason why the PSD achieved an electoral score of approximately 45% of the votes casted in the elections of December 11<sup>th</sup>, compared to only approx. 20%, score obtained by the Liberal Party.



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**The impact of the legislative initiatives** (approved or pending approval), and measures of electoral programs of the two main political parties on the economy as a whole will result in a rise in spending of state budget and social insurance budget, while diminishing budget revenues by reducing or eliminating some taxes, representing a net negative influence that will jeopardize the positive evolution of the Gross Domestic Product (GDP) registered by Romania in the post-crisis period, according to Table no. 1:

**Table no. 1. GDP evolution in the post-crisis period**

Period	GDP Value (billion lei)	% compared to previous year	GDP Value (billion euro <sup>2</sup> )
2014	669,5	+2,9	149,3
2015	710,3	+3,7	156,9
2016 (estimation)	740,1	+4,2	164,4

Source: Own calculations by NIS and NBR.

In order to support, at least on paper, the implementation of measures proposed in the campaign, PSD based its economic program on a GDP of 815 billion lei for 2017, with approx. 10% more than the estimated GDP to be achieved in the current year, the provided growth rate being unrealistic and a level of budget deficit of 2.95% of GDP.

The impact of the populist measures contained in the electoral programs will hardly affect the budget deficit that must be maintained within 3% of GDP to meet the country's agreements with the European Union, in which it has been a member since 2007.

**The estimated level of budgetary expenditure increase** resulting from application of the legislative initiatives (approved or pending approval) and of the measures contained in the electoral programs of the main political parties amounts to approx. 30 billion lei, of which:

– Approx. 18 billion lei on account of the budget of state social insurance (pension increases and the like);

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<sup>2</sup> The conversion was made based on the leu/euro rate at the end of each period included in the analysis.



– Approx. 10 Billion lei on account of the state budget (increase in salaries, allowances and other equivalent rights);

– Approx. 2 billion lei on account of the state budget (central and local), reductions, elimination of contributions, fiscal and non-fiscal taxes, etc.

These additional costs are approx. 4% of the GDP estimated for this year, to which, if we add the current budget deficit of approx. 2.5 p.p., we reach a cumulative budget deficit of over 6% of GDP, double of the level stipulated in the accession partnerships to the EU and the Treaty of Maastricht.

Economic slippage risk is also amplified by the unfavourable situation in which Romania is compared to the EU average in terms of specific indicators (see Table no. 2), for which:

**Table no. 2. Comparative indicators**

Indicators	Romania	EU average
No. of employees/No. of residents	25%	45%
No. of state employees/No. of employees	24,5%	15%
Work productivity	5,6 €/h	36 €/h

Source: Own estimates following EUROSTAT, EC, NIS data, taking into account a total population (according to their home address) of 22.2 million inhabitants, a number of 5.55 million employees, of which 1.36 million state employees.

Although in recent years, Romania's economy recorded positive developments with some of the most dynamic growth rates recorded by the EU countries we are still far from the European average, all the more so from developed countries in the EU, with a small number of employees reported to the total population, more than a quarter of those working in the budgetary sector. This situation casts doubt on the reality of official figures on unemployment in Romania, further emphasizing that we are a country of social assisted people.

The worst situation is recorded in the labour productivity indicator in Romania which is approx. 6 times lower than the European average, and almost 10 times lower than the level of labour productivity in developed countries of the EU.

The implementation of provisions in electoral programs of the political forces which won the parliamentary elections on December 11<sup>th</sup>, 2016 puts the new Government in a difficult situation, already having introduced measures, designed



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to attract additional funds to the state budget, but which were not spoken of in the electoral campaign, such as:

- Elimination of the limit of 5 average salaries in determining the contribution to the social health insurance;
- Levying contributions for social health insurance for persons who derive income from investments (exclusively);
- Introduction of a new tax of 8 lei/ton of garbage;
- Possible introduction of progressive income taxation etc.

### Conclusions and Proposals

▪ In Romania, more than in other European countries, election years generate actions with populist character from the political class in a bid to attract more votes, requiring greater accountability and a more realistic view of planning electoral programs and the unification, in perspective, of the parliamentary and presidential elections, in order for fewer years to be lost on the path of socio-economic development of the country;

▪ The implementation of initiatives and electoral proposals (some already approved) would have a major impact on the increase in spending and reduction of budget revenues, which would substantially increase the current budget deficit of approx. 2.5% of GDP to over 6% of GDP, twice the accepted level of 3% in agreements with the EU;

▪ “Tel-quel” implementation of electoral promises could lead to a serious economic slippage and to the discontinuation of the favourable and stable evolution of the country’s economy, registered in the post-crisis period. However, medium and long term growth of economic and social development of Romania would be compromised, as well as its proximity with EU developed countries, including in terms of standard of living and quality of life.

▪ The implementation of electoral campaign promises is accompanied by the perverse action of the present administration to introduce new taxes that has not been spoken of before the elections of December 11<sup>th</sup>, 2016.

▪ Together with measures of moderate and sustainable growth of incomes of the population (employees, retirees, minors) it is necessary to increase concerns among economy and policymakers to ensure the rapid growth of labour productivity, number of employees in total population and the reduction of bureaucracy and the budgetary apparatus which supports it.



