

Making Instruments Fictitious

“The creation and stimulation of demand, which motivate the symbolic economy, were achieved through the use of the unlimited resources of speculation.”

As mankind became less dependent on nature and the natural things, the functional and existential risks have developed exponentially. They have emerged out man's world need for self-determination, with the promise that this world created by man will come to perfection through the virtualization of the actional space.

The artificial world (a demonstrative expression of man's demiurgic propensity) has largely materialized during the post-Enlightenment industrial revolution. On the path of the thus configured progress, economicity has accepted among its functional principles – after the gold-standard was made redundant – the most perverted form of the synthetic: producing fictitious instruments. The expansion of the power of making unlimited transactions has thus invented, above everything, fictitious money.

The context of the expansion was given by the real-nominal dichotomy, which was in this way proven to be more than just a methodological development in the conceptual universe of Economics. Here were grown the seeds of faith in the possibility that value can be something other than a matter of evaluation: value came to be understood as a natural result of speculation. And speculation achieved its perfection by replacing the objects of trade with their most depersonalized conventional forms. Issuing currency has become, unavoidably, the miraculous source in the formation of the ocean of credits. Within its vast expanses the competition started for the evermore expensive cruises of amplifying the consumption function as the engine of economic growth.

The first major breach to appear in the realist vision of economicity happened the instant monetarism turned the symbolic economy into the alchemy laboratory of added value. Starting from the neoclassical ambition of creating demand to monetary creation, or from the stimulation of the leverage effect to turning the market of dual banking into fact, the creation of fictitious instruments in the space of economic activity supported speculation's power of attraction based on consumption.

There is no doubt that this new constitution for value was founded on the assumption that the market certifies value rationally through a mandatorily rising level of asset return. Despite the circular assertion, this theory has become widely accepted as a basis for substituting the forces of the market with strategies of speculation, either through the stock market channel or through the one transacting commercial instruments. It is true that the amplitude of the substitution has been maximized by generalizing the practice of the lender of

last resort (being represented by the central banks) and by making official the policies of socializing loss (meaning dumping them into the public debt).

With these two output pressure valves, it is self-explanatory that the financial market was free to prove its performance by turning to the process of creating fictitious instruments. Only that in these conditions the end-indicators had to be seriously dressed-up to be interpreted as profit in accounting. This is the reason for polishing the methods of eliminating losses from the balance sheet, under the guise of the securitization offered by derivatives. Looking at the situation as a whole shows that the financial market was allowed to declare the profit, favored by the function of the central bank regarding the free allocation of financial resources, while the losses were introduced into the public budget deficit.

In a manner lacking epistemological perspectives, the function of valuing goods was directly taken over by the symbolic economy. Offer and demand – as the forces to generally structure the market – came to be managed as monetary instruments. The phenomena relating to price were monetarily substantialized. The excuse for this success was – theoretically speaking – at hand, because the dimension of the market had become a problem solvable only through the transmission channels of monetary policy. The creation and stimulation of demand, which motivate the symbolic economy, were achieved through the use of the unlimited resources of speculation. Supplementing demand was itself proven an unlimited resource by way of making money fictitious. In this way the symbolic economy tended to become sufficient to itself, helped by currency issues and by the appetite for the credit stimulated compensating it on public debt.

Taken as a whole the economy seemed to be exclusively efficiency-driven in its symbolic part and mixt in its real part. The miracle was made possible by the demonic distributor (à la Maxwell) which turned out to be lender-of-last-resort function of central banks and the savior-of-last-resort function attributed to the public budget. Obviously, the distribution of losses targeted the real economy and the households, at no discount.

This mechanism, which explains the process for the production and reproduction of economic crises in the last three or four decades, has generalized the false belief that value is linked to the potency of the symbolic economy. Making this economy autonomous seemed natural as fiduciary money broke away completely from the material support traditionally provided by the real economy, which is mostly seen as production.

In the way theoretical vision has evolved, Economics was interpreted (and had offered explanations for its part) without connection to its conceptual fundamentals. This is the only course on which took shape the idea that the present crisis belongs to Economics, not just to action.

Marin Dinu

Contents

Linear, Step by Step Managerial Performance, versus Exponential Performance George Moldoveanu, Ion Gh. Roșca.....	5
Exploratory Study Regarding the Commercial Credit Policy of Romanian Companies Cristina-Ionela Fădur, Daniela Ciotină, Marilena Mironiuc.....	17
A Critical Examination of Foreign Aid Policy. Why it Fails to Eradicate Poverty? Vasile Dedu, Gabriel Staicu, Dan Costin Nițescu.....	37
Does Corporate Governance Impact Risk Management System? Petre Brezeanu, Mohammed Subhi Al Essawi, Dorina Poanta, Leonardo Badea.....	49
Quality Management and the Reform of Public Administration in Several States in South-Eastern Europe. Comparative Analysis Lucica Matei, Corina-Georgiana Lazăr	65
Transfer Pricing in the European Union Gheorghe Matei, Daniela Pîrvu	99
The Relationship between Gender Type in Mentorship and Mentees' Advancement: An Empirical Study in Malaysia Azman Ismail, Michael Kho Khian Jui, Norshima Zainal Shah.....	111
The Global Economic Crisis Challenges for SMEs in Romania Roxana Gabriela Hodorogel.....	129
Formal Institutions and Regional Development. Considerations Regarding Romania Ramona Frunză	141
Tourism Heritage – An Important Dimension for Assessing/Shaping a City's Image. Study Case: Bucharest Aurelia-Felicia Stăncioiu, Nicolae Teodorescu, Ion Pârgaru, Anca-Daniela Vlădoi, Codruța Băltescu.....	159

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Linear, Step by Step Managerial Performance, versus Exponential Performance

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Abstract. *The paper proposes the transition from the potential management concept, which its authors approached by determining its dimension (Roșca, Moldoveanu, 2009b), to the linear, step by step performance concept, as an objective result of management process. In this way, we “answer” the theorists and practitioners, who support exponential management performance. The authors, as detractors of the exponential performance, are influenced by the current crisis (Roșca, Moldoveanu, 2009a), by the lack of organizational excellence in many companies, particularly in Romanian ones and also reaching “the finality” in the evolved companies, developed into an uncontrollable speed.*

Keywords: Linear performance; step by step; business maximizing; the business line regression slope; exponential performance; singularity.

JEL Codes: M10, M11, M12, M14.

REL Code: 14K.

1. From management potential to the step by step linear performance

The management potential (Roșca, Moldoveanu, 2009b) has a higher or lower probability of generating effective and efficient activities. Management performance is the objective result of a management exercise. This is often identified with maximizing of the business value for shareholders, partners, investors, which may only have a natural, linear trend.

For the listed organizations, the business value (v) is estimated by the product between the number of issued shares (n) and the average transaction price (p):

$$v = n \times p \quad (1)$$

Another factor that should be considered is the so-called “goodwill” (GW), which is considered a profit margin in a business sale:

$$v = CP - DA + GW \quad (2)$$

in which:

CP – equities (in real terms);

DA – debits to associates and creditors (if there are, also, in real terms);

GW – estimated goodwill (the brands’ value and trade found, in real terms).

This approach of the management performance is based on the thesis that it adds a value to the strategic business unit.

If there had not also been involved external organizational environment factors, then the performance measuring might even be the increase indicator of business value. But the external factors affect this value, especially during turbulence and crisis, independent of management actions. For example, the use of passengers’ airplanes, after the terrorist act from the 11th of September 2001, the amount of traveling companies decreased dramatically, their managers having no involvement, in principle. The same situation is recorded with real estate organizations or companies with some export products, by the end 2008.

In the described context it may be said that a performing manager is the one who is providing increased business value, above the average in the working area on a similar dimensional business category:

$$a_n > \overline{a_n} \quad (3)$$

Where:

a_n is the slope of the regression line in the points that define the annual business’ value;

$\overline{a_n}$ is the slope of the regression line in the points of the analyzed field, eliminating non-comparable-sized businesses.

In order to eliminate the environment distraction factors, the evaluation should be made over a period of at least five years. Operation of the presented concept is simple and the business value may be replaced with the turnover, although the range of indicators that can be used is much wider.

The regression model is defined by a mathematical relationship in which the managerial performance level (y) depends on two sets of factors: the turnover considered as a main, determinant factor marked by x and a residual variable u , which consists of all the other factors that are considered unessential.

$$y = f(x) + u \quad (4)$$

We propose three companies that, for a period of five years, have registered the turnover, as in the Table 1.

Table 1

The turnover of three representing companies for the industry

Managerial performance level	Turnover (mil. euro) – international level		
	Company A	Company B	Company C
1	32.00	80.00	38.90
2	35.00	95.00	40.00
3	38.00	100.00	41.00
4	39.94	150.00	43.00
5	40.68	170.00	45.11

The three companies's evolution of turnover in typical industry is described in Table 2.

Table 2

The turnover in the typical industry of the three companies

Managerial performance level	Turnover in typical industry of the three companies (mld. lei)
1	55.20
2	57.90
3	58.10
4	62.30
5	65.00

The regression line slope in Company A (0.427948121) is greater than the industry the company belongs to (0.394089). This results in a performing management.

In case of company B, the line slope of regression (0.039037) compared with the industry's one that is part in, is smaller, which leads to bad management assessment.

At the level of company C, regression line slope is higher than the industry one, allowing us assessing performing management. The calculations are presented in Annex 1.

After processing the three companies' data and industry that belong to (Annex 1), it results that in all four cases there are strong links between the level of turnover and management performance.

Summarizing the concept of management performance based on quantitative assessment of the value created in the management process has the following *advantages*:

- It is pragmatic;
- It is relatively easy to assess public data about the business;
- It is objective;
- It is in accordance with the fundamental purpose of management ("maximizing shareholder value").

The disadvantages of such definitions are as follows:

- It is needed a period of time for operating a business under a specific management for a practical assessment;
- It is more than a normative method;
- When used as a function to motivate managers, it leads to a conservative attitude, with aversion against risk, it is good for mature markets, but is losing in emerging markets.

Despite all its disadvantages, this definition is now the main criterion for assessing managerial performance in the US and EU based on which there are taken decisions of rewarding managers with bonuses, respectively the decisions for dismissal of a manager by the General Assembly of Shareholders.

For growing organizations, with an aggressive marketing strategy, the classic definition of management performance leads to management approach that is too reserved and too conservative. For this reason, management performance appraisal in these companies is done differently on any of the following substitute criteria for the business value:

- The turnover;
- The market share;
- The relative market share.

If we look more closely upon these definitions, beyond their stimulating effect for an aggressive attitude on the market, apparently disregarding costs, they all ultimately lead to business value.

By applying the method to measure performance in some profit organizations, we reached the view that, in normal conditions of economic and social stability, it evolves linearly, according to a right angle by a higher or lower factor.

We believe that this state is an expression of evolution without being supporters of Darwin's "work". Evolution does not eliminate creationism and the organizations' favorable condition warrants management performance.

2. Institutionalization of linear performance in the current corporations

Evolution in time of strategic business units (SBU) and managerial performance, too, can be deducted from the return equity indicator (ROI), too.

$$ROI = ROS \times AU \quad (5)$$

Where:

ROI - Return on Investment, the net profit for a year compared to total assets;

ROS - Return on Sales, the net profit reported to net sales over a year;

AU - Asset Utilization, total asset turnover rate (number of complete rotations within one year).

Thus, some authors have likened these indicators as follows:

Financial Indicator	ROI	ROS	AU
Significance in evaluating managerial	Performance Management	Managerial Effectiveness	Managerial Efficiency
Definition of assessment items in the financial perspective	Quality of invested capital in unit time	Management's ability to achieve the proposed objective	The management's ability to make best use of resources (assets)

3. Exponential performance

In the specific literature and economic practice there are designed and used several methods such as reengineering, six sigma etc., which sometimes propose and increase performances towards 40-60%, during a year, which on a relatively short period may represent an exponential increase.

The supporters of these theories and practices, directly or indirectly suggest a new paradigm, a hybrid, "biological - non-biological", a superior status to that we support of "sound biology" type (Moldoveanu et al., 2007).

The new paradigm is provided by the exponential growth in technology in recent years, resulting in a pattern like “brain reverse engineering” or “brain copying”.

As an opposite of this theory we raise an issue: “Who has allowed the exponential growth in technology?” There may be other non-biological intelligence than the biological one?

Let’s consider that during the next 50-100 years we would articulate performing developments, of exponential type. We believe that we were tangential to the notion of “singularity”, a concept claimed today by mathematicians, as a point where the derivative of a function can not be calculated, a point where the fraction is infinite.

Assessment is completed by physicists, cosmologists, etc. who brings us closer to a terrible crisis, the final one, in which the Universe is doomed to disappear. So the “singularity” is a point of “the black hole” where the laws are suspended.

Let us return to the current organizational area, without removing the virtual one (Pande et al., 2008). We consider that distance between the departure point and the evolution points, described by the planning/strategic vision, it seems to be continuous, linear, with some deviations depending on the environmental factors, not one with over imposed accelerator with a final future difficult to design or impossible to formulate (Moldoveanu, 2009, Moldoveanu, Roșca, 2010).

After the “birth” of an organization, we should see its finality. The organizational environmental factors ultimately require the road with a final more or less predictable. The progress, performances’ rates, require to be checked out, this is what the managers do or not. Angle α_n of the performances evolution can be controlled and the development realized.

4. Managerial linear/exponential performance and benchmarking

In order to be useful for economic practice, the concept of management performance must be joined, linked together with the benchmarking concept. In this context we want to make the following highlights:

i) First, it is the clear separation of endogenous factors from the exogenous b which influence the value of strategic business units. Actual performance is based on the first category of factors, without skipping over the favorable action of the second one.

ii) The following highlighting is the use of a standard that aims two actions; namely, assessing the current status of the performance spread out and the standard, and also the attempts to improve the registered status.

The standard is based on quantitative/qualitative economic indicators that are described at current levels, for a longer period of time, such as five years and their size is essential compared with that of world-class competitors.

Thus, in operational management the performance is based on indicators of cost, quality, flexibility and delivery, actions that are identified over the current year, over the next five years and “landing” range from of world class competitors.

iii) The third underlined element is the organizational changes’ speed, in order to adapt it to the environment. This implies, in particular in turbulent environments, the actual strategic aggressiveness that we describe by:

- a) The degree of discontinuity of the organization's strategic movements (margin of time between the moments of the marketing of two products, services according to agreed standards);
- b) The rhythm of organization's strategic movements (the number of new products per time unit).

Managerial, linear, step by step performance reduces the organizational changes time, in order that ownerships of global competitors to appropriate it, and the exponential, step by step one minimizes this time, causes disruption and seeks with all costs, the “top” of achievements.

5. Instead of conclusions

Currently, the overall management is happily completed with the operational one that the performance mostly depends on. Theory and practice are invaded by old or recent methods. In this respect we should revise methods such as J.I.T, lean manufacturing/lean thinking/kaizen, Six Sigma, TQM, constraints theory, reengineering, TCR, etc.

All have common elements such as the central place of the customer, process focus, etc., but also specific features.

Although the present has evolved, we highlight the importance of JIT duality - lean thinking, which sustains linear step by step performance. Thus, the business system provides the product services development, depending on customers’ requirements, using the paradigm of attracting processed components, which requires flexibility and proactively at the demands, both outside the organization, as well as within it. Management in this context, adds value to products, to services, customers, but according to their actual needs

(what, when and how we process) and not against the “uncontrolled rush” after profit, bonuses, etc.

This approach provides “health” within companies, and resource losses are reduced, the shareholders and managers expectations are “tempered” by customers, although the two approaches are often convergent (Moldoveanu, Roșca, 2010).

However, we wish to emphasize the need for growth at any cost and the exponential development of the processing system that many managers formulate, according to economic and not to socio-economic pattern. This thinking generates crises elements, like the current one, which involves rethinking the interests and gains.

The offered model by the living world describes a progressive evolution, linear process in which organizations have adapted to the environment, and not the more “intelligent” ones were performed.

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Annex 1

Data processing in Excel - the company A:

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0.97689524
R Square	0.95432431
Adjusted R Square	0.93909908
Standard Error	0.390195207
Observations	5

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	9.543243	9.543243	62.68045	0.004201
Residual	3	0.456757	0.152252		
Total	4	10			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	12.88714605	2.014261	-6.39795	0.007734	-19.2974	-6.47687
X Variable 1	0.427948121	0.054054	7.917099	0.004201	0.255925	0.599971

RESIDUAL OUTPUT

<i>Observation</i>	<i>Predicted Y</i>	<i>Residuals</i>
1	0.807193827	0.192806
2	2.091038191	-0.09104
3	3.374882554	-0.37488
4	4.205101909	-0.2051
5	4.521783519	0.478216

Annex 2

Data processing in Excel - the company B:

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0.957788
R Square	0.917359
Adjusted R Square	0.889812
Standard Error	0.524853
Observations	5

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	9.173588	9.173588	33.30151	0.010345
Residual	3	0.826412	0.275471		
Total	4	10			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	-1.64535	0.838505	-1.96224	0.144536	-4.31385	1.023149
X Variable 1	0.039037	0.006765	5.770746	0.010345	0.017509	0.060564

RESIDUAL OUTPUT

<i>Observation</i>	<i>Predicted Y</i>	<i>Residuals</i>
1	1.477575	-0.47757
2	2.063123	-0.06312
3	2.258306	0.741694
4	4.210133	-0.21013
5	4.990864	0.009136

Annex 3

Data processing in Excel - the company C:

SUMMARY
OUTPUT

<i>Regression Statistics</i>	
Multiple R	0.985347
R Square	0.970909
Adjusted R Square	0.961212
Standard Error	0.3114
Observations	5

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	9.70909	9.70909	100.1248	0.002125
Residual	3	0.29091	0.09697		
Total	4	10			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	-23.1944	2.621508	-8.84773	0.003043	-31.5372	-14.8516
X Variable 1	0.629643	0.062925	10.00624	0.002125	0.429387	0.829898

RESIDUAL
OUTPUT

<i>Observation</i>	<i>Predicted Y</i>	<i>Residuals</i>
1	1.298705	-0.29871
2	1.991312	0.008688
3	2.620955	0.379045
4	3.88024	0.11976
5	5.208787	-0.20879

Annex 4

Data processing in Excel - the three companies' specific industry:

SUMMARY OUTPUT

<i>Regression Statistics</i>	
Multiple R	0.972529
R Square	0.945813
Adjusted R Square	0.92775
Standard Error	0.424999
Observations	5

ANOVA

	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	1	9.458128	9.458128	52.36364	0.005443
Residual	3	0.541872	0.180624		
Total	4	10			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	-20.5271	3.256823	-6.3028	0.00807	-30.8918	-10.1624
X Variable 1	0.394089	0.05446	7.236272	0.005443	0.220772	0.567405

RESIDUAL OUTPUT

<i>Observation</i>	<i>Predicted Y</i>	<i>Residuals</i>
1	1.226601	-0.2266
2	2.29064	-0.29064
3	2.369458	0.630542
4	4.024631	-0.02463
5	5.08867	-0.08867

Exploratory Study Regarding the Commercial Credit Policy of Romanian Companies

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Abstract. *The purpose of this paper is to reveal the commercial credit policy adopted by Romanian companies and its influence on the level of liquidity, analyzed using absolute measure indicators – net cash – and relative measure indicators – the immediate liquidity ratio. 50 companies quoted in the Bucharest Stock Exchange have been selected, based on the annual financial statements for the period 2006-2008. It is one of the few studies that aim at analyzing longitudinally the commercial credit policy adopted by Romanian companies. The study reveals that average payment delays of the debts to the providers is higher than the average customer debt collection, but the commercial credit policy does not exert any significant influence over the liquidity of the analyzed companies.*

Keywords: commercial credit policy; liquidity; decisional impact; correlation; regression model.

JEL Code: G32.

REL Codes: 11E, 14K.

Introduction

Like any revolution, the accounting one is justified through ideas. Accounting is art and technique and science and language, being nurtured not only by past knowledge, generated by practice, but also by the results provided by research. Leaving hybrid formulae aside, it is difficult to support with undeniable proof that the subject we serve, accounting, is a science, the truth being that in this field objectivity and subjectivity are involved in equal measure.

After Babel, we are all “locked” in language, in our own constructions about reality. If there had existed a universal language of accounting, with unique norms, concepts, and practices for all the countries, understanding would be instantaneous, spontaneous. However, for now, this idea has not materialized yet. Attempts continue...

Accounting, like Janus, has two faces: a theoretical one, a scientific one, and an operational one. If at the theoretical level no conceptual harmonization has been reached yet, in practice, the decision-making process requires the same information support irrespective of the space where the business takes place.

In the conditions of the current economical and financial crisis, many companies are tempted to use the money of their providers to fund themselves. In this period of global recession and uncertainties, when the problems related to liquidity become more acute, the reconsideration of the commercial credit policy by the financial managers represents a direction for action, a breath of fresh air.

However, the complexity of events prevents us from considering that an efficient commercial policy would be the sole answer to all the problems. There is no universally applicable recipe. Every company has to calculate its costs in order to see which scenario fits it.

The impact of the commercial policy on the decisional process

In order to fund the operation and investment activity, companies have the possibility to either contract a bank credit, or to resort to their commercial partners in order to obtain a delay for their payment. In periods of monetary limitations, financial institutions avoid granting loans to small companies, forcing them to borrow more from their own providers (Gama, Mateus, 2010, pp. 26-45). Petersen and Rajan (1995, pp. 3-37) support the same idea through the results of empirical studies performed in the field. Moreover, Buckart and Ellingsen (2004, pp. 569-590) state that goods are more difficult to redirect than cash, as the providers can easier overcome a period of monetary risk than banks.

Companies that are in a good relationship with banks use commercial credit only as a substitute of funding, while companies that are restricted by the extremely high cost of a bank loan use commercial credit both as a substitute and as a complementary alternative to the bank credit, but in different periods of time (Alphonse et al., 2006).

The occurrence of commercial credit is justified by the fact that the providers have understood that the companies that do not have access to funding from credit institutions will not be able to become their customers (Nadiri, 1969, pp. 408-423). An efficient commercial credit policy stimulates sales, being a strategy for diminishing the stocks of the company without making price discounts (Emery, 1984, pp. 271-285).

Other specialized studies mention a relevant aspect of commercial credit, the role of a guarantee certificate of the product when a company does not have a consolidated reputation on the market, since customers have the possibility to analyze the quality of the products before paying for them (Saito, Bandeira, 2010, pp. 242-259).

Quality information is the premise for a quality decision. But from the accounting information, which is through its nature accountable, until the decision, there is a compulsory path – financial analysis (Niculescu, 2005, p. 29).

Granting commercial credit can be regarded as a problem of capital allocation (investment), and its extension represents an investment materialized through the increase in profits, resulted from the size of the sales. The providers that have access to the funding sources on financial markets can become crediting sources for their customers by selling their merchandise in installments (Schwartz, 1974, pp. 643-657, Emery, 1984, pp. 271-285, Rodriguez-Rodriguez, 2008, p. 152).

The importance of the company as a link of contemporary economy explains, of course, the interest of its various economic and social partners towards its functioning and “health” (Colasse, 2009, p. 29).

From an accounting viewpoint, granting a commercial credit means a commercial debt for the company, while receiving a commercial credit implies a debt towards the provider. The management of commercial credits is aimed at increasing the efficiency of the capitals fixed in commercial debts and maximizing commercial debts, both in size and in collection delays, so as to ensure the competitive success of the company (Mironiuc, 2009, p. 184).

At the same time, credit can be considered a loan destined to funding the operational cycle, whose cost is supported by the seller. The payment obligation is materialized in the commerce effects: bills of exchange and notes of hand. Practical experience points out that the most often used payment tool is the note

of hand, although its financial and legal effects are mostly identical to that of the bill of exchange.

Credit sales have as an immediate consequence the delay of the collections and the appearance of a specific debit as the customer account balance. In other words, commercial credit is an investment made by the provider in the last stage of the operational cycle, which allows customers to make acquisitions even in a temporary shortage of the necessary financial resources. Customers benefit from a delayed payment term from their providers, having meanwhile the possibility to analyze the characteristics of the acquisitions from a qualitative perspective, as well as in what concerns their compliance with the specifications mentioned in the purchase contract, and, in case of a non-compliance, to request the providers to revise the sales price or to suspend the payment and to replace the purchases (Mironiuc, 2009, p.185). The liquidity risk taken by the providers is counterbalanced by the possibility to increase the sales figure and the degree of competitiveness.

The lack of liquidity can be determined either by exogenous factors – referring to the particularities of the business environment where the company performs its activity, or endogenous ones – related to the characteristics of the commercial credit policies adopted by management (Zheng, Shen, 2008, p. 477).

The commercial credit policy has a boomerang effect on investment decisions. The manager is always looking for the optimal financial structure, that is, that combination of capitals that allows the company to maximize its profitability or the price of its shares at the smallest cost and at a minimum risk. The commercial credit granted increases the risk of liquidity, but it also ensures the competitiveness of the company, the preservation and extension of the portfolio of customers, and a fast product turnover. However, on the long term, making an investment ensures the continuity of the company's activity, the flexible adaptation to the changes in the activity field, and a reduction of risks by diversifying the activity.

There is an old saying that “liquidity generates liquidity”, simply meaning that once some people start to sell, other people will join them. From here derives the hypothesis that successful commercial exchanges will ensure a significant liquidity level for the involved partners. Liquidity is an illusion, being always present when it is not needed, but rarely present when it is necessary (Mainelli, 2008, p. 215). “In the end, it is all about how fast money «turns over» in a certain period of time, and this is not a characteristic of the computing technique distribution, but is part of the alphabet of any business” (Bucur, 2009).

The characteristics of the commercial credit policy at a world and european level

The commercial credit policy is influenced by the business environment and by the culture of the country where companies perform their activity. In what follows, we will briefly present the particularities of commercial credit in Germany, China, India, Japan, Great Britain, and Russia.

Germany

The problem of delayed payments is not truly posed in this country because Germany is “culturally” a good payer. In spite of a degradation of the economic cycle in the last years, commercial relations are characterized by the famous German “punctuality”.

Customers have the interest to immediately pay their commercial debts in order to benefit from the discounts granted by their providers (they offer discounts of 2-3% for immediate payment). On the other hand, the payment methods used in Germany favor rapidity: bank transfer is the main method used, as the banking data of companies are mentioned on the documents they issue. The providers often get permission to debit their accounts. Delayed payments are present in the public sector, according to a study performed by Intrum Justitia, the average payment delay being in 2005 of 48 days, higher than in 2004.

China

One of the problems of Chinese companies is their access to funds and credit. In the context of intense development, Chinese enterprises do not have enough cash. As a result, providers grant crediting facilities to their customers.

Generally, the payment delay for commercial debts is 60-90 days (exceptionally 180 days). Exceeding the payment terms is frequent in the Chinese business environment, and delays of 1-3 years are common. The main reasons of overdue payments are the financial difficulties, management problems, commercial litigations and, most worrying, fraud.

The textile industry has a much higher risk in what concerns payment issues than the other fields. Also, small enterprises have a higher risk of non-payment/ delayed payments.

The companies the most exposed to risk are those selling products meant for investments (devices), and delayed payments endanger even their development.

India

Indian companies prefer to use, as often as possible, cash payments, and granting commercial credits is not a frequent practice of the Indian business environment. For important transactions, a payment in advance of 10-15% of the value of the transaction is commonly applied, and the difference is paid in installments. Companies frequently use the credit letter, bank guarantees or “hundi” (a traditional payment method on deadline), check payments being rarely used. Delayed payments are not mentioned by Indian companies as a main factor preventing their development, as they are mainly affected by the precarious infrastructure, by the rigidity of the labor market, and by the lack of regulations in the field of investments. However, many foreign companies complain that Indian enterprises are usually very late in paying their commercial debts.

Japan

The Japan Finance Corporation for Small and Medium Enterprise research center has evaluated the average duration of the delays for debt collection at 60 days for the large enterprises (with a social capital over 6.6 million euros) and at 1.7 months for small and medium enterprises (with a social capital between 66,500 and 665,000 euros).

Great Britain

According to a study performed by the Experian company in 2005, the average payment delay for commercial debts was 60 days. Seven years after the issue of the “Late Payment of Commercial Debts (Interest) Act 1998”, which was supposed to accelerate the rhythm of commercial debt collection, the British companies pay their debts towards their providers, in average, within a higher delay by two days comparing to the period before the appearance of the law concerning the payment delays for commercial debts. The Experian study, based on the payment habits of 633 companies, has shown that large companies pay their providers within approximately 80.6 days, while small enterprises benefit from commercial credits of 59.2 days, and medium ones, of a 60.2-day commercial credit.

In March 1996, all the British ministries signed the code concerning immediate payment, the CBI Prompt Payment Code, issued by the “Confederation of British Industry”. The British administration thus engaged to obey the code, indicating in its annual reports the policy adopted in what concerns the payment of bills. In 1998, the “CBI Prompt Payment Code” was replaced by the “Better Payment Practice Code”, which includes provisions regarding the payment of commercial debts, both for the public sector and for the private one. According to this code, the average deadline for paying the bills issued by the providers is 30 days.

Russia

The average deadline for paying the debts to the providers is 90 days, and payment delays are between 30 and 45 days. In the pharmaceutical industry, companies pay their providers within 180 days, while companies in the electronic industry pay for their commercial debt in 30 days, and the companies in metallurgy and in the agricultural/food industry, in 60 days. The large Russian enterprises impose the payment conditions, requesting long deadlines (100-120 days), while small companies are forced to pay for their debts in maximum 30 days. There are no regulations in what concerns the discount of commercial debts, but payment in advance of the purchases made is a common practice, especially if the customer is new.

Russian courts have applied sanctions to the providers that have computed abusive penalties for their customers for not paying on time the granted commercial credits (generally, penalties of 0.1% of the value of the bill are applied per day of delay).

In 2005, in Europe, the average delay for debt collection was 59 days. In Norway, Finland and Estonia, companies have collected their debts in less than a month, while in Spain and Portugal the average delay for commercial debt collection from the customers was over 80 days.

Delayed payments occur in European countries starting from the year 2000, especially in the case of medium and large enterprises, which had an ever more reduced number of customers paying immediately for the purchased goods (8% in the case of medium enterprises, and respectively 15% in the case of large enterprises) and were characterized by an increase of the delays over 15 days (between 2% and 6%).

The commercial credit policy of Romanian companies

The purpose of this paper is to identify the commercial credit policy adopted by Romanian companies and its influence on the level of liquidity. In order to reach this purpose, we have started from the study of specialized literature, we have computed the indicators of the commercial credit policy, as well as a series of indicators of liquidity, and, in order to describe the sample, we have determined the indicators of the central tendency, of dispersion, and of the shape of the distribution of the analyzed variables. With the performed research, we aim at obtaining data regarding the commercial credits policy of Romanian companies, and to compare it with the data on the commercial credits policy of French companies.

Methodology of the research

In our approach, we have studied a sample which includes 50 companies quoted in the Bucharest Stock Exchange, sections BVB and RASDAQ, which represent the following activity branches: commerce, industry, constructions, agriculture, transports, and storage.

In our choice of activity branches, we have taken into account the structure of Romanian investments, which is: commerce – 34.4%, industry – 33.7%, constructions – 16.9%, agriculture – 4.5%, transports and storage – 8.5%. We have analyzed the indicators of the commercial credit policy (the average delay for debt collection from the customers and the average payment delay of the debts towards the providers), as well as the immediate liquidity ratio, determining the influence of the customer – credit, and respectively of the credit – provider on the financial balance. The analysis period covered is 2006-2008.

Through a descriptive analysis, which allows understanding the tendency of the data, we have determined the characteristics of the sample, and, through the correlation and regression analysis, we have identified the influence exerted by the gap between the payment delay of the debts towards the providers and the delay for debt collection from the customers ($D_{TpF-Trc}$) – defined as the period over which the company benefits from or grants commercial credit, equal to the difference between the average payment delay of commercial debts and the average delay for customer debt collection on the immediate liquidity ratio.

Results of the research

The SPSS outputs show that, in average, in 2006, the analyzed companies have recorded an immediate liquidity ratio of 2.04, a negative net cash of – 7,448,143.5 lei and a duration of the monetary cycle of 120 days. The difference between the average payment delay of the debts towards the providers and the one of the customer debt collection is negative, the companies being forced to pay for their commercial debts, in average, 49 days before the deadline for receiving the commercial credits granted.

The average value of the immediate liquidity ratio is higher than 1, which means that the companies are able to fully cover their current debts using cash assets. Any excess liquid resources can be used to grant commercial credits to the customers. The negative value of the cash (TN), correlated with the value of the immediate liquidity ratio, shows that the analyzed companies have paid back a significant percentage of their current debts.

In the following year, we can notice a reduction of the immediate liquidity ratio (the indicator reaches the value 1.5) and of the net cash (the average value recorded was $-8,344,505.3$ lei), while the gap between the payment delay of the debts towards the providers and the delay for debt collection from the customers ($D_{TpF-Trc}$) increases, in average, by 25 days. The duration of the monetary cycle also increases, in average, by 39 days.

In the first year of the economic and financial crisis, the companies applied pressures on their own customers, collecting part of their debt in a period of time relatively equal to the one for paying the debts towards the providers, and the average value, in absolute measure, of the gap between the payment delay of the debts towards the providers and the delay for debt collection from the customers ($D_{TpF-Trc}$) is 4.

In the context of the lack of liquidity, the average value of the net cash, computed at the sample level, also diminishes. However, companies can fully pay back their current debts using cash assets, and the immediate liquidity ratio remains over 1 (1.24).

The synthesized presentation of the indicators of the central tendency is given in the Box-Plot graphs below:

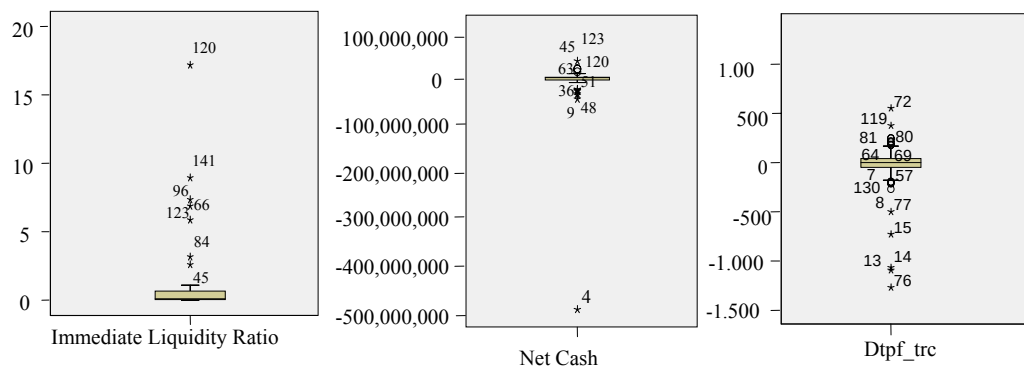


Figure 1. The BOX-PLOT graphs for the indicators of the immediate liquidity ratio, the net cash, and the gap between the payment delay of the debts towards the providers and the delay for customer debt collection in 2008

We can notice that there are numerous extreme values of the gap between the payment delay of the debts towards the providers and the delay for customer debt collection ($D_{TpF-Trc}$), which indicates a lack of homogeneity in the practices of the analyzed companies in what concerns the commercial credit policy. There also are significant differences from the viewpoint of the liquidity of the

analyzed companies, a fact explained by the specific characteristics of each branch of activity: commerce, constructions, industry, agriculture, and transports and storage.