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**DOCTORAL AND POSTDOCTORAL  
PAPERS**





**THE ROLE AND INVOLVEMENT OF BUSINESS  
AND INSTITUTIONAL OPERATORS IN PROMOTING LOCAL  
INVESTMENT AND ECONOMIC GROWTH BY ACCESSING  
AND USING GRANTS. MEASURES  
AND COURSES OF ACTION**

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**Abstract**

*Starting from the premise that sustainable development is an overall objective of EU Member States that can be achieved through international cooperation that aims at economic growth, social development and environmental protection, the European Commission analysed the socio-economic and investment context of the member states, identified risks and opportunities and made some recommendations.*

*This paper presents the best practices of the European funding system to improve the accountability of business or institutional operators accessing European funds and the measures taken by some Member States for good governance.*

*We emphasize the need to know the socio-economic and investment context by all stakeholders and initiate concrete measures of action to ensure real and sustainable economic growth by identifying feasible and lasting solutions; what is the role of business or institutional operators at local and regional level and how it could ensure good governance at local and regional level by applying for grants.*

**Keywords:** *sustainable development; good governance; business operators or institutional grants.*

**JEL Classification:** O<sub>10</sub>, G<sub>30</sub>



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### Introduction

Starting from the premise that sustainable development is an overall goal of EU member states that can be achieved through international cooperation that aims at economic growth, social development and environmental protection, the European Commission examined the socio-economic and investment context of the member states in order to ensure long-term European economy. In this regard, the risks have been identified and there have been formulated recommendations for the member states to adopt the necessary measures for their removal, a part of them being presented as follows:

### Risks

Local, regional, national factors lack the initiative for identifying financial mechanisms to support financing of long-term investments, given the fact that investors generally prefer short-term investments. They should also take into account the local and regional particularities of long-term investments.

### Recommendations

For a sustainable economic growth, the local and regional authorities should identify funding sources to facilitate and encourage long-term investment according to local and regional particularities and considering the challenges faced by business or institutional operators.

In this regard, the national and multilateral investment banks might have an important role and they should (a) support the investments of strategic importance, especially in infrastructure and (b) pursue a countercyclical financial policy, i.e. to retain the capital during economic growth and significantly increase investments especially in a time of deep economic crisis.

On the other hand, the long-term investment at local and regional level could be supported by adopting procedures that enable reducing bureaucracy and the substantial speeding up of the decision-making process.

### Risks

❖ A fast increase has been found in the international competition for foreign capital. In order to ensure the necessary funding to pay the accumulated debts, some indebted countries have opted for foreign capital to finance income-



generating investments, the attention being funnelled more on loans and less or not at all on other sources of capital.

❖ It has been observed that cities and regions act differently on the financial markets, making long-term investments differently depending on the existing socio-economic context and industrial policy of the area. Cities and regions themselves come to represent investments on the financial markets.

❖ It has been found that the public sector acts differently on financial markets and with other objectives than the private sector. In this respect, the need to recover investments, the horizon to make investment and the risk tolerance are different priorities for public and private investors.

### **Recommendations**

❖ The capital market financing of long-term investments can be enhanced by supporting local and regional financial institutions and by ensuring effective protection of investors.

❖ There is also an urgent need to increase the labour productivity. It must continually be adapted to a constantly changing economic environment. In such an environment it can be useful for workers to be able to fulfil the role of shareholders and/or investors in order to make long term investment in the company where they work; in case of investments at the local level, in particular in energy and environment sector, it is necessary to create investment structures in which the local and regional community can be not just a financial actor, but also consumer.

### **Risk**

It has been noticed that SMEs access to financing is more difficult than for large enterprises, to this adding the fact that in some member states the activity of SMEs is hampered by discriminatory legislation in many respects.

### **Recommendations**

❖ An increased share of the loan market outside the financial sector and the facilitation of the market access of the loans for SMEs would allow greater involvement of microenterprises and SMEs.

❖ It is desirable to consider a European approach to setting lower tax rates for capital investments or a differentiation in tax rates and exemption of long-term savings;

❖ On the other hand, local and regional authorities, economic interest groups, competent organizations in the field of public health and organizations of the



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capital market could establish local and regional cooperatives to ensure alternative sources of funds for long-term finance at local and regional level.

❖ It is believed that such a network of small financial institutions may be the solution for many local and regional issues and SMEs should be guaranteed the obtaining of a guaranteed share of risk capital. It should also be considered a more widely used support for credits.

❖ The development of an EU regulatory framework concerning alternative non-bank sources of financing for SMEs would certainly be useful, in certain circumstances, for the local and regional development, because the current legal framework rather limits than favours SMEs.

### I. Examples of good practice identified in other EU Member States

a. *Examples of support schemes for enterprises (Good practice in supporting the enterprises)*

**Greece:** There have been granted funds for app. one thousand three hundreds (1,300) small and medium enterprises through JEREMIE financial instrument, mainly lending, allowing them to face the restrictions imposed by the financial markets.

**Portugal:** By the second half of 2013, app. nine thousand four hundred and fifty eight (9,458) enterprises benefited by assistance from the support schemes co-financed through ERDF, and nine hundred fifty two (952) new enterprises received financial help at start up, four hundred forty eight (448) from them in high technology or knowledge-based sectors.

**Belgium:** At the end of 2012, the financial instruments such as risk capital, loan warranties, micro credits and “mixt” products, co-financed from ERDF, helped five hundred seventy one (571) new enterprises at start up and six hundred seventy one (671) to develop their activity, ten times more than the number of enterprises that benefits from subsidies for investments.

**Bulgaria:** At the end of 2012, through JEREMIE financial instrument, approximately one thousand three hundred eighty eight (1,388) small and medium enterprises received loans with low interest to allow them to face the crisis of lending from the financial market.

The JEREMIE scheme in **Romania** has been implemented by SOP ECI – the total maximum estimated sum allocated to the minimis aid in the form of loans with grant partial interest by the JEREMIE Holding Fund (JHF) was more than 150 million euros (RON equivalent) to support around 1,000 SMEs.



a. *Aalborg Charter of European Cities & Towns towards Sustainability, that respects the principles of Agenda 21 and has the objective of creating the framework for sustainable development of urban areas.*

In order to reduce the existing regional and social disparities, develop a sustainable society and solve the environmental problems and social inequalities, it was found that cities can play an essential role. From analysis it was observed that for a sustainable economy, they can start in cities that can ensure a sustainable economy based on sustainable attitude of every person by providing them an appropriate framework for the deployment of sustainable economic activities. Among the many actions that a city can initiate, we highlight: encouraging sustainable business, promoting of culture and traditions, urban planning to ensure moderate air density and quality, efficient public transport system that can replace personal cars, integrating disadvantaged people and stimulating people with much potential, etc.

In support of those mentioned above we can refer to the agreement signed in 1994 by several European cities, namely **Aalborg Charter of European Cities & Towns towards Sustainability**, which aimed at creating a framework for sustainable development of urban areas.

Under the agreement they have taken ten commitments to respect the principles of Agenda 21 as follows:

**Table no. 1. Commitments and actions taken**

Point of interest	Actions
<b>GOVERNANCE</b> Cities reform their decision-making process by developing participatory democracy following the next points of interest:	<ul style="list-style-type: none"><li>• Adopting a long-term strategy in terms of a sustainable city.</li><li>• Informing the local community on the sustainable development.</li><li>• Ensuring the participation of all sectors of local society in decision-making process.</li><li>• Ensuring transparency in the decision-making process.</li><li>• Ensuring effective collaboration with other municipalities, towns and villages nearby.</li></ul>



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### LOCAL MANAGEMENT FOR SUSTAINABLE DEVELOPMENT

Cities are more responsible with regard to the implementation of an efficient management irrespective of the training, implementation or evaluation process.

The specific objectives are:

- Promoting Agenda 21 priorities and other government programs.
- Developing an integrated management system for sustainable development, consistent with the principles of the EU strategy for urban development.
- Setting objectives and deadlines for achieving activities set out in Aalborg Commitments and developing a mechanism to monitor their implementation.
- Urban decision-making process will focus on sustainability principles and will allocate resources on sustainable criteria.
- Collaborating with their network to monitor and evaluate progress as far as the Sustainable European Cities & Towns project is concerned.

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### ENVIRONMENT

Responsibility to protect, preserve and ensure equitable access to natural common goods through:

- Reducing electricity consumption and boosting renewable energy use.
- Using water efficiently and improving water quality.
- Extending green areas, promoting sustainable forest exploitation, as well as promoting and developing biodiversity.
- Promoting agriculture by improving soil quality, increasing its productivity. Improving air quality.

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### RESPONSIBLE CONSUMPTION

The cities will start to adopt and facilitate optimal use of available resources by ensuring the responsible consumption. For it, the following actions will be taken:

- Increased reuse and recycling of products; avoiding and reducing the volume of garbage.
- Managing garbage in accordance with best practices in the field.
- Improving energy efficiency and avoiding unnecessary consumption of electricity.
- Ensuring a sustainable purchasing process.
- Stimulating sustainable production and consumption, especially through the use of eco-labels, organic product promotion and fair trade.

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### PLANNING AND MODELLING

The cities will start to make an urban planning on medium and long term that takes into account the social and economic context, the inhabitants' health and traditions, the environment. In this regard, the following actions will be taken:

- Providing the infrastructure to repopulate abandoned areas.
  - Avoiding urban congestion and prioritizing the use for economic development of former industrial sites before identifying new areas.
  - Ensuring an optimal balance between the use of office buildings and the household; priority will be given to housing in central areas.
  - Identifying solutions to ensure the preservation, renovation and reuse of existing favourable cultural heritage in urban areas.
  - In terms of construction activity, the cities will have an approach by encouraging the use of architecture and building materials of high quality to ensure sustainable construction.
-



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### **BETTER MOBILITY, LESS TRAFFIC**

Due to the interdependence of transport, health and environment, cities will start to promote sustainable transport options by taking the following actions:

- Creating public transport alternatives accessible to everybody to reduce the need for private motorized transport, thereby stimulating the increased number of trips made by public transport, on foot or by bicycle.
- Promoting the use of low emission vehicles.
- Developing an integrated and sustainable urban transport.
- Decreasing the effects motorized transport has on the environment and health.