Indicators of the shape: skewness and kurtosis are expressed in Figure 2:

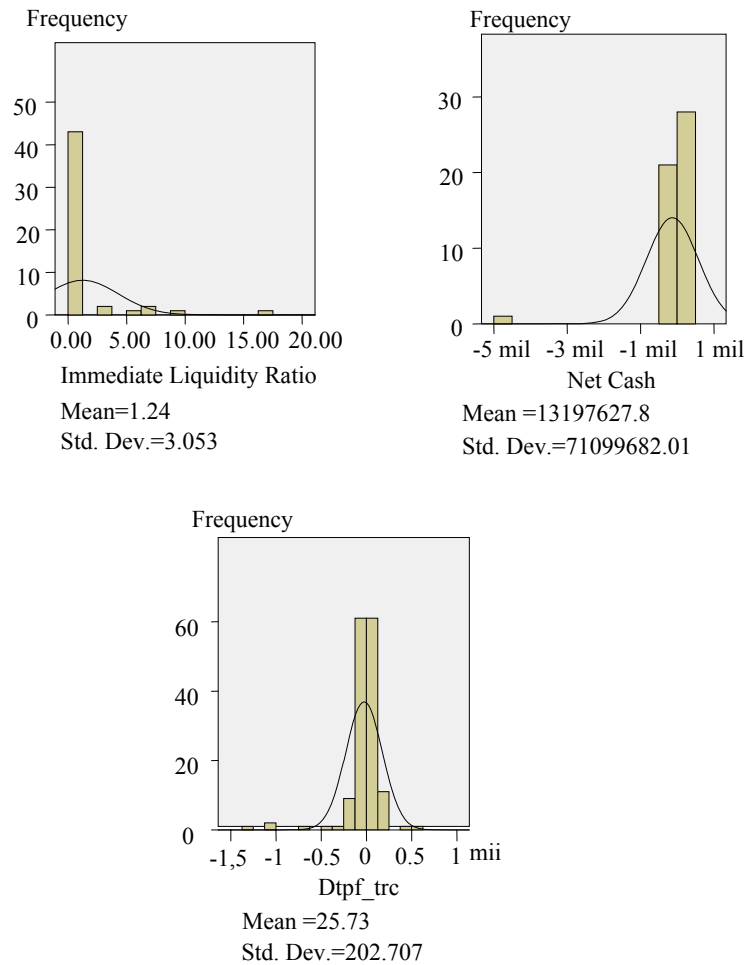


Figure 2. *SKEWNESS and KURTOSIS for the indicators of the immediate liquidity ratio, the net cash and $D_{Tpf-Trc}$ in 2008*

In what concerns the immediate liquidity ratio, we can see a skewed distribution to the right, the other two indicators following skewed distributions to the left. We can notice a concentration of the values of the immediate liquidity ratio in the interval (0;2), and 43 companies of the analyzed sample are included in this interval. In 2008, 48% of the analyzed companies collected the debts from their customers within a shorter delay than the expiration date of

commercial debts, and 52% of the companies had to pay their debts towards the providers within a shorter period of time than the one for recovering the commercial credits granted to customers. The shape of the graphs, from the kurtosis perspective, is leptokurtic, suggesting a concentration of the values of the three indicators around the average.

In spite of the expectations, statistical tests have not revealed the existence of a correlation between the commercial credit policy adopted by the analyzed companies and their level of liquidity, computed using the net cash, the immediate liquidity ratio, and the reduced liquidity ratio.

We present here, as an example, the Scatterplot diagram that points out the results of the regression analysis performed for the dependent variable *immediate liquidity ratio* and the independent variable *the gap between the payment delay of the debts towards the providers and the delay for debt collection from the customers* ($D_{TpF-Trc}$).

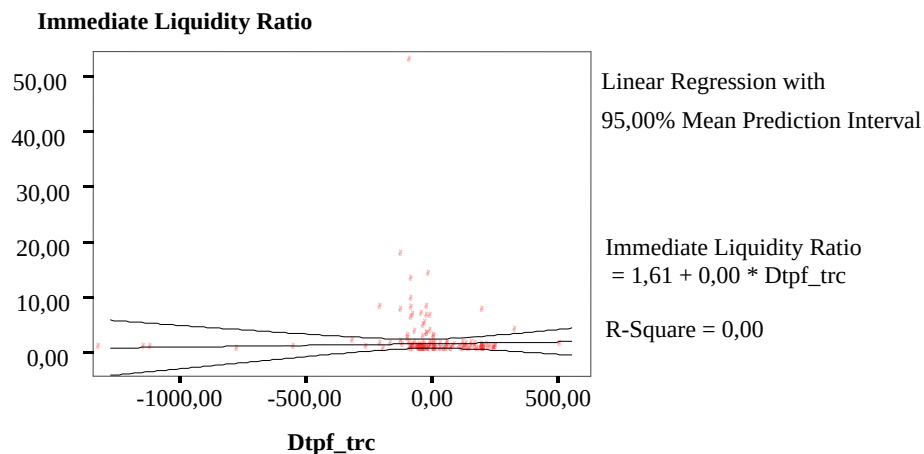


Figure 3. The Scatterplot diagram – 2008

According to the SPSS output, at the level of the analyzed sample, in 2008, the gap between the payment delay of the debts towards the providers and the delay for debt collection from the customers ($D_{TpF-Trc}$), computed as the difference between the average delay for the payment of commercial debts and the average delay for recovering the customer debts, does not have any significant influence on the immediate liquidity ratio.

Testing all the possible regression models, there results beyond any doubt, according to Figure 4, that at the level of the analyzed sample there are no connections between the immediate liquidity ratio and the gap between the payment delay of the debts towards the providers and the delay for debt

collection from the customers, the values of the determination coefficient (R^2) being smaller than or equal to 0.003.

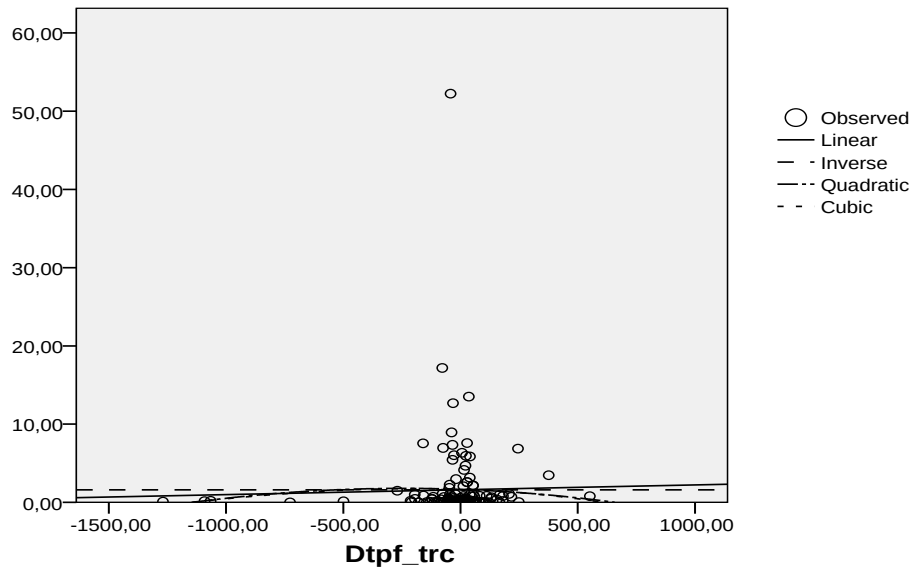


Figure 4. *Simulation of the correlation and regression models between the immediate liquidity ratio and Dtpf_trc*

Future research directions can rely on the axis of analysis of small enterprises, in whose case it is possible for the applied commercial credit policy to be the main factor that influences liquidity.

In our approach, we have also analyzed the influence of the monetary cycle on the net cash, and the results are synthesized in Table 1.

Table 1

The correlation between the net cash and the net duration, in days, of the monetary cycle for the year 2008

Statistical indicators / Branch of activity	Constructions	Industry	Commerce	Agriculture	Transports and storage
The determination coefficient R^2	0.515	0.139	0.01	0.048	0.046
Sig	0.019	0.289	0.78	0.545	0.552

Source: processed by the authors.

In what concerns the correlation between the duration of the monetary cycle and the net cash for 2008, it can be measured using the determination coefficient (R^2), a statistical indicator that shows the intensity of the connection between the two variables taken into account.

At the level of the branch of constructions, the value of the determination coefficient (R^2) is equal to 0.515, which means that the regression factor accounts for 51.5% of the variance of the net cash.

For the other activity branches, the determination coefficient, R^2 , has insignificant values, which means that the regression factor does not explain the variance of the net cash.

In Table 2 we have presented a synthesis of the results obtained following our study.

Table 2

Synthesis of the liquidity indicators and of the indicators de of the credit policy for the year 2008 at the level of the analyzed samples

Branch of activity/Indicator	Constructions	Industry	Commerce	Agriculture	Transport/storage
Net cash	-6,707,367	-59,685,680	2,381,648	-5,180,376	3,203,636
Net working capital	40,001,411	-19,070,513	15,469,558	1,193,132	4,671,122
Necessary working capital	46,619,778	40,615,167	13,087,910	6,373,508	1,467,486
Immediate liquidity ratio	0.29	0.42	1.25	2.43	1.83
The delay for customer debt collection	157	101	74	81	59
The payment delay of the debts towards the providers	47	79	151	109	66

Source: processed by the authors.

The commercial credit policy of romanian companies versus the commercial credit policy of french companies

Considering the similarities between the Romanian and the French accounting systems, we have considered it appropriate to analyze the commercial credit policy of French companies, especially that, in France, the provider credit holds a very important position in the funding of organizations: financial debt is only 11% of the balance, while non-financial debts represent 50% of the balance. The customer credit amounts to a percentage between 15% and 20% of the balance of the French companies.

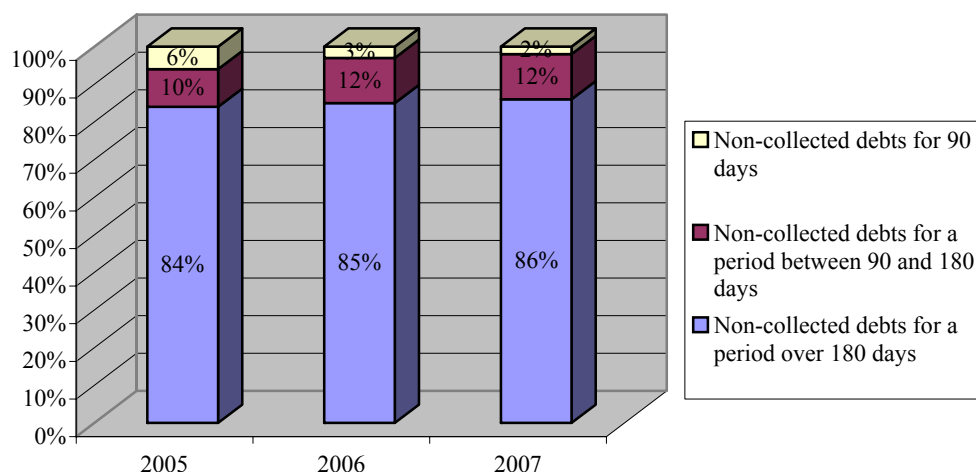
Commercial credit is the main financing source of the treasury of the French companies, its value being four times higher than the value of the short-term bank credits granted to these companies by financial institutions.

Starting from the spring of 2008, the French companies have been affected by the economic crisis at the world level, as well as by the funding restrictions. The first factor that influenced the French companies was the lack

of profitability, followed by a strong indebtedness or a high need for working capital. Some of the bank funding restrictions have been reflected on the provider credit.

The deadlines for paying the providers, as well as payment delays, vary according to the field of activity of the companies. The provider credit is granted for 44 days in the area of services and for 65 days in constructions. The areas that record the smallest delay in paying the debts towards the providers (with an average of 13 days) are industry and constructions.

The structure of the non-collected debts is important for the study of the commercial credit policy. We can notice that for the period 2005-2007, the weight of the non-collected debts for a period over 180 days was reduced, while the non-collected debts for a period under 180 days have registered an ascending tendency.



Source: Banque de France – Fiben, data updated in September 2009.

Figure 5. *Structure of the debts not collected by the French companies for the period 2005-2007*

In 2008, Romanian companies have recorded an average delay for customer debt collection in the interval (61;128) days and an a payment delay of the debts towards the providers in the interval (64;117) days; the evolution of the collection delay of the customer debts and of the payment delay of the debts towards the providers over the analyzed period is synthesized in Figure 6:

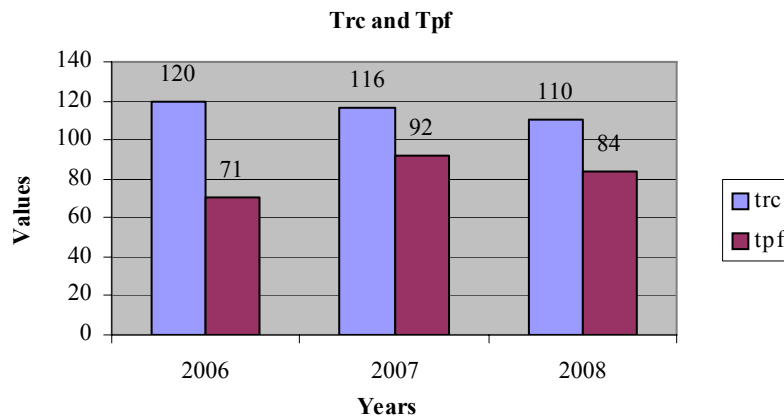


Figure 6. *The evolution of the collection delay of the customer debts and of the payment delay of the debts towards the providers over the analyzed period*

In what concerns the indicators of the commercial credit policy, the average delay for customer debt collection, and respectively the average payment delay of the debts towards the providers, according to activity branches, for the year 2008, we have obtained the following values, presented in Figure 7:

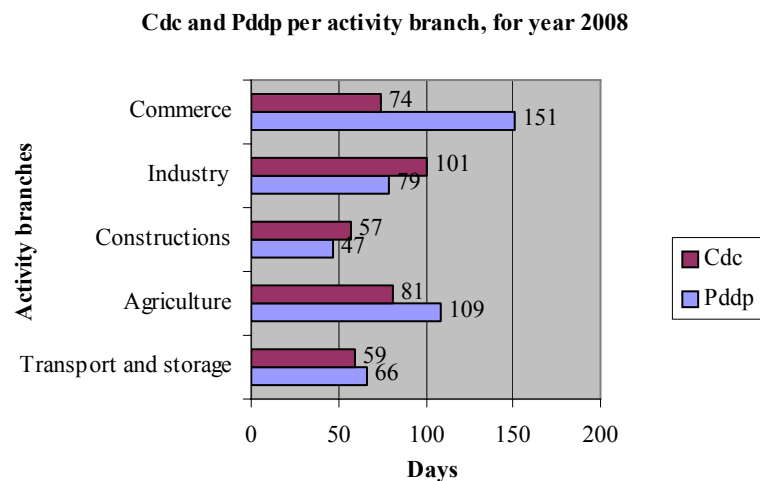


Figure 7. *The delay of customer debt collection and the payment delay of the debts towards the providers in 2008 at the level of the analyzed branches*

For 2008, the French companies register an average delay for customer debt collection of 53.8 days and an average payment delay of the debts towards the providers of 60.6 days.