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### **LOCAL ACTIONS FOR HEALTH**

The cities will start to promote good health of citizens. For it, the following actions will be undertaken:

- Promoting actions to improve environmental conditions and awareness about its effects.
- Building strategic partnerships in health field to promote a sustainable urban health system.
- Approaching concrete measures and actions to reduce health system inequalities and fighting poverty.
- Paying more attention to health and encouraging quality of life by analysing the activity sectors and their impact on health.
- Imposing compulsory integration of health objectives in planning and strategic initiatives developed by urban planners.

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### **LOCAL ECONOMIC DYNAMIC AND SUSTAINABLE SYSTEMS**

The cities will start to provide a dynamic and local economy that allows jobs regarding the environmental protection. For it, the following measures will be taken:

- Taking measures to stimulate and support the local economy and also to create the conditions necessary for the establishment of local start-ups.
- Stimulating the cooperation with local economic operators in order to promote and implement the best practices.
- Identifying some sustainable principles for businesses location.
- Stimulating the consumption of high quality products, local or regional, by encouraging internal consume markets.
- Promoting sustainable tourism.

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### **EQUALITY AND SOCIAL JUSTICE**

It is intended to increase the safety and security of communities by taking the following actions:

- Initiating and supporting programs for elimination and prevention of poverty.
- Facilitating the widest categories to have access to public services, education, training, information and cultural activities and also creating employment opportunities.
- Promoting social inclusion and gender equality.
- Ensuring safety in the community.
- Providing housing quality and better living conditions.

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### **FROM LOCAL TO GLOBAL LEVEL**

Cities will assume responsibility for peace, justice, equity, sustainable development and environmental protection. For it, the following actions will be initiated:

- Promoting an integrated strategy to prevent the causes and mitigate the impact of climate change and the high emissions of greenhouse gases; reducing the impact on the environment and promoting the principle of justice.
- Promulgating policies for climate protection by initiating programs that are related to electricity, transportation, purchasing, trash, agriculture and afforestation.



- 
- Strengthening international cooperation with other cities and municipalities to develop a group of local response to global challenges.
- 

Source: <http://sustainabledevelopment.un.org/content/documents/Agenda21.pdf>

To identify the impact that the implemented actions taken by cities had as a result of their commitments made in 2010, research was conducted to quantify the results. In this respect, the results were encouraging and showed that the signatory cities have been very good in the direction of more sustainable prospects. The article was written based on the report Indicators for Sustainability – How cities are monitoring and evaluating their success published by the Sustainable Cities organization and the information available on websites <http://sustainable-development.un.org/content/documents/Agenda21.pdf> and [http://ec.europa.eu/environment/urban/pdf/aalborg\\_charter.pdf](http://ec.europa.eu/environment/urban/pdf/aalborg_charter.pdf).

## II. Directions for action in the new programming period

The new programming period marks a reorientation of the financing priorities compared with 2007-2013 period, reflecting the close connection between the cohesion policy and Europe 2020 Strategy.

Approximately 124 billion Euros are allocated to research, development and innovation, IT&C, SMEs, with 22% more than in the 2007-2013 period and 98 billion Euros will be invested in measures for occupation, social inclusion and education and training, while almost 4.3 billion Euros are allocated to good governance (consolidation of the institutional capacity and efficacy of the public administration), with 7.2% more than the previous programming period.

Allocation of funds was based on the current economic environment and future trends are crucial to implementing the measures undertaken in order to ensure economic growth to meet the challenges for development in the medium and long term and allowing reducing the regional and social disparities existing in Romania.

According to an article published on the website of the European Commission (<http://ec.europa.eu/eurostat/statisticsexplained/index.php?title=Archive:GDP>) with data since December 2011 on the relative size of the GDP per capita in the 27 Member States, members of the Economic and Free Trade



Association – EFTA (Iceland, Norway and Switzerland) and four countries aspiring to EU membership (Croatia, the former Yugoslav Republic of Macedonia, Montenegro and Turkey) and three potential candidate countries of the Western Balkans (Albania, Bosnia and Herzegovina and Serbia) it has been found that Romania ranks the 32<sup>nd</sup> with a GDP per capita below 50% of the EU-27 average.

As we can see, Luxembourg is positioned on the first place with a GDP per capita two and a half times higher than the EU-27 average, the Netherlands rank the second with a GDP 33% higher than EU-27 average (being overtaken by Norway and Switzerland, members of the Economic and Free Trade Association – EFTA), then follow the countries with the GDP 20% over the EU, namely Denmark, Austria and Sweden, Belgium and Germany were about the same level, followed by Finland and the United Kingdom.

Countries which have the GDP below the EU-27 are:

- Cyprus has the GDP little below the EU average;
- Slovenia, Malta, Portugal and the Czech Republic with the GDPs placed about 20% below the EU-27 average;
- Slovakia, Hungary, Estonia, Poland and Croatia with the GDPs placed at a level of about 40% below the EU-27 average;
- Romania and Bulgaria with the GDPs per capita slightly below 50% of the EU-27 average;
- Five countries have a GDP per capita of at least 60% below the EU-27 average, namely Montenegro and the Former Yugoslav Republic of Macedonia, Serbia, Bosnia and Herzegovina and Albania<sup>1</sup>.

**In Romania**, analysing the GDP/capita in the North-East, South-East, South-West Oltenia, South-Muntenia, Centre, West, North-West, and Bucharest-Ilfov according to figures presented by INS in the table below, it was observed that **the real disparities are intra-regional**.

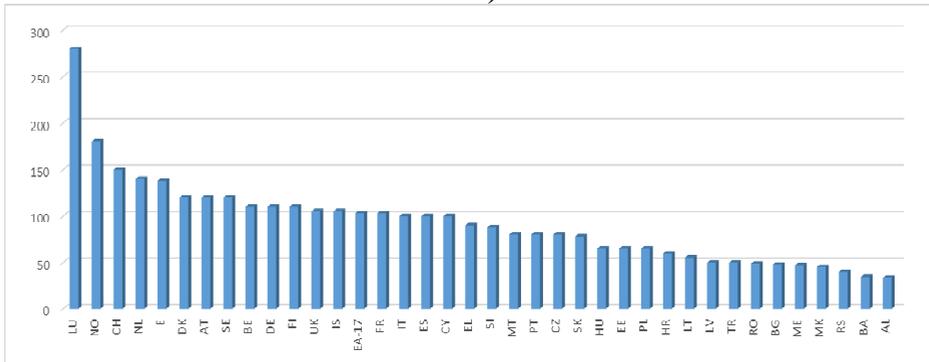
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<sup>1</sup> [http://ec.europa.eu/eurostat/statistics-explained/index.php?title=Archive:GDP\\_per\\_capita,\\_consumption\\_per\\_capita\\_and\\_price\\_level\\_indices/ro&oldid=113078#Volumele\\_relativale\\_PIB-ului\\_pe\\_cap\\_de\\_locuitor](http://ec.europa.eu/eurostat/statistics-explained/index.php?title=Archive:GDP_per_capita,_consumption_per_capita_and_price_level_indices/ro&oldid=113078#Volumele_relativale_PIB-ului_pe_cap_de_locuitor)



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**Chart no. 1: Volume indices of the GDP per capita, 2010 (EU-27=100)**



Source: Eurostat (tec00114)

**Table no. 2. Disparities in the level of GDP/capita (national average 100%)**

Regions Year	2012	2013	2014	2015	2016	2017
North-East <sup>a</sup>	62.7	62.3	62.2	62.2	62.2	62.2
South-East	81.9	80.9	80.8	81.0	81.1	81.1
South Muntenia	82.4	83.6	83.8	83.8	84.0	84.1
South-West Oltenia	78.4	80.7	81.0	81.3	81.5	81.7
West	114.2	114.4	114.3	114.1	114.0	114.0
North-West	83.9	83.9	83.7	83.7	83.6	83.6
Centre	97.3	98.2	98.1	97.9	97.8	97.8
Bucharest-Ilfov	238.8	234.9	234.5	233.8	233.0	232.1

Source: NIS – version of December 13<sup>th</sup>, 2012

In this regard, according to the cues of disparity in the GDP/capita in the period 2012-2015, considering the national average of 100%, it is observed that the region with the lowest level of development is the North-East with a value of



62.2%, which will continue until 2017. This is followed by the South-East region (81.1%) and South-West Oltenia (81.7%), which will remain slightly above four-fifths of the national average of 2017.

The regions of South Muntenia, North-West, Centre will be situated slightly above the threshold of 85% of the GDP/capita registered in Romania.

We mention that these six regions have a GDP below 50% of the EU average.

Only two regions will be above average with Bucharest-Ilfov far away from the rest of the country and Western region with a seventh above the national level. However, only Bucharest-Ilfov region is already and remains slightly above the EU average.

### Conclusion

Starting from the general objective of the European Union, that of reducing the disparities between EU Member States and taking into account the socio-economic context of Romania, the different level of development in the regions and resolving the identified needs in the medium and long term leading to raising the living standards, the European Commission has allocated Romania, according to the partnership agreement, five European structural and investment funds (ESIF) namely: the European Regional Development Fund (ERDF), Cohesion Fund (CF), European Social Fund (ESF), European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF).

The allocation of these ESI funds will directly contribute to the promotion of Romania's ability to meet the key objectives proposed for national and community development, as follows:

- meeting the objectives proposed by the **Europe 2020 Strategy** – to meet the request of the EU, Romania has proposed that by the end of 2020 to meet a number of objectives in the following key areas: employment, research and development, energy/climate, education, social inclusion and poverty reduction.

In this regard:

- over € 1 billion has been allocated for research and development (R&D) and innovation to meet the thematic objective 1 (TO1);

- € 3.9 billion have been allocated for a more efficient economy in terms of energy by switching to a low-carbon emissions economy (TO4) including the creation of infrastructure for the use of renewable energies;

- € 3.4 billion have been allocated for combating and preventing social phenomena Romania is facing and poverty reduction concerning the objective of



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reducing with 580,000 the number of people at risk of poverty or exclusion (compared with 2008);

➤ € 2.2 billion have been allocated for increasing employability in the labour market (TO8), Romania assuming a 70% employment jobs nationwide focusing particularly on young people;

➤ € 1.65 billion has been allocated for reducing to 11.3% the early school leavers and increasing to 26.7% the rate of participation in tertiary education (TO10).