Table 3

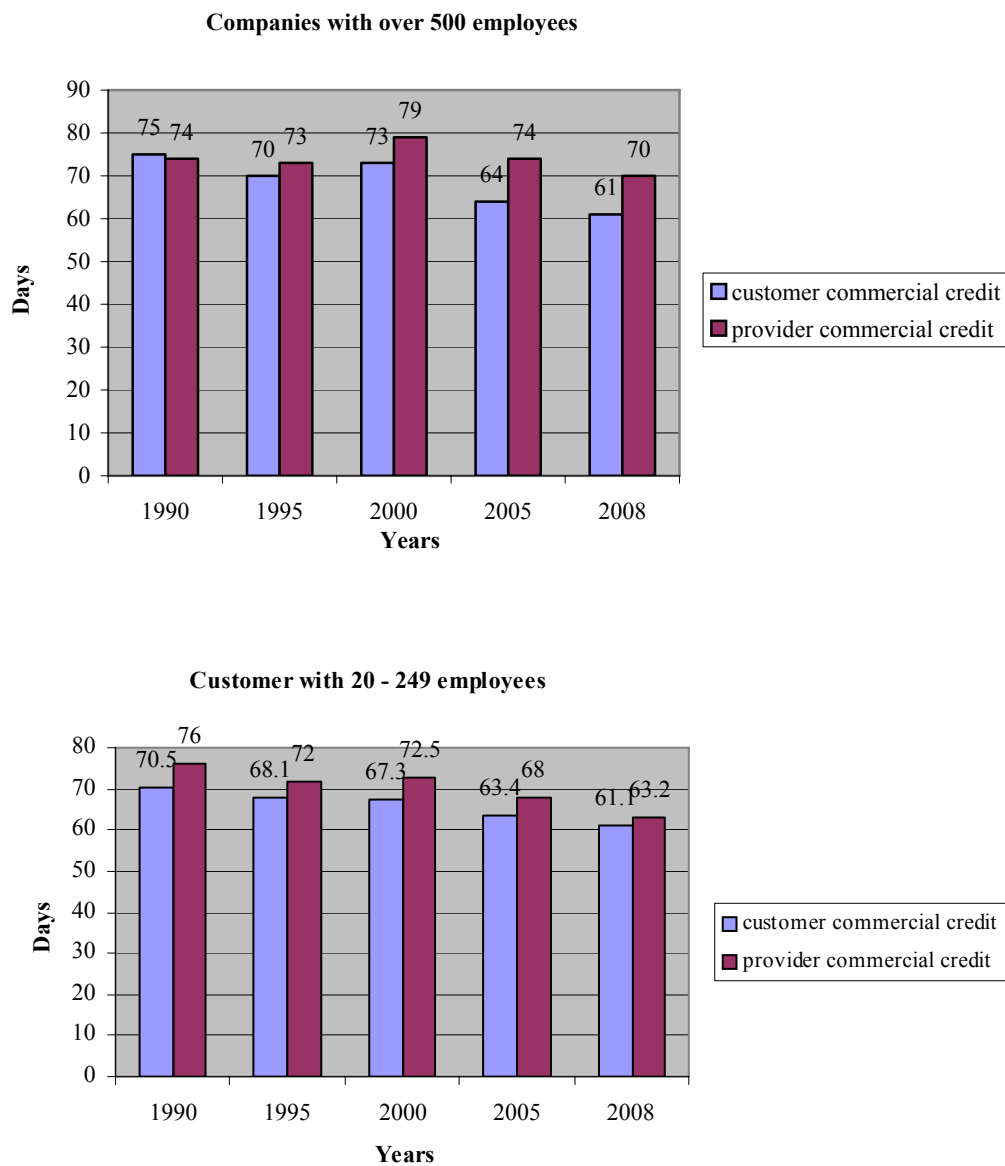
The delay of customer debt collection and the payment delay of the debts towards the providers, France, 2007-2008

Type of the company	Companies with 1-19 employees	Companies with 20-249 employees	Companies with 250-499 employees	Companies with over 500 employees	Average at the level of the entire economy
The delay of customer debt collection					
2007	52.5	63.4	66.2	64.3	56.2
2008	50.3	61.1	62.6	60.6	53.8
The payment delay of the debts towards the providers					
2007	63.0	67.6	73.2	74.9	64.7
2008	59.2	63.2	67.1	70.0	60.6

Source: Banque de France – Fiben, date updated in September 2009.

As we can see from the data presented in the table above, there are no significant differences in what concerns the commercial credit policy of French companies, classified according to the number of employees. An analysis of the commercial credit policy of the Romanian companies, grouped according to the number of employees, can be the object of another research study. However, we can notice that in all the cases, the degree of discount of the commercial debts of the French companies is inferior to the delays practiced by Romanian companies.

In relation to the situation at the beginning of the 1990s, large French companies have become independent from financing by commercial credit, benefiting from better conditions for customer debt collection, while the period of the commercial credit received from the providers has been reduced by only four days. In the case of small and medium enterprises, the payment delay of the debts towards the providers has increased following a superior dynamics to that of the customer debt collection, thus increasing their financing needs. The evolution of the commercial credits granted and received by the French companies is presented in Figure 8:



Source: Banque de France – Fiben, date updated in September 2009.

Figure 8. *The delay of customer debt collection and the payment delay of the debts towards the providers*

Conclusions

Considering the current economic context and the practices in the Romanian business environment, we believed that a study regarding the impact of the commercial credit policy on the liquidity of a company would bring an informative contribution to the financial-accounting field.

The conclusions drawn after the research are:

- The level of liquidity of the analyzed companies is not significantly influenced by the adopted commercial credit policy.
- There are significant differences in what concerns the average value of the economic and financial indicators: net cash, the commercial debt collection delay and the payment delay of the debts towards the providers between the five activity branches: industry, constructions, agriculture, commerce, transport, and storage.
- The commercial credit policy differs according to the business environment and to the culture of the country where the companies perform their activity: Northern countries grant commercial credits for maximum one month, while the countries in Southern Europe, commercial credits are discounted over an interval of 50 days.
- In Romania, the average delay for debt collection from the customers is within the interval (64; 117) days, and the payment delay of the debts towards the providers is within the interval (61; 128) days.
- The commercial credit policy is also influenced by the size of the organization: large companies impose on their customers reduced payment deadlines for their commercial debts, while small enterprises are forced to accept the payment conditions imposed on them.
- The activity branch of the company affects the average payment delay for commercial debts, and respectively on the average delay for debt collection from the customers. Therefore, in 2008, the companies in the commercial field have paid their debts towards the providers in 151 days, while construction companies have paid their providers in 47 days. In what concerns the delay for customer debt collection, construction companies are in the opposite position, registering the maximum value: 157 days, while transport/storage companies collect their commercial debts within the shortest delay: 59 days.

Following our approach, we can draw the conclusion that, at the level of the analyzed sample, the commercial credit policy does not have any significant influence on the liquidity of the companies. In the case of enterprises quoted in the Sock Exchange, the level of liquidity largely depends on the cash equivalents and on the adopted funding policy.

Future research directions should focus on designing a multiple regression model, which would also include in its analysis the stocking policy indicators. The optimal stock management, together with an efficient commercial credit policy, makes up the premise for ensuring a comfortable level of liquidity.

The economic and financial analysis is a very important source of information that characterizes the situation of the companies, representing the basis for a series of decisions at a micro and macroeconomic level. We consider it opportune to combine the economic analysis with statistics, because it allows identifying the relations between the variables, as well as predicting the evolution of the indicators.

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A Critical Examination of Foreign Aid Policy. Why it Fails to Eradicate Poverty?

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Abstract. *After many decades of perpetuated failures, the foreign aid policy requires a critical reexamination. Doubting the efficiency of the foreign aid under the current institutional frame does not have to be interpreted as abandoning the many and the poor (approximately two thirds of the world's population, mainly in the underdeveloped countries). The goal itself is not the subject of our critique here, but the ways to address that goal, promoted up to now by developed countries and the UN.*

Keywords: poverty trap; third world; foreign aid; economic development.

JEL Codes: F35, F53, P45.

REL Code: 10K.

Introduction

In a world struggling for more and more democratization – with or without the will of the participants – global interventionism presents itself under new shapes and forms. Some of these forms are involving aggression, other compassion and financial assistance⁽¹⁾. In this paper we will only address the international solidarity policy, flatulently called external financial assistance.

In this paper we try to offer a critical analysis of the foreign aid policies that developed countries and international institutions continually promote in order to fight poverty in the Third World. By its nature, this process is redistributive since the external assistance consists of a fund transfer from the tax payers of the developed countries to the governments of the underdeveloped ones, either directly – via national authorities, or indirectly – via international organizations. Therefore, it is correct to consider the framework of foreign aid as a purely imitation at a global scale of the welfare state mechanism. Just like the welfare state-oriented countries ended in a giant implosion of the social system because of redistributive practices, we will also assist to the breakdown of the redistributive schema regardless of its wider application, be it European or worldwide. Therefore, both theoretically and practically, the foreign aid policy requires a critical reexamination. Doubting the efficiency of the foreign aid under the current institutional frame, especially after decades of perpetual failures⁽²⁾, does not have to be interpreted as abandoning the many and the poor (approximately two thirds of the world's population, mainly in the underdeveloped countries). The goal itself is not the subject of our critique here, but the ways to address that goal, promoted up to now by developed countries and the UN⁽³⁾.

Right from the beginning of this analysis we must highlight the main effects of this policy. Firstly, building and applying foreign aid policy resulted in creating a special kind of countries – the Third World. Without this international program of financial assistance there wouldn't have been this conglomerate of countries in need of help and that turned out – quite often – to be hostile to the West. In fact, as Peter Bauer stated long time ago, the introduction of the term "Third World" and selecting the member states is filled with flaws and ambiguities, since poverty is not necessarily a common trait. Certainly the underdeveloped countries are not and have never been homogeneous (Bauer, 1981, p. 88). These societies differ dramatically in terms of evolution, culture or income and comprise both aborigine African tribes and the population of Middle East, South East Asia and Latin America. In these later countries there are many groups of people whose standards of living are

close to the ones in the developed countries. For example in 1979 some of the largest oil exporting countries such as Saudi Arabia and Kuwait were still on the list for funds receiving, even if they could be considered actually wealthy according to the welfare indicators presented in textbooks. We must understand that this clustering with all its imperfections and dubious utility is a first and very essential step to justify the emergence and development of the famous international financial institutions. It is certain that UN and other affiliated institutions were interested to promote the international assistance policies to as many countries as possible. The higher the need for external assistance, the more justifiable their activity, and thus the more urgent the collecting of international funds. If we go back in time of their founding, immediately after the WW II, these institutions have permanently extended their influence and attributions, and this process continues today.

For instance, the UN – as the main sponsor of the utopist financial assistance programs – constantly establishes new temporal deadlines to eradicate poverty: “The Eight Millennium Development Goals target, for example, to reduce extreme poverty by half, to stop the expansion of epidemics and HIV disease, and also to provide primary education universally among the people of the third world⁽⁴⁾”. And, very important, all of these have to be accomplished until 2015!

What may seem surprising is the fact that the emergence of the latest UN agenda has a twofold role. The first one is to support the population of some countries to step out of the range of extreme poverty, and the second, to help the organization itself. The speech of the UN general Secretary Kofi Annan, at the September 2005 International Summit, asserts this when he said that the 2015 Agenda must be seen as an “opportunity to revitalize the UN itself”⁽⁵⁾.

It is easy to understand that this mechanism (International Organizations – third world – Foreign Aid) is inherently linked, interdependent and self-sustained. What is even more obvious from this *status quo* is that there is no strong incentive for these organizations to reform the poor countries, because (obviously) a healthy pro-market reform leads to increased economic performance and, consequently, a decreased need for external financial support. As a result, the international institutions would become futile. This can easily clarify two things. On one hand, there is a lack of convergence between stated objectives, namely eradicating global poverty, and the institutions’ wish of self-perpetuating. On the other hand, one can explain the consistency of perpetuating certain programs and financial tools in external assistance that both theoretically and empirically have proved themselves to be a colossal failure.

The second major consequence of the foreign aid is the excessive politization both in the West and in the poor countries. The frequency and intensity of internal conflicts in many of these countries (like Indonesia, Malaysia, Lebanon, Uganda, Somalia or Nigeria) are often the direct result of exacerbated politization of the society. It is not by accident that the struggle for political (and hence economic) power turned into prolonged civil wars. There are plenty of examples of countries where power is gained and held through the use of arms. Considering this context it is understandable why in many countries the leaders that got to power were closer to the ideology of socialist's regimes rather than the capitalist ones (Bauer, 1981, p. 89). As a consequence, leaders from undeveloped countries solicited (as they still do) financial aid from the western governments for two main and undeclared purposes: on the one hand, to satisfy their own economic and power interests and, on the other, to promote and to sustain the socialist practices. This is why today, more than 20 years after the Fall of the Berlin Wall and the cvasi-general collapse of communism, maintaining the socialists practices in many of the third world countries on the expense of the capitalist taxpayers is no doubt the ultimate defiance displayed by the (maybe too recently) proclaimed dead socialist system.

A critical examination of the conventional arguments

Once the financial assistance agencies have grown and developed they have also perfected and multiplied their arguments in order to justify the external financial support. Peter Bauer (1981, p. 97) identified the most common arguments meant to support foreign financial assistance: (a) it is instrument for economic development; (b) reduces the poverty; (c) it is a powerful tool for international income redistribution; (d) acknowledging past mistakes and making up for them with compensating measures; (e) serving the interests of developed countries; (f) helps controlling the unprecedented growth in population. It must also be mentioned that (d) became one of the arguments only after the 50s when the guilt has become a largely accepted dogma. Based on the policy "a fitting argument for everyone" foreign aid promoters astutely changed the arguments according to the audience, making impossible to examine and analyze systematically such policies and their effects. For more conservative individuals the argument was that financial aid is nothing but a tool to accomplish strategic political and military aims. When the audience is social-democrat the arguments are mainly eradicating poverty and redistributing wealth, and when faced with a business audience it was claimed that by

increasing foreign aid exports and employment were being stimulated. The following will be a (constructive) criticism of these justifications:

- *Promoting economic development*

Immediately after the Second World War, the business world grows more found of the idea that the capital stock is the major growth factor for economic development⁽⁶⁾. Underdeveloped countries seem therefore trapped in a vicious cycle by the low level of income which does not favor savings and therefore the lack of investments. As a result, they will stay poor and the only way out from this poverty trap is foreign aid. But the argument is logically inconsistent because poverty is not a *modus vivendi* and a self-perpetuating state. If this were true, then there shouldn't be such a high number of individual, groups and societies that got out of this trap. Or it wouldn't be possible at all that countries such as Chile that initially was part of the third world to follow the path towards development following the extensive pro-market reforms started by Pinochet.

By his nature, man is in the pursuit of a better life (whether material or spiritual one). In a modern society he is receptive to the array of incentives and constraints present in the social context and if these are favorable to development and capital saving, the initial lack of savings is no longer a problem. Economic performance depends on cultural premises, on individual skills, on motivational structure and also on the political system. In many countries of the world where there is a strong preference for a contemplative life where social customs forbid hiring women, etc., material wealth is quite scarce. So the wealth level (in its material aspect) is the natural consequence of individual actions, based on their relative preferences. As a consequence it is not the West's fault that the prevalent preference of some African or Asian societies is contrary to accumulating material wealth. This leads to the question: Do all the underdeveloped countries want to get material prosperity such as the West? If so, are the current mechanisms and financial institutions the most appropriate way to achieve this goal?

By definition the concept of economic development is about the positive evolution of the standard of living and the quality of life on the long term. Even if it had positive effects or it facilitated a minimum standard of living on the short term, foreign aid cannot generate a substantial long-run growth of the national income. A fundamental economic principle shows that people are receptive to rules that are prevalent in society. And if these rules are not oriented towards "active fishing" but towards "passive receiving", what kind of behavior evolution can be expected in that society?

By transforming the benefitting country into an economy dependent on foreign aid, the suboptimal *status quo* is being perpetuated and economic reform is being postponed indefinitely. More than that, even those productive private activities or initiatives are not at all encouraged. The extension of government corrupt practices limits the fair practices of private business environment to the extent that the entire economy is under control. There are also behavioral changes in the social context that are counterproductive. This state is current these days in countries like Haiti, Ethiopia, Zaire, and Burundi. In conclusion, the contribution of foreign financial aid – in its present form – to the development of the third world can be nothing but insignificant, precisely because of the major adverse effects that the aid is generating.

There is one more thing to be added about this myth of poverty. If indeed all the countries of the third world would possess all the other premises that are at the base of economic development except for capital, then the influx of foreign capital should lead *ceteris paribus* to reaching this goal. As a consequence, after more than fifty years of foreign aid programs, we wouldn't have been here in this situation in need for assistance agencies and neither would we be here criticizing their policies. All of the above show that wealth represents the effect of economic initiatives and efforts and not a prerequisite of it. Just as Bauer had explained it thoroughly, the concept of vicious circle is mistakenly identifying poverty with its cause: low income is actually poverty, but not its cause!! (1981, p. 99).

- *Eradicating poverty*

This issue has always been a central theme of foreign aid policies. Peter Bauer (1972, 1981) and more recently William Easterly (2003, 2006a, 2009) are among the few economists that explained why the approaches to fight extreme poverty are simply inefficient. It is enough to follow the process by which funds flow from the western taxpayer to the poor.

First of all, the donor government has its own political, military and commercial interests. As a consequence it will attempt to support precisely the countries that are willing to exchange “financial friendship” with imports ranging from food, war technology to consultancy and know-how. Traditionally most part of these bilateral agreements has been accompanied by these kinds of terms, even though as Easterly (2009) shows, this phenomenon has now decreased. In these cases, these accords have too few in common with eradicating poverty and stimulating economic growth in those countries.

Still, even if development is maintained as a strategic target, one can see a peculiar if not incorrect approach in allocating the funds (Shleifer, 2009, p. 382). Let's think about Sweden, where the government decided supporting

socialist policies from Tanzania. Or for instance, the French government, supporting the dictators of the ex colonies of Western Africa, if they met only one essential condition: being Francophiles!

Secondly we must add that neither the financial aid given by the UN goes directly to the individual or families who are struggling for their existence. This aid also gets to the government of the country and their policies of spending money have other priorities, such as satisfying personal and group interests: from giant projects such as airports, industrial platforms of questionable efficiency, western-type universities where their graduates have no chance to find a job afterwards – to accumulating private fortunes or buying many assets – such as luxurious properties, fancy cars or bank accounts. One of the most illustrative example was that of the former president of Zaire (currently, the Republic of Congo), Mobutu Sese Seko. He was constantly concerned with his personal fortune that in 1984 was of about approximately five billion dollars. It may seem surprising for some but that was about the same amount of the external national debt at that time. Even more, in 1989, while his government was confronting with the issue of returning loans to Belgium, Mobutu had bought a fleet of Mercedes Limos that he used to walk around between his numerous palaces. And, when the money is not stolen by the leader of the country, there are always plenty of public officials or other bureaucrats that would also want a share of the funds they were supposed to manage.

Since a big part of the giant infrastructure projects stemmed from the political vision require domestic cofinancing it is easy to understand how foreign financial aid (for leaders) was implicitly an additional fiscal burden (for the most part of the population). This is why most of the times instead of ameliorating their economic situation, western aid would only deepen the crisis and increase poverty for the poor masses.

Poor people, especially in the rural area forming the majority, are not of political interest and therefore are of no concern for the political leaders in power. The real beneficiaries of the funds are from the urban areas, educated, with access to information and especially with political influence. Therefore, politicians, public officials and people from the academic or military domain are the direct or indirect beneficiaries of the western funds. In all this time, the social groups that were in real need of help are left outside the foreign aid range (Bauer, 1981, p. 111).

Thirdly, not even the stand-by agreements promoted by the World Bank and the IMF are without flaws and anomalies in allocating the resources. Although the loans are granted to governments based on some economic programs for stabilizing the economy and government budget, it is very difficult for the foreign institutions to control and direct the way the money is

spent. Analyzing from a historical perspective the conditionalities associated to these accords are typically a failure! (Svensson, 2003, Easterly, 2009). However, unlike the UN grants, external loans promoted by the World Bank and IMF are actually financial aid that must be returned on short or medium term. These have even gained the name “heinous loans” since the money is stolen by the government and their interest groups and the population is forced to bear an additional tax burden in order to return the money (Shleifer, 2009, p. 383). Going back to history, there are not so many (to be more precisely, not even one!) countries that have succeed in their way through development only by external loans from international financial institutions!

- *Egalitarianism and restitution*

Redistributing revenues and paying compensating sums of money go together in the egalitarian rhetoric, especially because of the idea that the differences in income levels are a direct consequence of exploitation. Thus, promoting the redistribution in order to smoothen the differences and pay some compensatory money for exploiting the Third World are the argumentative mix that justifies a significant amount of financial transfers of money, although they are logically quite distinct (Bauer, 1981, p. 121).

World egalitarianism is based on the idea that people’s needs are fundamentally the same, no matter what is their culture heritage or geographic area. Moreover, their abilities, skills, motivations and values are rather homogeneous which would lead us to conclude that the differences in wealth between countries and individuals are nothing but the result of exploitation or luck. If it is exploitation, it is required to seize some of the extra wealth and give it to the exploited. How much? How to do that? It doesn’t matter. What matters is the ending: *for the same needs the same income!* By applying globally this way of thinking will only reduce income levels for all the countries in the world. It is obvious that the basic premise of this reasoning is completely false and an *in extenso* argument would be useless.

As about the Western blame for the precarious state of many ex colonies there is also a logical inconsistency. First, by transferring ideas and technologies from the West there has been an improvement of the standard of living and an increase in life expectancy for billions of people in the Third World. Secondly, as Peter Bauer ironically stated, all of these victims of colonialism – people killed during the wars, farmers exploited by colonists – they’re all dead now and can no longer be helped, not even by prestigious institutions such as the World Bank (1981, p. 121).

Thirdly, even if we hypothetically accept the fact that colonialism has been overall a bane for the ex colonies, financial aid still wouldn’t be justified.

On the one hand, this is because most of the current taxpayers have never been colonialists in the past. On the contrary, they even defended their borders from the empires seeking expansion. As a consequence they shouldn't contribute, but may be even receive compensating money. On the other hand, many of the benefiting countries (currently on the UN list) have never been colonies of the western world, because they never represented an economic or politico-strategic interest.

Although definitely the actions of colonial powers have made countless victims, any redistribution theory will fail because, with the exception of some short period of time, some mistakes of the past cannot be repaired (Bauer, 1981, p. 121). How far should we go back in our historical past to start paying for the damages? For example, if the Romanian people were included in the third world countries, should we be asking compensating payments to Russia? Or should we also address Turkey for the human and material damages done by the Ottoman Empire? What about the Huns and Tatars, should we also approach their descendants to pay us compensations?

Fourthly, as we said in the opening of this paper, it is difficult to blame the colonists for the current lack of economic performance of many Third World countries. As long as the economic situation was better than in the pre-colonial era and since this has not been any better after gaining independence it only confirms the later argument.

In 2010, more than half a century of international financial aid later, we can only admit that, although strongly criticizes during his times, Peter Bauer was right: foreign aid has failed in reaching its main goal – eradicating poverty and relaunching the economy. Today, instead of the Berlin Wall we are faced with the Foreign Aid Wall, behind which poor people should escape from poverty by means of international collectivist planning (Easterly, 2006b). Instead of allowing markets and societies to prosper by economic freedom – the successful recipe of the western economies – the poor people of the world have to accept the collectivist guidelines of international experts to get out of the poverty trap.

The African case. Some illustrative examples of foreign aid „performance”⁽⁷⁾

Between 1980 and 1988, Sub-Saharan African countries were beneficiaries of foreign assistance estimated at 83 billion dollars. And, as international statistics shows, in spite of economic growth and prosperity, those countries experienced an annually constant decrease in living standards by 1.2 percent. Analyzing the economic growth phenomena for a larger period of time, between 1965 and 1984, studies reveals that 18 African countries had an annual

growth rate less than 1 percent, and the worst performers were Benin, Burkina, Faso, Chad, Ghana, Liberia, Somalia, Sudan, Uganda and Zaire. It might be surprising to find out that these countries had shared – and most of them continue to share – two common features which are worthy to mention. In the first place, the political regime is characterized by military dictatorship. Secondly, their governments have had received financial support from the West through the external assistance programs.

In the midst of 1980, even the UN had manifested some skepticism regarding the issue of eradicating poverty of the African continent. The laborious (self) evaluations of financial aid programs show off the lack of efficiency in attaining estimated specific indicators. Normally, we would expect to see at work a completely new paradigm in this matter. Nevertheless, international organizations have proved a strong bureaucracy path-dependence. Thus, then (just like nowadays) was adopted a sham change of the existing strategy. In 1986, has been launched a (new) Program of Action for African Economic Recovery and Development, with new deadlines, bigger goals, and, above all, for more money. A midterm report submitted by Secretary-General Javier Perez de Cuellar in September 1988 reveals a new failure: The general economic conditions in Africa have worsened since the program was adopted. GDP per capita of the continent declined by 2 percent in 1986 and by 2.2 percent in 1987, and is today lower than in 1980” (Perez, 1988).

The experiences that every country faces are alarming. For example, in Tanzania, the biggest part of foreign aid goes to support the socialist movement called *ujamaa*. The New York Times reported: “At first, many western aid donors, particularly in Scandinavia, gave enthusiastic backing to this socialist experiment, pouring an estimated \$10 billion into Tanzania over 20 years. Yet, today as Mr. Nyerere (the country’s leader) leaves the stage, the country’s largely agricultural economy is in ruins, with its 26 million people eking out their living on a per capita income of slightly more than \$200 a year, one of the lowest in the world” (Lewis, 1990).

In the World Bank review report from 1990, it is emphasized that Tanzania’s economy contracted on average by 0.5 percent per year between 1965 and 1988. The medium level of personal consumption declined drastically by 43 percent in the same period. Analyzing the results in this matter, The Economist observed in 1990 that, in exchange for huge external financial assistance, Tanzania offers pot-holed roads, decaying buildings, demoralized clinics and universities, and a 1988 income per capita of only \$160 (lower than at independence in 1961!) (The Economist).

Regarding the aid programs, professor Nicholas Eberstadt, from Harvard University, offers a more trenchant indictment, emphasizing that “western aid today may be compromising economic progress in Africa and retarding its development of human capital” (Eberstadt, 1988, p. 100).

Another case might be Senegal, and certainly it is not an isolated one in Africa. For example, US built 50 crop-storage depots but placed them in locations the peasants never visited. This investment of about 2 million is in ruins now. Also, 20 percent of foreign assistance given to Ivory Coast was directed to build two sugar mills that started production in 1981 and are now closed” (Mufson, 1985).

In another African country, Sudan, was built a plant for making tomato in an area where the farmers cultivate date palms, not tomatoes. A milk dehydration plant was built in an area where there are no dairy cows. In northern Kenya, Norwegian experts built a fish-freezing plant near a lake for the Turkana tribesmen. But the Turkana are pastoral people who survive by raising cattle, goats and camels. Worse, after the plant was built, it was discovered that freezing fish in the daily 100 degree temperatures would take more electricity than was available in the entire Turkana district (Whitaker, 1988, p. 60). And there are many more others....

Notes

- (1) It is also true that these aspects cannot be substituted. As recent history shows, once the recently tyrannised countries have been democratised *volens-nolens*, they benefited from major foreign aid programs in order to develop their economies. The result in these cases, as in many others, has been pathetic, compared to the expected results.
- (2) This is obvious since there is still today this category called the Third World. Yet the *a-posteriori* evidence suggesting the lack of efficiency have never led to a major change in the tools and procedures used, therefore widening the gap between desired outcome and actual performance. A good example is shown by Jeffrey Sachs in his famous work *The End of Poverty* (2005, p. 25). In 2002, all the 191 countries members of the UN established eight development goals to accomplish (named maybe too emphatically, Millenium Development Goals) so that by 2015 global poverty should be half of that from the year 1990.
- (3) The need for shifting the paradigm in foreign aid can be felt even for the famous international financial institutions. In a World Bank study of 2005, Michael Klein and Tim Harford analyze (in chapter 9) the efficiency of the *foreign aid policy*, under an interesting title “Can the Financial Aid Agencies Perform Better Than the Invisible Hand?”.
- (4) Access the source www.un.org/millenniumgoals/.
- (5) For those interested, please access the following source www.un.org/summit2005/.

- ⁽⁶⁾ For those familiar with the evolution in the theory of economic growth, it is easy to correlate the extension of the philosophy of foreign aid policy with the international scientific recognition of Robert Solow after 1956, once his famous model of exogenous economic growth was published, with capital as the main factor.
- ⁽⁷⁾ Most of the cases included in this last part are extracted from “Perpetuating Poverty. The World Bank, the IMF, and the Developing World”, edited by Doug Bandow and Jan Vasquez.

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Does Corporate Governance Impact Risk Management System?

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Abstract. *This paper brings forth the contribution of corporate governance to risk management system at the enterprise level. The research is a complex one, integrating both quantitative and qualitative information. The quantitative information consists of balance sheet and profit and loss account data while the qualitative one includes dummy variables reflecting the agency and monitoring costs which govern the relationship between managers and shareholders.*

Keywords: financial performance; risk management; corporate governance.

JEL Codes: G34.

REL Codes: 17B.

1. Introduction

Financial risk management has become more and more important during the last fifteen years. Globalization triggered capital market development and meanwhile the increase of the volatility which generated a high degree of incertitude at the level of the corporate segment.

Capital structure and financial performance of companies are impacted to a high extent by the volatility peculiar to global financial markets, generating the development of the financial management which focuses on the main variables representing the source of risk – interest rate, foreign exchange, equity and commodity.

Analysts have been preoccupied with identifying potential correlations between company' value and financial management, especially from the perspective of scale economies. Implementing financial management departments create incentive to economic growth since risk mitigation techniques support wealth accumulation.

This relationship represented the research object of studies concentrated especially on non-financial firms since financial institutions imply peculiarities in terms of capital structure.

There are various theories on the contribution of risk management to shareholders' value creation. Nevertheless, imperfections of capital market – agency costs, transaction costs, taxes, and increasing costs of external financing – represent the layer by which company value may increase to the benefit of the shareholders.

Risk management tools represent the support to company' value maximization and it becomes essential in the context of capital market integration. Risk increase complemented by risk concentration may confer vulnerability to corporate segment. Therefore, risk management strategies contribute in an essential manner to value creation.

2. Database and methodology description

The case-study is concentrated on two regressions integrating variables related to risk management strategies. We consider that leverage and profitability are strongly correlated with corporate risk management and we propose to underline which are the key variables that impact them.

The database supporting the case-study includes annual financial data on 100 US NASDAQ listed companies on ten years (1997-2007).

The methodology implies Ordinary Least Squares regressions.

The first regression includes Leverage (computed as Debt reported to Equity) while the second encompasses Profitability (calculated as Net Profit reported to Turnover) as dependent variables.

The equations can be figured out as:

$$Y_{it} = \alpha + \beta \times x_{it} + \omega_{it}$$

Where

- $t = 1 \dots T$ (time period);
- x_{it} is a vector of explanatory variables;
- α stands for the intercept;
- β stands for volatility indicator;
- ω_{it} stands for the error term.

The independent variables include traditional financial indicators such as liquidity, solvency and capital structure related ratios.

The innovative part of the research consists of the integration of dummy variables which reflect corporate management strategies.

The first equation integrates institutional investors as dummy variable which takes the value 1 if there are institutional investors among the company's shareholders and the value 0 if among the company's shareholders there are not institutional investors.

CEO ownership is the second Dummy variable which takes the value 1 if company's CEO possesses shares and the value 0 if company's CEO does not possess shares.

The second equation includes blockholders dummy variable which takes the value 1 if the company is held by foreign investors who possess between 5% and 10% and 0 if the company is not held by such investors

The second dummy variable includes the acquisition activities which takes the value 1 if the company develops acquisition activities and 0 if the company does not develop acquisition activities.

3. Analysis of the statistic results

In order to get a deeper insight regarding the importance of risk management strategies, there have been selected a set of financial indicators relative to leverage.

The perspective is a comparative one; data has been gathered both on US companies promoting a high leverage as well as on companies which implement more relaxing indebtedness policies.

I consider a high leverage to equal approximately one third of the total assets. Therefore, companies which have a debt to equity ratio close to one third of their assets are perceived as promoting an aggressive indebtedness policy.

In opposition, companies which have a debt to equity ratio inferior to one third of the total assets are perceived as promoting a relaxing leverage policy.

The arbitrage will be the following:

If

Leverage = $[30\%;100\%] \times \text{Total Assets}$, then company financing policy is associated with aggressive leverage

Leverage = $[20\%;30\%] \times \text{Total Assets}$, then company financing policy is associated with medium leverage

Leverage = $[0;20\%] \times \text{Total Assets}$, then company financing policy is associated with low leverage.

Analysts agreed on the fact that leverage is the main variable which impacts the risk management strategies system (Lookman, 2003). Therefore, leverage multiplier and debt reported to tangible net worth have been selected out of the financial indicators reflecting the capital structure/solvency of the company.

The mean and median relative to the Debt reported to Tangible Net Worth (DTNW) are superior to the corporations which promote aggressive financial leverage (22.6 and 17.48 versus 4.82 and 3.21) in comparison with the median and the mean corresponding to the companies adopting low leverage. The maximum corresponding to the DTNW relative to companies which adopt aggressive leverage is highly superior to the one relative to the companies which adopt low leverage (122.69 versus 45.58).

A higher leverage is equivalent to strong corporate governance mechanisms. This conclusion is in line with the assumption made by Cremers (2005) according to which companies focused on self-financing do not have strong mechanisms specific to corporate governance.

Statistics corresponding to leverage multiplier follow-up the same direction: corresponding mean and median are superior for the companies adopting aggressive leverage (5.86 and 4.16 versus 8.91 and 9.32).

Business is run out mostly by the intermediary of the externally attracted funds. Moreover, in order to get more external funds, firms must comply with the security/covenant requirement (meaning it has to provide creditors with enough collateral proved by a high level of equity). The arbitrage concerning

leverage multiplier is not exceedingly superior as in the case of the debt reported to tangible net worth. The standard deviations corresponding to the two financial indicators show out a high degree of volatility at the level of the Debt reported to Tangible Net Worth specific to the corporations which adopt aggressive financial leverage (26.2 versus 8.41) which is in line with the assumption that their capital structure is more dynamic.

Statistic output reveals important findings in terms of corporate management strategies.

A key variable closely related to corporate management strategies is represented by growth opportunities. We used research and development expenditures (R&D) as well as tangible assets (property, plant and equipment) as proxies for growth opportunities. These proxies capture the resources invested into growth opportunities and we assume them to be positively correlated both with profitability and leverage.

The statistic output confirms the initial assumption. The coefficients corresponding to the two variables are 5% significant, underlining a consistent impact on leverage. Thus, 100% variation of R&D and tangible assets triggers 32.1% and 56.2%, respectively modification of leverage.

This finding is in line with previous research papers (Lin, Smith, 2007, Allayannis, Ofek, 2001, Gay, Nam, 1998, Dolde, 1995).

Other important variables derives from market information captured by earnings-to-price and book-to-market ratio. A lower book-to-market ratio reflects strong growth opportunities and a consistent tendency to implement corporate management strategies.

The same correlation can be figured out at the level of the earnings to price ratio; low earnings to price reflect strong growth opportunities, which validates previous findings (Gay, Nam, 1998, Berkman, Bradbury, 1996).

The statistic output reveals the negative correlation (see Annex 2). The two ratios determine a leverage variation of -0.342 and of -0.123 respectively.

Operating activities revenues capture growth opportunities. The coefficient is positive, indicating a strong contribution of operational revenues to growth opportunities.

As for the second regression, interest coverage ratio and debt ratio support corporate management strategies. High growth opportunities and high financial leverage contribute positively to profitability and to corporate risk management, in line with previous findings (Graham, Rogers, 2002, Geczy et al., 1997). Moreover, Lel (2006) pointed out that the positive association between corporate risk management strategies and leverage ratios depends on corporate governance structures.

Finance and investing decision processes are strongly related to risk management strategies, especially from the perspective of financial resources. Investment projects which are not supported by internal funds generate external equity or debt. This situation determines additional costs in terms of agency conflicts. Creditors expect yields according to the company risk profile, which determines the increase of debt cost and the decrease of company value (Myers, 1993).

Even from 1986, Asquith and Mullins highlighted that external equity triggers a negative impact on firm value since investors associate management propensity to issue new stock if the company is overvalued.

This assumption is validated by the Annex 2. Coefficients relative to gross margin (0.216) and to earnings to price ratio (-0.123) are strongly significant. Gross margin impacts positively leverage while the influence of earnings to price ratio is negative.

Risk management strategies are related to capital structure. Corporate risk management system is built up according to the availability of the firm to attract external resources. Tufano (1998) and Chang (2000) highlighted that internal financing diminishes the constraints imposed by capital market or banking system. Hedging is slightly promoted by firms which adopt pecking order behavior in terms of financial structure (Spano, 2001, Moore et al., 2000).