- fulfilling the Obligations under the Treaty of Accession – there has been allocated over € 3 billion in TO6 for continuing to provide services for water and wastewater in accordance with standards agglomerations of over 10,000 inhabitants and also leading to the modernization of congestion higher than 2,000 inhabitants;

- boosting national competitiveness:

➤ allocation of funding through TO2 and LEADER for appropriate measures (training, e-services, e-government) in all priorities, especially in rural areas to ensure the continuing development of the national network of broadband services and the next generation access (NGA), with a minimum rate of 30 Mbps, jointly approaching the issues of low subscription rate;

➤ fostering the participation of young farmers and fishermen to increase productivity and added value of agricultural, fisheries and aquaculture;

➤ launching financial engineering schemes and providing direct support to enhance the competitiveness of economic operators and the survival rates of young SMEs (TO3);

➤ 20% of the ESI funds have been allocated under the TO7 for facilities consolidation and reliability of the transportation network in order to increase the accessibility of the regions and the attractiveness of industrial investment;

➤ € 800 million have been allocated for the implementation of systemic reforms in the governance and administration to resolve the administrative weaknesses.

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## THE INFLUENCE OF CULTURE ON LEADERSHIP

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### Abstract

*The level of development of a country is defined based on indicators such as population size, GDP and country area. Although it's easy to identify countries like the USA, France and Spain that are part of developed countries and countries such as Senegal, Gabon, Greece or China ranked as emerging countries, there is no universally accepted definition of developing countries. The "emerging countries" are often listed in terms of their differentiation from the developed countries; a common problem is that some organizations don't take into consideration all the variables, a country located on a higher position in terms of GDP is possible to not have the same position at the social development or quality of life.*

*For the last 25 years, China has known continuous economic expansion, it's forecasted that in the next 20 years it will become one of the world's superpower. China encountered a relatively fast development after the deployment of the "cultural revolution".*

*In China, the long standing cultural tradition influences till today the economic area, more than other countries encounter from this category. The youth's mentality is to learn and to work very well with the solely interest to serve the country completely. This desire of the Chinese people is positively influenced by the state – the Chinese Communist Party encourages the state to raise the development of education and the level of life.*

**Keywords:** *style of leadership; culture influence; motivational factor; GDP.*

**JEL Classification:** M<sub>1</sub>-M<sub>14</sub>

### Introduction

The motivation of human resources is a topic of great interest on a management level, because the employees are the main factor that can influence



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the productivity of a company. The target is to trigger psychological processes where the employees feel satisfied regarding their needs and desires, the main goal being to achieve the objectives followed by the loyalty of employees. The management often depends on the culture of a country but also on the economic level on which the country is situated. Although the principle of motivation is the same, it may be different depending on the culture and the economic level it can be defined as the process of influencing the employees in order to achieve certain goals. [Spînu & Sturz, 2008]

In the USA, a developed country, the best form of motivation is the professional advancement, in China emphasis is placed on the membership of a group and keeping the comfort zone, in a country like Greece wage growth was found the best motivator.

If an employee's salary from a developed country like the USA is higher than other countries, when it comes to managers their salary are almost the same in every country, because managers are considered key elements and the companies are not able to assume the risk of losing them.

**Table no. 1. GDP annual growth**

GDP annual growth (%)	Year					
	2010	2011	2012	2013	2014	2015
Country	2010	2011	2012	2013	2014	2015
China	10.63	9.48	7.75	7.68	7.27	6.9
USA	8.74	9.76	10.44	10.87	11.79	12.69
Morocco	3.82	5.25	3.01	4.73	2.42	4.4

Source: <http://ec.europa.eu/eurostat>

Regarding the Chinese socio-economic context, the transformations of the last two decades have changed the economic structures, so half of the economic ownership belongs to the state, 30% are private property and 20% of the total are mixed properties belonging to both State and investors, foreign or domestic.



China's GDP level places it on the 7<sup>th</sup> spot in the world and 1<sup>st</sup> among developing countries, being divided as it follows: 18% generated by the primary sector of economy: agriculture and livestock, 50% comes from the construction/industry and the remaining 32% is represented by the services sector. At the same time, the profit tax system is designed to stimulate export activities and to encourage companies benefiting from a foreign investment.

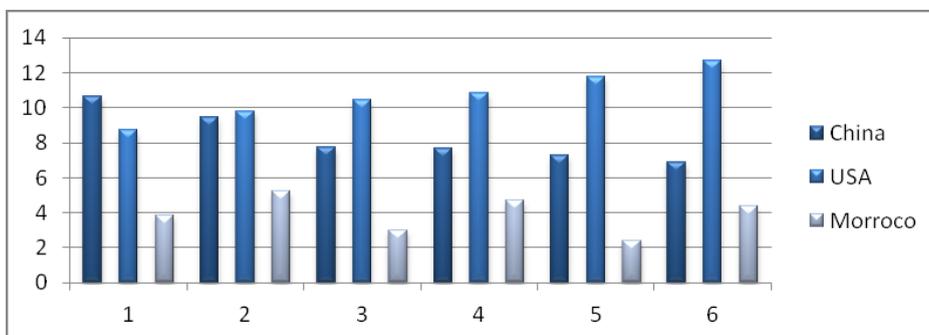


Figure no. 1. GDP annual growth

Source: <http://ec.europa.eu/eurostat>

“National holdings receive the benefit of autonomy from the state, interacting efficiently both in economically and managerial points of view based on market economy principles. From a management point of view, the strategic planning is done centrally and control mechanisms are established. Other management activities (organization, communication, motivation) are decentralized at the holding's component level.” ([http://www.academia.edu/10233175/Managementul\\_%C3%AEn\\_China](http://www.academia.edu/10233175/Managementul_%C3%AEn_China))

Regarding China's cultural dimension, both sides are in place: individualism and collectivism. In the individualistic part, the relations between members are voluntary and carefully cultivated and values as trust, affiliation to a group, flexibility, satisfaction with the held position are brought to the forefront. Instead, within the collectivist society, the need to make new friends is not found, the focus is rather found on improving themselves in order to serve the country. The need for reliance on influential people is another characteristic of collectivism characterized by the cultivation of moral discipline, the existence of a small number of desires and acceptance of middle grounds. [Burduş & Căprărescu, 2008]

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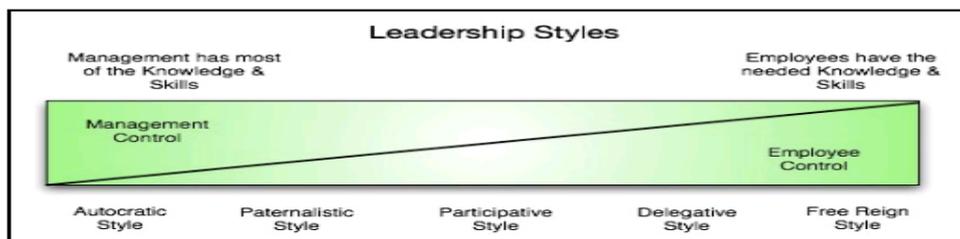
If we analyze the femininity-masculinity cultural dimension in China, it's a strong dual character where masculinity emphasizes on balancing and sharing the burdens of independence and career success and the femininity is emphasized by educating the new generations. One of the basic principles is that the stability of Chinese society emphasizes on its unequal ties between people both in everyday life and professional life.

In the Chinese society the youth spends much of its time in schools surrounded by teachers, in college campuses, lecture halls or jobs, where they spend around 10 or 11 hours including the rest break placed in the afternoon, when according to studies the productivity is lower. Being away from their families most of the time, the Chinese people can be definite by strong communication skills and adaptability and the relationships built with other members are strong and long standing.

Regarding the salary system, it has several components: standard criteria salary established depending on the seniority level, transport allowances, education, heating or expensive life costs and bonuses such as the 13<sup>th</sup> salary.

**Methodology**

Management styles can be summarized in three categories: Participative, Paternalistic and Authoritarian.



**Figure no. 2. Leadership Styles**

Source: <http://www.nwlink.com/~donclark/leader/leadstl.html>

The authoritarian style supposes that suggestions are not accepted from the subalterns, the leader being concerned of achieving goals and control, less concerned on the state of his employees. Studies show that this style is beneficial for short periods of time, used in crisis situations, but many cultures use it regardless of the situation. This style diminishes the interest of the employees and in the absence of the team leader efficiency is lower than usually.



Managers in Arab countries are defined by the authoritarian style; they feel the need to act in extreme situations by punishing or rewarding their employees. Another particularity is that, in the Arabian world, the employees are motivated by individual gifts or gifts to the family. For example, in small or medium companies when an employee exceeds his target there is a management policy which allows the offering of goods as a symbol of an active involvement.

Regarding the one-on-one meetings, the Arab leader calls the employee in question to have a discussion only if its results are under expectations. Generally, discussions are carried individually with each employee. In case of a punishing situation, the leader usually presents the situation to the employee focusing on risks in order of giving a second chance, but the fault is not totally forgotten, because a common practice is that the manager demotes directly the employee to a lower function, considered a threat of reputation or social status. This strategy works most in emerging countries because descent to a lower position requires lower wages to the employee.

**Table no. 2. SWOT analysis authoritarian leadership**

<b>SWOT analysis – authoritarian leadership</b>	
<b>STRENGTHS</b>	<b>WEAKNESSES</b>
Problems solved quickly	Abuse of power
Organized team	Focus on results not on people
Control of daily tasks	Vertical descending communication
Low risk of incidents	Difficult replacements of leaders
Clear expectations	
<b>OPPORTUNITIES</b>	<b>THREATS</b>
Fast developing	No innovation initiatives brought by the team
Target achievement	Minimum yield in the absence of leader
Competitive thinking	

Source: personal contribution

The paternalistic style combines work focus with the protection of employees. The main principle is that who works for the good of the company will be rewarded accordingly. This style is most often met among the Chinese culture.



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Chinese people are in the comfort zone when they resonate with the group, no decision is put into practice until it is presented to the group and pool agrees with it.

In China, employees can be motivated by being offered group benefits, individualized recognition not being that efficient, they offer to employees as reward group subscriptions to different restricted circles.

For the Chinese, the threat made by the leader will be addressed to the whole group, without the need for the individualization of a specific member; just a general presentation of a negative situation makes the group know exactly which individual didn't have an active involvement, thus finding them as culprits. Although managers don't tend to lay off employees, the group pressure created can force the culprit to ask for a transfer to another department or to leave the group. Chinese evaluation is not that formal, the manager can notify the employee only if it is not in harmony with the group.