The correlation between financing and investment process encompasses in the context of the mix between firm growth perspectives and capital market/banking system constraints. Previous approaches pointed out that company cash flow is slightly impacted by hedging strategies (Gay and Nam, 1998; Guay and Kothari, 2003).

The negative impact of book to market ratio and of earnings to price ratio on leverage strongly supports this idea.

Current liquidity contributes positively to leverage, which underlines the idea that liquidity is an important axis of management strategies. Literature revealed that it is quite difficult to implement highly worthwhile liquidity strategies, since under certain circumstances, a high liquidity ratio is likely to determine consistent opportunity costs (Faulkender, 2005). Nevertheless, liquidity shortage may generate payment difficulties, which can lead to bankruptcy.

The empirical test highlights that a liquid company is receptive to indebtedness, confirming that good liquidity creates incentives to attract external financial resources.

1% variation of size determines a profitability variation of 0.731. Similar strong impacts are exerted by tangibility and Z-score (0.892 and 0.618 respectively). In accordance with Dionne et al. (2003), size contributes

positively to gross margin, confirming the assumption that larger firms have higher profit perspectives.

Tangibility has a positive impact on gross margin. Analysts pointed out that a high covenant supports propensity to leverage (Carpenter, 2000), being perceived positively by creditors.

Risk management strategies imply a real challenge from the perspective of the agency problems, conflicts of interest and informational asymmetries.

Ever since 1985, Smith and Stulz revealed that there are different risk perceptions from the part of the managers and shareholders. Managers tend to implement risk strategies in accordance with their risk preferences which frequently are not similar to the ones expressed by shareholders.

Nevertheless, the control exerted by shareholders on company's management triggers monitoring costs which impact negatively the financial performance. Previous approaches pointed out that shareholders' degree of dispersion influences the agency costs. According to the free rider theory, if shareholders' concentration degree is high, then monitoring costs are not likely to be afforded (May, 1995).

Berger and Ofek (1995) revealed that monitoring costs are more likely to be supported in case of institutional investors. Myers and Smith (1990) highlighted that managers pretend compensation benefits according to the assumed risk level. Since risk level increases, the reward the managers ask for is higher too.

Stulz (2001) revealed that corporate hedging strategies impact positively company cash-flow, decreasing the idiosyncratic risk. Moreover, shareholders' diversification degree improves the efficiency of business strategies.

Empirical evidence reveals similar findings. Blockholders dummy variable contributes positively to profitability, meaning that a low shareholders' dispersion is favorable to growth perspective. This is in line with the assumption that concentration of shareholders implies a high cohesion in terms of management strategies, which impacts positively the profitability.

Institutional investors and CEO ownership have positive impact on leverage.

CEO ownership dummy variable is associated with compensation benefits. Leverage becomes the corporate governance device by which informational asymmetry degree decreases.

The positive coefficients associated with dummy variables reveal certain opposite results in comparison with previous researches. Since CEO ownership is conceived as an incentive to correlate management performance with company's financial results, leverage is not figured out anymore as a corporate

governance mechanism and the expected sign of the coefficient is expected to be negative.

Empirical results are different, revealing a positive contribution of dummy variable to leverage; even if managers have benefits proportional with their management performance, which are likely to motivate them to ensure adequate management strategies and to be to a certain extent reluctant to indebtedness (from the perspective of the financial constraints) this does not trigger low leverage policy. This can be interpreted as a proof of the fact that analyzed companies are receptive to external financing.

Empirical tests focused on the main variables underlying corporate risk strategies imply some limitations.

We consider that the endogeneity of variables revealing important aspects of financing and investment decision is the main problem. To some extent, solvency, liquidity and profitability indicators are likely to integrate different levels of endogeneity.

Another challenge is represented by the accounting and the disclosure level of financial market information. It is likely that companies financial data in terms of capital structure and profitability should not incorporate the over time variations that would impact strongly the final empirical results.

Conclusions

The research approach analyzes the importance of risk management strategies within corporate environment by the intermediary of profitability and leverage as eloquent variables.

The research is a complex one, integrating both quantitative and qualitative information. The quantitative information consists of balance sheet and profit and loss account data while the qualitative one includes dummy variables reflecting the agency and monitoring costs which govern the relationship between managers and shareholders.

Risk management strategies are related to capital structure. Corporate risk management system is built up according to the availability of the firm to attract external resources.

The correlation between financing and investment process encompasses in the context of the mix between firm growth perspectives and capital market/banking system constraints.

Statistic output reveals important findings in terms of corporate management strategies.

The empirical test highlights that a liquid company is receptive to indebtedness, confirming that good liquidity creates incentives to attract external financial resources.

1% variation of size determines a profitability variation of 0.731. Similar strong impacts are exerted by tangibility and Z-score (0.892 and 0.618 respectively). In accordance with Dionne et al. (2003), size contributes positively to gross margin, confirming the assumption that larger firms have higher profit perspectives.

Tangibility has a positive impact on gross margin. Analysts pointed out that a high covenant supports propensity to leverage (Carpenter, 2000), being perceived positively by creditors.

Risk management strategies imply a real challenge from the perspective of the agency problems, conflicts of interest and informational asymmetries.

CEO ownership dummy variable is associated with compensation benefits. Leverage becomes the corporate governance device by which informational asymmetry degree decreases.

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Empirical results are different, revealing a positive contribution of dummy variable to leverage; even if managers have benefits proportional with their management performance, which are likely to motivate them to ensure adequate management strategies and to be to a certain extent reluctant to indebtedness (from the perspective of the financial constraints) this does not trigger low leverage policy. This can be interpreted as a proof of the fact that analyzed companies are receptive to external financing.

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Annex 1**List of variables used in the case study**

Indicator	Description	Source
Assets growth	Assets dynamic computed as the difference between the assets level in moment t and assets level in moment t-1	Balance sheet data
Book-to-market ratio	Indicator computed as the ratio between book value and market value Book value = Total assets – Total debt Market value = Price per share × Number of shares	Balance sheet and market data extracted from stock exchange reports
Earnings to price ratio	Indicator computed as the ratio between earnings and price	Data extracted from stock exchange reports
Exploration activities	Revenues from exploration activities	Profit and loss account data
Market to book leverage		
Tangibility	The weight of tangible assets into total assets	Balance sheet data
R&D	Research and development expenses	Balance sheet data
Institutional investors	Dummy variable which takes the value 1 if there are institutional investors among the company's shareholders and the value 0 if among the company's shareholders there are not institutional investors	Data extracted from stock exchange reports
CEO ownership	Dummy variable which takes the value 1 if company's CEO possesses shares and the value 0 if company's CEO does not possess shares	Data extracted from stock exchange reports

Annex 2**Statistic output relative to the leverage used as dependent variable**

	Coefficient	R-squared/Adjusted R-squared
Assets growth	0.564 (4.897) 0.001	
Book-to-market	-0.342* (1.585) 0.093	
Earnings to price ratio	-0.123(0.099) 0.076	
Exploration activities	0.214* (1.379) 0.042	
Market to book leverage	0.672 (0.738) 0.041	
Property, plant and equipment	0.321 (0.055) 0.005	
Research and development	0.562* (2.880) 0.005	
Institutional investors	0.217* (7.154) 0.134	
CEO shareownership	0.156(1.055) 0.896	0.563/0.452

Source: own calculations.

*= Significant at 0% **= Significant at 5% ***= Significant at 10%

-T statistic in brackets and standard errors below

Annex 3**List of variables used in the second regression**

Indicator	Description	Source
Interest coverage ratio	Indicator computed as the ratio between the EBIT and the interest expenses	Profit and loss account data
Gross margin	Indicator computed as the ratio between gross profit and turnover	Profit and loss account data
Debt to equity ratio	Indicator computed as the ratio between debt and equity	Balance sheet data
Return on assets	Indicator computed as the ratio between net profit and total assets	Profit and loss account data
Current liquidit	Indicator computed as the ratio between current assets and current liabilities	Balance sheet data
Size	Natural logarithm of total assets	Balance sheet data
Blockholders	Dummy variable which takes the value 1 if the company is held by foreign investors who possess between 5% and 10% and 0 if the company is not held by such investors	Data extracted from stock exchange reports
Z score	Variable computed according to the Altman function	Own calculations
Acquisition activities	Dummy variable which takes the value 1 if the company develops acquisition activities and 0 if the company does not develop acquisition activities	Data extracted from stock exchange reports
Interest coverage ratio	Indicator computed as the ratio between the EBIT and the interest expenses	Profit and loss account data
Gross margin	Indicator computed as the ratio between gross profit and turnover	Profit and loss account data
Debt to equity ratio	Indicator computed as the ratio between debt and equity	Balance sheet data
Return on assets	Indicator computed as the ratio between net profit and total assets	Profit and loss account data
Current liquidity	Indicator computed as the ratio between current assets and current liabilities	Balance sheet data
Size	Natural logarithm of total assets	Balance sheet data
Blockholders	Dummy variable which takes the value 1 if the company is held by foreign investors who possess between 5% and 10% and 0 if the company is not held by such investors	Data extracted from stock exchange reports
Z score	Variable computed according to the Altman function	Own calculations
Acquisition activities	Dummy variable which takes the value 1 if the company develops acquisition activities and 0 if the company does not develop acquisition activities	Data extracted from stock exchange reports

Annex 4**Statistic output relative to the second regression,
implying profitability as dependent variable**

	Coefficient	R-squared/Adjusted R-squared
Interest coverage ratio	0.452** (2.893) 0.001	
Gross margin	0.216* (8.553) 0.014	
Debt ratio	0.387*** (2.695) 4.384	
Return on assets	0.416** (2.084) (0.986)	
Current liquidity	0.561(1.297) 0.0001	
Size	0.731(1.509) 0.018	
Tangible assets	0.892(5.074) 1.524	
Z score	0.618** (5.512) 0.324	
Blockholders	0.156** (-3.139) 0.006	
Acquisition activities	0.134	0.673/0.562

Source: own calculations.

*= Significant at 0% **= Significant at 5% ***= Significant at 10%

-T statistic in brackets and standard errors below

Annex 5

Descriptive Statistics corresponding to the leverage ratios relative to companies which adopt an aggressive leverage in comparison with companies which adopt a low leverage

	DTNWREL	LEVMULTREL	DTNWAGRE	LEVMULTAGRE
Mean	4.820922	5.586039	22.6	8.919091
Median	3.21	4.16	17.48	9.32
Maximum	45.58	43.21	122.69	17.18
Minimum	-7.24	-6.24	0.49	1.38
Std. Dev.	8.41073	7.56561	26.20977	4.193002
Skewness	3.977484	3.844596	2.777634	0.084551
Kurtosis	19.33426	18.88299	10.93391	3.070775
Jarque-Bera	701.4401	661.7099	85.99053	0.030804
Probability	0	0	0	0.984716
Sum	245.867	284.888	497.2	196.22
Sum Sq. Dev.	3537.019	2861.923	14426	369.2066

Source: own calculs.

DTNWREL = Debt to Tangible Net Worth corresponding to companies which adopt a low leverage

LEVMULTREL = Leverage Multiplier corresponding to companies which adopt a low leverage

DTNWAGRE= Debt to Tangible Net Worth corresponding to companies which adopt an aggressive leverage

LEVMULTAGRE = Leverage Multiplier corresponding to companies which adopt an aggressive leverage.s

Quality Management and the Reform of Public Administration in Several States in South-Eastern Europe. Comparative Analysis*

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Abstract. *The present requirements impose to achieve profound reforms in public administration both in the EU Member States and in the acceding countries from South-Eastern Europe, in view to align at the European Union standards.*

Public administration reform strategies aimed to identify measures for ensuring the modernization of public administration in order to optimize decision-making, to improve human resource management, public finance, quality of public services by promoting and introducing quality management elements.

The objectives aim in this study consist in identifying the quality policies and their implementation, the use of the quality management instruments in practice and the analysis of the impact of the accession process to the European Union, regarding the promotion and development of quality management in the public sector by means of the reform documents and strategies in the analyzed countries. Through the selection of the analyzed countries within the study, we are attempting to offer an overview regarding the introduction and use of the quality

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management instruments in public administration, as well as their convergence in the South - Eastern European states, EU and non-EU states.

The research of this study is based on the reform documents and strategies of the public sector in the countries analyzed, taken from the Internet, having as source the official websites of several public institutions. Also, this study is based on the analysis of several empirical studies performed (mainly by the European Institute of Public Administration(1)) for the EU Member States and candidate countries, and a series of studies regarding quality management in the public sector. In addition, we mention that there are also EU documents and publications regarding the subject of our study, recently achieved, throughout the EU Presidency of Slovenia(2) (2008) and throughout the EU Presidency of Spain (2002). We also mention the studies published by the World Bank and OECD, which promote, by means of publications, quality management in the public sector. At the national level there are a few researchers studying quality management in the public sector and analyzing and comparing reform documents and strategies in the public sector of different countries in South-Eastern Europe, tracking the promotion and application of the quality management instruments.

Keywords: public administration reform; quality management; reform strategies; convergence.

JEL Code: H11.

REL Codes: 13C, 13G.

I. Introduction

In the continuous process of building an efficient, transparent public administration, oriented towards the citizen, the countries in South-Eastern Europe have become, in the past years, more and more interested in promoting and introducing the elements of quality management in the public sector, and all reform projects in the public sector are designed such as to fulfill these objectives.

This comparative paper presents the process of quality promotion and use of the quality management elements in public administration in several countries in South-Eastern Europe, comprising both European Union Member States (Greece, Romania and Bulgaria), and countries desiring the accession to the EU (Croatia, Albania, Republic of Moldova and Republic of Macedonia). At the same time, the study will also comprise short reference regarding the convergence of quality management elements in public administration in the analyzed states.

As a structure, the study could be divided into two large parts: one part which discusses the notion of quality and its findings in the public sector, and a second part, focusing on the comparative analysis of the reform documents and strategies in the states analyzed having as main objective the identification, within them, of the quality management tools in public administration. We mention the fact that in neither of the states analyzed there is a clear strategy regarding quality promotion in the public sector.

I. Quality –integral part of public administration development

Total quality management (TQM) was initially used in the private sector, in order to achieve integral monitoring and to estimate all relevant activities of an organization, in view of reaching excellent results in business (Matei, Andreescu, 2005, p. 50).

“Quality” is a generic concept and not new in public administration, either. On the contrary, quality was, at least implicitly, a public administration concept since the creation of the modern administrative state, when it was associated with the observance of regulations and procedures, with formal correctness, viability and absence of arbitrary decisions (Engel, 2003, p. 17).

An overview on the emergence of quality in public administration can be found in Engel (2003), who underlines the idea according to which the “impulse for quality” (Massey, 1999, p. 2) was present in the public sector in the last half of the '80s and at a wider scale in the '90s, allowing quality to become “a central term in our contemporary rhetoric” (Pollitt, Bouckaert, 1995, p. 3), one of the subjects and central preoccupations of administrative modernization in Western Europe and in the “OECD world” – or even “a recent epidemics” (Pollitt,

Bouckaert, 2000, p. 168). As a consequence, TQM is seen as a “holistic” tool, and since the end of the ‘80s it was implemented more and more in the public sector (Matei, Andreescu, 2005, p. 50).

II.1. Orientations in defining the notion of quality in the public sector

The concept of quality is expressed in a series of definitions, mutually completing each other. Among these:

- Improvement of the “manner of governing” – constitutional architecture and the structure of government and society – and the efficiency of public action (Bovaird, Löffler, 2002, Bovaird, Löffler, Parrado-Díez, 2002, Daemon, Schaap, 2000, PUMA, 2002);
- Quality can be defined by opportunity of adequate character (OECD, 2001);
- Ensemble of standards and characteristics of a product, in relation to its capacity to satisfy the needs that are known or assumed (Norma ISO 9004-2);
- Quality is the level at which a set of intrinsic characteristics satisfies the requirements; it can be at different levels, respectively: unsatisfactory or poor; satisfactory or good and excellent (ISO 9000:2000 Standard. Quality management systems. Fundamental principles and vocabulary).

Beale and Pollitt (1994) discovered that, in what concerns the standards, customers’ knowledge is very low, even in a country that places information on a central position in the political agenda (for example, Great Britain) (Bouckaert, 2001, p. 101).

The European Commission performed in 1996 a study emphasizing the awareness of the importance/role of quality in the world.

Table 1

Awareness of the importance / role of quality in the world		
State / Region	The role of quality in management	The level of awareness of the importance / role of quality
Japan	Quality is an essential element of the overall management of organization	Excellent
SUA	Quality has an increasingly important role	Good
Western Europe	Quality is considered a specialized professional management problem	Limited
Central and Eastern Europe	Quality is considered to be only the problem of employees of the departments directly productive	Limited
Other states	Quality is perceived as a secondary problem, not related to management	Reduced

Source: An European policy for promoting quality in view of improving the European competitiveness, European Commission, 1996; in Drăgulănescu, FRPC, 2001.

Service quality represents an important aspect of performance in any organization in the public sector (OECD, 2001), and the public administration of national states attempts to obtain performance by means of quality management strategies.

II.2. Characteristics of quality management in public administration

Quality Management holds a number of features (Moldoveanu, Dobrin, 2003, 9): the objective is to acquire customer satisfaction; quality is defined by the customer; it affects all activities of the organization, whether or not directly related with the product or the service; customers are external; it closes the activities of control, but primarily involves the management of the entire organization; all are involved in its application; the participation is determined by conviction; methodology is particularly directed toward prevention; it aims to do the right things “from the beginning”; the responsibility and the involvement of everyone from organization.