**Table no. 3. SWOT analysis paternalistic leadership**

<b>SWOT analysis – paternalistic leadership</b>	
<b>STRENGTHS</b>	<b>WEAKNESSES</b>
More than a business collaboration	Employees don't use their creative part
Communication in both directions: leader to employees and vice versa	Still a form of authoritarian leadership
Harmony of the group	Management not concentrated on results but on group
Implication of employees in important decisions	
<b>OPPORTUNITIES</b>	<b>THREATS</b>
Opinions of employees are taken into consideration	For a wrong decision taken, the leader risk to lose his credibility
Contact with the client not only with the leader	Keeping the comfort zone

Source: personal contribution



The participative style is defined by task orientation but also on people. Managers encourage subordinates to take responsibility and work control. This style is popular in the USA, UK and the Scandinavian Peninsula. Americans react best to a more open management style based on friendship, but defined by professionalism. American employees appreciate when their privacy is respected, being tempted to take decisions on their own even if it involves certain risks. In terms of material rewards, Americans measure appreciation by the possession of material goods. Also developed companies tend to offer to the employees shares to the company rather than a salary increase. When we speak of threats, although the USA it's a financially developed country, the threat with the loss of job has a major impact in the lives of Americans. Studies have shown that this type of threat does have a negative impact, because the employees tend to resign before the managers have the chance to implement their slightly aggressive treatment. In the USA, the evaluation system is a formal one, unfolding two times per year. Assessment being completed, it must be signed by the two sides, but also by a superior.

**Table no. 4. SWOT analysis participative leadership**

<b>SWOT analysis – participative leadership</b>	
<b>STRENGTHS</b>	<b>WEAKNESSES</b>
Good communication	Risk of loss of time in taking decisions
Independent team	Risk of incidents
Employees involved into company's decisions	No control of daily tasks
High degree of confidence	
<b>OPPORTUNITIES</b>	<b>THREATS</b>
Initiatives brought by the team	Leader decisions not taking into consideration by the team
Management concentrated on people	Unclear expectations
Competitive thinking	

Source: personal contribution



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### Estimated results

Depending on each style of management, certain behavioural characteristics adopted by leaders which belong to different cultures are highlighted.

The authoritarian style is defined by the “power” of the one who leads. In this case, “power” can be interpreted as an individual’s ability to influence the actions and decisions of a group with the purpose of making them compliant with the personal wishes. The main characteristic of “power” is interdependent; we can say that the more power an individual has, more obedience will be shown by the group to his decisions.

In organizations, “power” is used in order to ensure that the objectives through a unilateral direction are fully respected by the group. If the objectives aren’t accomplished is considered that the group did not comply with the imposed rules or they didn’t worked at full capacity in order to achieve them. Authority is also closely linked with the “power” held by superiors, because it represents the right to use the “power”. We can say that authority is a formal “power”, which goes to an individual that holds a leading position officially recognized and accepted by their subordinates, style of leadership adopted in the most of Arabian countries.

The paternalistic style puts great emphasis on expert strengths and skills, being reflected by the competence of the leader in order to influence the group by providing information acquired through training, practice, experience and skills. Expert “power” is not a formal one; it can be obtained by any employee and does not necessarily mean holding a leader status.

In the Chinese culture, expert’s power and the power by example belongs to both leader and mentor, one of the characteristics of this culture is to promote according to personal merits, recognized especially among members of the group with increased seniority level.

Leading by example is a strategy put into practice by the Chinese, which involves an influence of attitude and the model based on which the team members think by providing a personal example of success or in the case of failure by self-sacrifice.

The participative style is characterized by aspects such as rewards and constraints. Using reward involves the submission of an extra effort from the subordinates. Results are immediately rewarded; employees are motivated to perform daily tasks. This method only works if you apply an effort remuneration, if this practice is not implemented, studies show that the yield is much lower. [Popa, 2004]



Another technique of the participative style is the constraint; opposite to reward, it involves influencing the team and applying reprimands, penalties and demotions. This approach limits creativity and initiative and it involves the inception of a sense of fear within the group, thus limiting and reducing creativity.

### Conclusions

Management style is a motivational factor regardless the level of live of each country or the culture that defines it.

The American manager will act like a leader facilitating the discussion and encouraging the employee to present his point of view, offering to the employee the right to respond and to defend his point of view. On the other hand, the Chinese manager acts like an elderly member, which guides de employee in his career. In the Arab world, communication is a one-way street, the manager represents the authority, and the employee doesn't have the right to reply.

It is important to note that in China the core of social life is not represented by family but by socio-professional groups, separating themselves from western countries in which the emphasis is placed on family. Analyzing the characteristics of Chinese people, they tend to adopt a neutral character, self-control and an earned status in society.

It's important to note that Chinese managers motivate their team by providing ongoing support and encouragement them to persevere. They make their presence felt in the professional and personal life.

Although the GDP position in the rankings is quite high, China does not excel in the quality over quantity service. The personality of team members influences the adopted leadership style. As a general feature, the Chinese are characterized by the dependency on the more influential people of the group plus values such as: the existence of a small number of desires, addressing a mediocre state of mind and following a "middle grounds" guideline with the existence of some flexibility, great care and attention to details.

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