QM tradition	Longer	<p>Quality is incorporated in all strategic documents and initiatives</p> <p>Quality as a core value</p> <p>Improvements and added value as a concept – a paper certificate itself does not matter</p> <p>Use of quality models, standards and tools voluntarily and upon the decision of a PA organization – what matters is the results achieved</p>
	Shorter	<p>Quality as a (long-term) goal</p> <p>Quality, perceived as a “magic” word, may sound hostile</p> <p>Emphasis on formalities – a certificate as a motivating factor</p> <p>Use of quality models, standards and tools strongly imposed, or even prescribed by law</p>

Source: Zurga, G., *Quality Management in Public Administrations of the EU Member States – Comparative Analysis*, Ministry of Public Administration of the Republic of Slovenia, 2008, EUPAN, p. 14.

Figure 1. *Characteristics of quality management in public administration in relation to tradition*

II.3. “Standard”⁽³⁾ quality instruments used in public administration

The European Foundation for Quality Management, established in 1988 by the high-performance European companies with the aim of promoting and spreading the idea of business excellence in Europe, developed and holds the EFQM excellence model. This model is based on a number of eight fundamental concepts regarding excellence, which are transformed into a diagram of nine criteria that create a framework for quality assessment in an organization. Five criteria cover what the organization does, and the other four criteria cover the results obtained by the organization. The methodology used is that of self-evaluation, which means that the organizations must evaluate their own performance in a structured manner, based on actual facts, and to identify the strong points and the fields where improvement is necessary⁽⁴⁾.

The EFQM model is considerably used in the public sector of several EU Member States (Engel, 2003, p. 25), and in the last years it has spread to the level of non-EU countries.

CAF is a self-assessment instrument concerning the manner of functioning of public institutions. Developed in 1999/2000 by the de EU Member States as a common framework of the public domain for the assessment and improvement of public administration, CAF is based on fundamental concepts, on the diagram and assessment criteria managed by the EFQM Model and, as the previous one, operates with the self-assessment evaluation (Engel, 2002, p. 25). Still, CAF is differentiated from the EFQM Model by a number of dimensions (sub-criteria or areas that must be solved; indicators exemplified; results records system) and takes into account, explicitly, the specific of public organizations.

CAF finality is to offer a simple, easy and no-cost framework for the self-assessment of public organizations in Europe and to allow the use of good practices and benchmarking evaluations (EIPA)⁽⁵⁾.

The ISO 9000 series developed by the International Organization of Standards since 1987 is an international standard accepted for quality assurance in the field of production and service provision, which offers indicators and positions regarding the manner in which a quality system is elaborated within an organization. The series consists of instructions for using the standard (ISO 9000) and requirements for the organizational processes specified for the organizations performing different activities (Engel, 2003, p. 24).

The ISO 9000 series works with the instrument of certification by third parties (executed by certification structures) and allows organizations to officially obtain certificates for their activities. The certificates are issued for a limited period of time, but can also be withdrawn⁽⁶⁾.

Concerning the application of international quality regulations in public administration, the first quality regulation was ISO 9000; there are also applied regulations regarding the environment ISO 14000, ISO 17020 and ISO 17025 and technical regulations in the field of public administration. It is appreciated that the application of the ISO 9000 standards is useful, especially, for organizations lacking the transparency of the written rules, of structures and processes (Löffler, 2001, p. 28).

II.4. Convergence of quality management elements

The study of the convergence aims to describe how the various factors and economic social and political mechanisms act or compete at mitigation of some differences between these entities (Matei, Dogaru, 2010, p. 4).

In Pollitt's view (2001), "administrative convergence" is a term without a clear and agreed-upon meaning, but convergence on a common model implies a reduction of variance and disparities in administrative arrangements.

Basically, we can talk about convergence when core ideas, competences, resources and institutional arrangements match, or fit, - in this case, the probability for convergence is high, and when mismatch is strong, we can expect little or no convergence, or even divergence (Matei, Dogaru, 2010, p. 5).

In our study, convergence will be analyzed by comparing elements of quality management of national policies from public administration of analyzed states with a series of general standards derived from concepts, practices and experiences at EU level, providing elements in view to determine "the global convergence" and the comparison of initiatives, mechanisms and tools promoted in the states under review will determine "the relative convergence" (Matei, Săvulescu, 2011, p. 49).

III. Comparative analysis of quality management in public administration in several states in South-Eastern Europe

The promotion of administration modernization represents an aspect that totally differs from the implementation process (Pollitt, Bouckaert, 2000), most public administration reforms being characterized by a gap between the theoretical and the practical implementation (Engel, 2003).

The implementation strategies and the intensity of the implementation process will differ from one country to another and are clearly influenced by a number of contextual factors, such as the degree of executive decentralization and the administrative and judicial traditions in each separate country (Engel, 2003).

The achievement of reform in all analyzed countries is a major priority for their Governments, by means of which public administration would correspond to the European standards, would contribute to the satisfaction of society's needs, increasing the citizens' quality of life, being characterized by transparency, predictability, responsibility and efficiency.

The reform strategies of public administration have as purpose the identification of the measures for ensuring public administration modernization on the basis of reorganizing the state institutions, of optimizing the decisional process, of improving human resources and public finance management.

III.1. Identification of quality management elements⁽⁷⁾ in the reform documents and strategies

Each of the countries analyzed, having as central objective its alignment to the European quality standards, elaborated "quality strategies" underlining the policy and objectives of central administration with respect to quality in public administration or are still in the process of elaborating such strategic documents. The topic regarding quality is also approached in different documents such as national reform plans and programmes.

Table 2 presents the reform documents, strategies and quality management policies elaborated by the countries subjected to the analysis.

Table 2

Reform strategies and documents, policy documents and legislative initiatives on quality management

State	Strategies, documents and reform initiatives which include elements of quality management	Promoted tools
Greece	<ol style="list-style-type: none"> 1. Operational Programme "Public Administration Reform" 2007 – 2013, 2007, 2. National Strategic Reference Framework 2007 – 2013, 2006, 3. National Programme Reform for Economic Growth and Jobs, 2005-2008, 2005, 4. „Kapodistrias Plan”, 1997 5. Reform Programme for Local Public Administration, 1997, 6. Code of Conduct of Civil Servants, 1999, 7. National Action Plan for CAF 2007 – 2009 and 2010 – 2011, 8. Law on Access to Information of Public Interest, 1999. 	<ul style="list-style-type: none"> • CAF • ISO 9001
Romania	<ol style="list-style-type: none"> 1. National Reform Programme, 2007-2010, 2. National Strategy on Preventing and Combating Corruption in Vulnerable Sectors and Local Public Administration 2008-2010, 2008, 3. Strategy for a Better Regulation for Central Public Administration Level 2009-2013, 2008, 4. Romania's Reform Strategy 2004-2006, 	<ul style="list-style-type: none"> • CAF • ISO 9001

	<ol style="list-style-type: none"> 5. Strategy for Improving the System of Planning and Public Policy Making at Central Public Administration level, 2006, 6. Government Strategy for Accelerating Reform in Public Administration, 2001 – 2004, 7. Government Strategy on Introduction of Information Technology in Public Administration, 2001, 8. Updated Strategy on Institutional Reform of Ministry of Administration and Interior 2005-2006, 9. Government Strategy on National Action Plan on E-Government, 2001, 10. Government Programme for 2009-2012, 11. Government Programme for 2008 – 2012, 12. Government Programme for 2005-2008, 13. Code of Conduct of Civil Servants, 2004, 14. National Action Plan for CAF, 2007, 15. Law on the Status of Civil Servants, 1999, 16. Law on Decisional Transparency in Public Administration, 2003, 17. Law on Measures to Ensure Transparency in Exercise of Public Dignities, civil service positions and in Business, Corruption Prevention and Sanctioning, 2003, 18. Law on Local Public Administration, 2001, 19. Law on Free Access to Information of Public Interest, 2001, 20. Framework Law on Decentralization, 2004. 	
Bulgaria	<ol style="list-style-type: none"> 1. Operational Programme on Administrative Capacity 2007 – 2013, 2. Decentralization Strategy on Public Administration, 2006 and the Programme on Implementation for the period 2006-2009, 3. Programme on transparency in the work of Senior Civil Servants of the State Administration, 2006, 4. E-Government Strategy, 2009, 5. Law on E-Government, 2007, 6. Strategy for a Transparent Management and for Preventing and Combating Corruption, 2006-2008, 2006, 7. Strategy for Modernization of State Administration - from accession to integration 2003-2006, 2002, 8. Strategy on Employees Training in Public Administration, 2002, 9. National Strategy on Anti-corruption, 2001, 10. Code of Conduct of Civil Servants, 2000, 11. Law on Access to Information of Public Interest, 2000, 12. Strategy on Development of Information Society in Bulgaria, 1999, 13. Law on Civil Service, 1999, 14. Electronic System for Self-Assessment of Public Administration, 2003, 15. Measurement methodology of customer satisfaction, 2007, 16. Guidelines for Developing Quality Citizens Charter, 2007. 	<ul style="list-style-type: none"> • EFQM • CAF • ISO 9001
Croatia	<ol style="list-style-type: none"> 1. Development Strategy of Internal Financial Control in the Public Sector, 2009 – 2011, 2. Reform Strategy of State Administration 2008-2011, 2008, 	<ul style="list-style-type: none"> • CAF • ISO 9001

	<ol style="list-style-type: none"> 3. Anticorruption Strategy, 2008, 4. Strategy on Development of the Public Procurement System, 2008, 5. Strategy on Implementation of Acquis Communautaire on Free Movement of Goods, 2007, 6. Strategy on Development of the Services of Postal Market and its Action Plan for Implementation, 2008, 7. Strategy on Development of Electronics Business 2007-2010, 2007, 8. Strategy on Developing E-Government, 2009 – 2012, 9. Code of Ethics of Civil Servants, 2009, 10. National Strategy on Development of Rural Area, 2008, 11. National Anti-Corruption Programme, 2006 , 12. Government Programme for 2003-2007, 2002, 13. Law on Civil Servants, 2005, 14. Law on Public Service, 2006, 15. Plan on Training in Public Service, 2008. 	
Albania	<ol style="list-style-type: none"> 1. Strategy on Public Administration Reform, 2009, 2. Intersectoral Strategy on Preventing and Combating Corruption, 2008, 3. National Strategy on Development and Integration 2007 – 2013, 4. Strategic Plan of the Institute of Public Administration Training 2006 -2009 5. Anticorruption Strategy, 2002, 6. National Strategy on Socio-economic Development, 2001, 7. National Strategy on Decentralization and Local Autonomy, 2000, 8. Law on Ethics in Public Administration, 2003, 9. Law on Status of Civil Servants, 1999, 10. Law on Standardization, 1999, 11. Law on Electronic Communications, 2008. 	<ul style="list-style-type: none"> • CAF • ISO 9001
Republic of Moldova	<ol style="list-style-type: none"> 1. Government Activity Programme "European Integration: Freedom, Democracy, Welfare, 2009-2013", 2. National Strategy on Development of the Republic of Moldova 2008 – 2011, 3. Institutional Development Plan of the Ministry of Foreign Affairs and European Integration, 2009 – 2011 4. Government Activity Programme 2005-2009, "Modernization of the country - welfare of the people", 2005, 5. Reform Strategy of Central Public Administration from Republic of Moldova, 2005, 6. Action Plan for Achieving the National Strategy of the Edification of Company Information Society – "Electronic Moldova", 2005, 7. National Strategy of the Edification of Company Information Society – "Electronic Moldova", 2005, 8. National Programme „Moldovan Village" 2005-2015, 9. National Strategy for Preventing and Combating Corruption and Action Plan for its implementation, 2005, 10. National Strategy for Preventing and Combating Corruption, 2004, 	<ul style="list-style-type: none"> • CAF • ISO 9001

	11.Law on Public Service no. 443- XIII, 1995, 12.Law on Civil Service and the Status of Civil Servants, 2008, 13.Code of Conduct of Civil Servants, 2008, 14.Law on Transparency in Decision Making, 2008, 15.Law on Preventing and Combating Corruption, 2008, 16.Law on Access to Information, 2000.	
Republic of Macedonia	1. National Strategy on E-Government 2010 – 2012, 2. Strategy on Cooperation between Government and Civil Society 2007 – 2011, 3. Strategy on Training for Civil Servants 2009 – 2011, 2009, 4. National Development Plan 2007 – 2009, 5. Government Programme for 2006-2010, 6. Strategy on Public Information and Communication in the Republic of Macedonia's Process for Accession to EU , 2007, 7. National Strategy and Action Plan on Information Society Development, 2005, 8. National Strategy for European Integration of the Republic of Macedonia, 2004, 9. Memorandum for Cooperation and Development of Vocational Training of Civil Servants in Municipal Administration, 2003, 10.Strategy on Training of Civil Servants in the Process of Accession of the Republic of Macedonia in the EU, 2000, 11. Strategy on Public Administration Reform, 1999, 12. Status of Civil Servants, 2000, 13. Law on Free Access to Information of Public Interest, 2006, 14. Code of Conduct of Civil Servants, 2008, 15.National Strategy for the development of Electronic Communications with Information Technologies, 2007 – 2010.	<ul style="list-style-type: none"> • CAF • ISO 9001

III.2. The emergence and development of quality management

The presence or absence of the quality management elements from the reform documents and strategies of the national public administration of the analyzed states illustrates not only the evolutions in specific fields, but also highlights the less developed fields.

Table 3

**The quality management emergence in the public administration
of the surveyed states**

Years 1990	second half	Greece
Years 2000	first half	Romania, Bulgaria
	second half	Croatia, Albania, Republic of Moldova, Republic of Macedonia

Greece

The effort of the Hellenic State to introduce the notion of quality in public administration started with the “Ioannis Kapodistrias”⁽⁸⁾ plan in year 1997, named after the first governor of independent Greece, which establishes structural modifications in public administration by awarding central competences to certain local services. The Government considers this plan a necessary step towards the modernization of administration, from the local level. Some of the most important objectives of the plan were the modernization of the administrative system by offering high quality services to citizens in the urban and rural areas and the promotion of transparency in the management of the financial resources and the guarantee of legitimacy by means of the responsible application of the local authorities’ policies with respect to citizens.

At the end of the 1990’s, within the General Secretariat of Public Administration of the Ministry of Interior, a Special Unit regarding Efficiency and Quality was created. This continued with the adoption by the Hellenic Parliament of a law in 2004, Law no. 3230/2004 regarding the establishment of a Directorate of Quality and Efficiency within the General Secretariat of Public Administration. This law stipulated the instituting of a network of similar directorates in all ministries and the establishment of an integrated performance management system, the introduction of the quality models (mainly CAF) and policies and a quality prize for the public organization with the best performance.

The unit responsible for promoting CAF is the Directorate of Quality and Efficiency within the General Secretariat of Public Administration. This directorate is responsible for promoting efficiency, efficacy and quality policies in public administration. The Directorate of Quality and Efficiency launched two major initiatives meant to transform the manner in which the Hellenic public organizations should operate: the establishing of an integrated performance management system and the introduction of quality and policy instruments and, especially, the use of CAF by public administration.

The main objectives regarding the modernization of public administration in the strategic documents are:

- improvement of productivity and quality of public services;
- establishing an assessment system regarding the impact of the new legislation on competitiveness;
- administrative transparency – combating corruption;
- development of e-government;
- establishing a framework for life-long learning and for training civil servants;
- improvement of inter-regional cooperation.

The main objectives regarding quality management in public administration: improvement of efficiency, efficacy and quality of public organizations, adoption of an approach oriented towards the citizen-client in public organizations, simplifying and facilitating the access of citizens and enterprises to public administration, creation of an administrative culture oriented towards results; reduction of bureaucracy.

Romania

In public administration in Romania important steps were made in introducing the quality management tools. In year 2004, CAF was applied in a pilot stage within two directorates of the Ministry of Administration and Interior (MAI) and the National Agency of Civil Servants, and later, in 2005, it was expanded at the level of all ministries, prefectures, county councils etc. in Romania.

MAI is responsible for promoting CAF in public administration in Romania. The application of the self-assessment instrument is a voluntary option, it is not imposed by the government, but it is fully supported by Central Unit for Public Administration Reform (CUPAR).

For the purpose of ensuring and consolidating quality management in public administration, certain coherent measures were comprised in the strategic documents issued, especially with respect to the improvement of public service quality, namely:

- Introduction of quality standards for monitoring and assessing public services and the professional activity of civil servants;
- Establishment of a certain number of public servants according to the standards set for each public service;
- Establishment of a strategic planning system for each public authority according to the public services offered;
- Establishment of certain motivational schemes in view of increasing the quality of public services and stimulating innovation;
- Elaboration and application of the “Citizens’ quality charter”, for the purpose of introducing and assessing the quality standards for public services;
- Implementation of an assessment guide for the institutional self-assessment, in relation to CAF;
- Development and increase of the efficiency of electronic public services by public interventions;
- Development of the integrated system for the issuing and renewal of civil state documents.

The main objectives regarding quality management in public administration: reduction of bureaucracy, professionalization of civil service in order to introduce quality in public services, supply of high professionalism public services, modernization of the institutional structures, development of an administration oriented towards the citizen.

Bulgaria

CAF was applied in Bulgaria in 2006, the institution responsible being the Ministry of State Administration and Administrative Reform.

Public administration reform focuses on the application of contemporary governance models and techniques, on the creation of an anti-corruption environment, with clear control rules, the encouragement and motivation of employees for the disclosure and prevention of conflicts of interests, civil service management.

Also, in the strategic documents issued elements of quality management in public administration were inserted, namely:

- Increase of efficiency and efficacy of the public sector;
- Training and development of human resources;
- Development of e-government;
- Improvement and efficiency of administrative regulation and service supplying;
- Increase of transparency and integrity in public institutions;
- Improvement of the image of public sector as employer;
- Increase of satisfaction of both clients and employees;
- Training employees to work with e-government systems.

Also, within the national documents there were established principles for the supply of public services, namely:

- Treatment of all users in a correct, honest and polite way;
- Open communication and supply of complete information;
- Wide consultations and the promotion of continuous improvement;
- Incorporating feedback and learning from complaints;
- Measurement and publishing of citizens' satisfaction results.

The main objectives regarding quality management in public administration are: improvement of the administrative capacity, increase of transparency of public institutions, orientation towards the citizen, professionalization of civil service for introducing quality in public services.

Croatia

The main objectives concerning quality management policy, underlined in the reform documents and strategies of the public sector in Croatia, are as follows:

- Increase of public administration efficiency;
- Increase of the quality level of public services;
- Increase of transparency and accessibility of public administration;
- Consolidation of state of law standards;
- Consolidation of the social sensitivity of the state administration with respect to its citizens;
- Increase of ethics in public administration and reduction of corruption;
- Use of modern technologies of information-communication in public services;
- Inclusion of the Croatian state administration in the European administrative space.

In order to fulfill the mentioned objectives regarding quality management, the reform of public administration in Croatia unravels on five main directions, namely:

1. Structural adjustments of public administration include the increase of efficiency, improvement of coordination, namely openness, transparency of government towards the citizens and civil society participation in the decision-making process;
2. Consolidation of the legislative framework, quality of laws, planning, designing and assessment of the effects of the new regulations;
3. New system of civil servants which will ensure a modern public service, focus being placed on designing the system with respect to the measures of professionalization and depolitization, on the system in continuous development and on human resource management, the fight against corruption and the consolidation of ethics of civil servants, the introduction of a system of incentives and remuneration depending on performance, and the reform of salaries in public administration;
4. Education and training of civil servants, for the purpose of gaining new knowledge, abilities and competences required by the development of the modern public administration;
5. Simplification and modernization of administrative procedures, such as the creation of E-government.

Albania

The concept of quality was also integrated in the reform strategies of public administration in Albania, deriving from their objectives, namely:

- Establishment and consolidation of efficient structures for all public institutions;
- Reform of public service;
- Improvement of performance management system;
- Establishment and application of remuneration systems for civil servants;
- Depolitization of the civil service and its founding on the basis of meritocracy principles;
- Supply of training as strategic means for the development and consolidation of the capacities of civil servants;
- Creation of a modern system for human resources management: a central electronic database for public sector workers.

The main objectives of quality management in public administration in Albania are the increase of efficiency, efficacy, transparency and responsibility of public administration.

Republic of Moldova

In public administration in Republic of Moldova the first steps for introducing the quality management tools were made in 2008, when the Ministry of Foreign Affairs and European Integration applied the CAF.

Within the plans and strategies of public administration reform in the Republic of Moldova there are also comprised measures regarding the improvement of quality in public administration, namely:

1. Assurance of a transparent, equitable, efficient decisional process;
2. Modernization of public services by reducing bureaucracy, increasing efficiency and improvement of the quality of services with maximum positive impact on citizens;
3. Introduction of minimum quality standards for public services and for the system of indicators for monitoring/assessing their quality, as well as for the instruments for submitting complaints with respect to the public services provided below standard;
4. Development of a meritocratic public service, formed of civil servants recruited, evaluated and promoted on the basis of professional skills and performance in fulfilling the job duties;
5. Decentralization of public services and re-establishing of the Government's territorial office;

6. Increase of quality in public administration by means of the unequivocal employment practice, via competition, of public servants, of the institutionalization of a recruitment, evaluation and promotion system based on merit and competences, as well as by means of punishing civil servants for weak performance and dishonest behaviour.

The main objectives regarding quality management in public administration are: transparency of public institutions, increase of public services quality and their modernization, reduction of bureaucracy, participative decisional process.

Republic of Macedonia

In the reform strategies of FYROM the notion of quality was also introduced by means of the objectives set, having as purpose the modernization of administration:

- Increase of transparency and the involvement of citizens and civil society in adopting public interest decisions;
- Consolidation of the administrative capacity and consolidation of the capacity of the control organisms;
- Application of the principle of equitable representation of the community members in public administration;
- Increase of the level of public services quality;
- Promotion of an administrative management and of a system of high-performance human resources management;
- Development of informational technology in public administration, creation of electronic governing.

In what concerns the public function reform in the Republic of Macedonia by means of the Strategy for the training of civil servants of year 2000 and through a strategic document adopted in year 2005 with respect to the creation of a national system for the coordination of training and professional development of civil servants, the following principles regarding the public function were promoted: principle of transparency, of neutrality, competence, accountability, stability, predictability, equality of treatment, ethic, efficiency and efficacy.

Studying the cases of correct practices regarding the quality of services in all Europe, Pollitt and Bouckaert (1995) made two major discoveries. The first discovery is that a high focus on the internal processes, qualities and efficiency oriented towards the producer is complemented by the perspective of the consumer or of the party involved, with respect to the efficiency, results, effects and satisfaction. A second major discovery is connected to the relations within leading and management organizations. The administrations that are developing

go from the relations traditionally dominated by the state of law to a relationship dominated by the action of the parties involved; for example, clients are involved in the process of counseling, decision-making, implementation and evaluation, based on their interests.

This has as consequence the creation of three possible strategies regarding quality improvement, in order to replace the traditional bureaucratic production (meaning, concentration on the internal processes, activities and, sometimes, efficiency and governing through regulations) (OECD, 2001, p. 98):

- from a traditional bureaucracy focusing on the provider to a traditional bureaucratic production oriented towards the citizen;
- from a traditional bureaucracy focusing on the provider to the voluntary participation of customers to this mechanism;
- from a traditional bureaucracy focusing on the provider to the determination or co-determination of the provision, oriented towards quality, by the citizen or client.

III.2. Quality management approach at the level of the countries analyzed

The quality management approach at the level of each state can be⁽⁹⁾:

- centralized, decentralized or a combination between the two and/or
- descending, ascending or a combination between the two.

Each state can use only one approach or may simultaneously use both approaches.

Following the analysis performed on the reform documents in the analyzed states, we notice the fact that Greece, Romania and Bulgaria are simultaneously using the two approaches, namely their combined form. Croatia, Albania, Republic of Macedonia and Republic of Moldova use one approach, generally descending, based on a strong element of central coordination and management. We outline this viewpoint based on the fact that – by comparison – the structure of public administration in these countries is still strongly centralized, with a relatively modest local autonomy and with a high degree of financial dependence towards the central executive.

The centralized and descending approaches are used in the activities performed especially by the ministries competent for the implementation of quality management instruments in the reform strategies of each country, in order to translate CAF, to organize conferences regarding quality in public administration, in order to elaborate the methodology and guides regarding the application of quality standards, monitoring of quality standards implementation, in agreement with different indicators, applying E-governance etc. The decentralized approach is used in the local administration. Each local administration organizes conferences regarding its own quality. The ascending

approach is connected to the application of quality programmes and the quality management system within public organizations. The programmes most used by these organizations are complaints and suggestions, citizens'; charter and self-assessment with the EFQM and CAF models.

III.3. Application of performance models in public institutions and ISO standards

Each of the states analyzed have designated certain institutions of public administration responsible for promoting quality management.

Institutions designated to handle the implementation and coordination of quality management tools in the national administration of the states are central public institutions, namely the ministries with the task of public administration reform, the Ministry of Interior, Ministry of Administration and Ministry of Integration of each state.

The most common, still now, quality management tools is the series of standards ISO 9000 (Engel, 2003, p. 24), and, in general, the national quality policy of the states analyzed was more focused on quality service and products than on TQM.

In each of the states analyzed in this study ISO quality standards are applied⁽¹⁰⁾.

In Greece, the Ministry for the Interior, Decentralization and e-Government through the Directive on Quality and Efficiency from the General Secretariat of Public Administration and E-Government is responsible for promoting CAF and creating the support for using it. This directive has launched two major initiatives meant to transform the way in which Greek public organizations operate: instituting an integrated management system for performance and introducing quality tools and instituting policies and most importantly, using CAF in public organizations.

With regards to promoting quality management, this institution published, in Greek, "CAF 2006", a "Guide for the implementing of CAF" "Answers to the most frequently asked questions on CAF", "A guide to the steps public institutions should take when implementing CAF", all of these having as a main target audience the public organizations from central, regional and local level. The institution also translated into Greek and published "CAF in Education", for promoting the use of quality models in education.

Moreover, the Directive on Quality and Efficiency supports the use of the Balanced Scorecard (BSC) by the public organizations as a tool for establishing objectives and evaluating performance.

The Ministry of Interior gives its support to public organizations for implementing CAF (coaching). To this end, it has organized CAF training sessions (total quality management, performance management and measuring public administration efficiency) for civil servants, while the Ministry of Education organized trainings and CAF seminars for the staff from culture and education units.

Greece does not own a Charter on Quality for Citizens, but through the law regarding access to public interest information, these benefit from answers in reasonable terms from the public administration.

As for the prizes given for public administration quality, in Athens in 2007 the first Conference was organized, and in 2009 the second Conference “The National Quality Prize for Public Administration”, and the National Greek Prize for Quality was awarded. The candidates for the prize were public organizations from central, regional and local level from Greece. In 2009⁽¹¹⁾ the Prize was awarded to the Central Region of Macedonia, the second prize went out to the Municipality of Herakleion (Crete), and the third prize went to three participants: The Center for Services for Citizens of the Municipality of Perama, to three departments from the Prefecture of Larissa and other three departments of the Amarousion Municipality. In 2007, the first prize was awarded to the Greek National Organization for Medicine, the second prize went to the Christian and Byzantine Museum and the third prize went to the Directive of organization and functioning for the citizens from the Ministry of Interior.

Romania

The decision regarding the introduction of a Common Assessment Framework for Romanian public administration belonged to the Ministry of Administrations and Interior (MAI) through the *Central Unit for Public Administration Reform* (CUPAR). The application of this self evaluation system is made voluntarily, without being imposed by the Government, but it is fully supported by the CUPAR.

Promoting this tool on a national level started out in 2005 and to this end more training sessions were organized for civil servants from public institutions, central and local public administration.

Moreover, MAI and CUPAR have also published a “Guide for Implementing CAF” (approach- CAF Background, CAF structure, grading systems) the Brochure “The easiest way to understand CAF” (containing a short presentation of the advantages of CAF, how it can be applied, its structure, the support given for implementing CAF for public institutions from CUPAR.) these having as target audience the public institutions from Romania from

central and local levels, including deconcentrated and decentralized public services; the “CAF 2002 versus CAF 2006” Brochure (containing the most important differences between CAF 2002 and CAF 2006), having as targets the public institutions and the “Best practices” Brochure (presenting the experiences of successful cases after implementing CAF) having as targets the public institutions that already implemented CAF. The National Administration Institute, now a department of The National Agency of Civil Servants (NAPS), the Regional Training Centers, MAI- CUPAR, but also the Faculty for Public Administration from the National School of Political Studies and Public Administration of Bucharest have organized training sessions for high civil servants (module dedicated to the quality management tools) and CAF training sessions (a general presentation of CAF) destined for all civil servants. NAPS and SIGMA organized in 2008 an event having as main purpose the civil servants training in the area of quality management.

Authorities and public institutions from Romania use the concept of the Charter of Quality for Citizens. To this end, the Romanian Government has adopted a Memorandum regarding “Necessary measures for the improvement of the quality of public services”⁽¹²⁾. This memorandum contained a plan for the 2007-2008 period for improving the quality of a number of public services: passport issuing, driver’s licenses, identification records etc. The memorandum establishes a number of general policy orientations regarding the behavior of public service suppliers towards citizens.

Romania has also received Prizes for Excellency in Public Administration. These prizes underline the efforts made towards developing the public administration system in Romania.

In 2005, the Prize for Excellence in Public Administration was given for initiatives of using best practices in the public sector, for example “Excellence Prizes organized by Romanian Leaders” (2007), The Prize for Excellency in Public Administration (third edition) as well as the prizes offered by the National Institute for Administration (2007).

In 2007, MAI- CUPAR from Romania organized the National seminar for the Network of Modernizers “Sharing experiences on using CAF”, and in 2010 it hosted and organized the 4th event of CAF users in cooperation with the National Network of CAF Correspondents and the Centre for CAF Resources EIPA. Moreover, the NAPS created a manual regarding best practices in more fields⁽¹³⁾.

Bulgaria

In Bulgaria, the public institution responsible for promoting and coordinating quality in public administration is the Ministry of State Administration and Administrative Reform.

The EFQM model is compulsory in Bulgaria. Public administration quality is established through self-evaluation based on the EFQM model even since 2003, and CAF has been applied starting with 2006. For promoting quality in public administration, the Ministry of Administration has translated the CAF guide into Bulgarian and published it, together with Best Practices brochures and other materials that stimulate the application of this model in public institutions.

To the same end, the Ministry of Administration has started a project regarding the consolidation of administrative capacity to implement quality management in public administration (especially CAF) in order to give support to other institutions in the process of implementing CAF. Starting with 2008, the ministry organizes annual conferences regarding quality for promoting the quality management tools and best practices. In order to successfully implement quality management in public administration, the Institute for Public Administration and European Integration, subordinate to the Ministry of Administration, has organized many course sessions for the training of civil servants regarding quality management, and several experts from Bulgaria have participated in the training courses organized by EIPA.

In 2006, the Ministry of Administration awarded, on the Day of the Administration Employer, the public institutions for their contribution to the process of modernizing public administration. The prizes were given for the following categories: "Providing accessible and high quality public services", "Best on-line services", "Efficient management of Human resources", "Best PR practices in state administration". Also, in 2003, 2004 and 2005, the Institute for Public Administration and European Integration organized several competitions and gave best practices awards for administrative services, e-Governance and transparency etc.

Starting with 2002 the content of a Charter for Citizen Quality was drafted and it was published at the end of 2006, its application becoming compulsory. In order to measure citizen satisfaction regarding services provided by public administration, in 2002, 2004, 2005 and 2006, surveys were carried out all across the country and as of 2006 it became compulsory.

Taking into account the exchange of best practices, the Ministry of Administration stimulates this by organizing various events, round tables and publishing best practices on its website as well as the website of the Administration Institute.

Croatia

According to EIPA database, in Croatia, CAF is applying in the following institutions: Ministry of Finance, State Inspectorate and City of Vukovar, but we do not know the year of application. The institution responsible for public administration reform and with the provision of trainings in the field of quality management of civil servants is the Ministry of Justice, Administration and Local Government (MoJALSG).

Albania

In Albania, we are not aware of CAF application, but we remark their efforts to promote CAF organizing courses on quality management by the Public Administration Training Institute.

In 2000, the Public Administration Training Institute was created subordinated to the Council of Ministers of Albania. The mission of this institute is to support the improvements and the reform in public service by organizing training courses for civil servants.

The Institute of Public Administration Training, in 2008, published the Guide on Standards and Quality Indicators. Also in 2008, according to the Institute site,⁽¹⁴⁾ a part of the institute staff and other employees of the Ministry of Interior participated in Portugal at a training aiming the sharing of best practices in quality management, namely on introduction of best practices to ensure the quality (in particular, the implementation of CAF), in public institutions from Albania, using the example of public institutions from Portugal.

Republic of Moldova

The self-evaluation framework of the functioning of public administration institutions in Republic of Moldova was implemented in 2008 inside of the Ministry of Foreign Affairs and European Integration (MFA EI).

In MFA EI in 2008 a workshop was organized, for two days, for self-capacity, according to the CCE model, involving the management team of the ministry. Two groups were able to identify many areas of strengths and weaknesses of the institution, the process allowed participants to select and approve a balanced set of Areas for Improvement and provided tools for prioritizing interventions to achieve those improvements.

According to the ministry's strategy, the CAF model self-assessment helped MFA EI:

- to elucidate more details about its organizational structure and the current systems and performance related to international best practices;

- most of these descriptions are derived from the list of competences of the Ministry;
- based on nine key criteria for the analysis of public administration, a consensus has been reached on the priorities for planning the development projects and, of areas of possible “quick win” for each of them.

In order to promote CAF, the Republic of Moldova is making efforts to apply at the level of most institutions.

Republic of Macedonia

In Republic of Macedonia CAF is applied inside of the Government of Republic of Macedonia. The Secretariat for European Affairs is the department which deals with the promotion and implementation of CAF, but do not know the year of application. Also, according to EIPA database, CAF is applied in the Directorate of Protection and Rescue from Department of Research and Analysis.

By applying the European Training Strategy for Civil Servants from Republic of Macedonia efforts are made to promote the CAF through courses in quality management organized by the Training Unit of the Secretariat for European Affairs.

Table 4 shows the number of public institutions from states analyzed, which were registered by 1 January 2011 in the database of EIPA using CAF:

Table 4

**Number of public institutions using CAF
from the states analyzed⁽¹⁵⁾:**

State	Number of public institutions
Greece	39
Romania	45
Bulgaria	10
Croatia	3
Albania	0
Republic of Moldova	0
Republic of Macedonia	2

Regarding the application of CAF, the results obtained at the level of the network modernizers indicates that extending the application of this tool is very slow.

We can remark that the number of institutions using CAF is small (we take into account that this centralization does not include all institutions), CAF still being implemented in all countries.

III.4. Convergence of the elements of quality management in public administration in analyzed states

Referring to the convergence of the policies for promoting and implementing quality in public administrations, it encompasses aspects of compatibility, complementarity or similarity that could be remarked in the national policies concerning the use of quality management in the reforms of national public administrations (Matei, Săvulescu, 2011, p. 49).

We can remark that policies for promoting the quality in public administration of analyzed states which are also EU Member States are more developed than the states in the acceding process to the EU. The explanation for such a situation consists on the one hand from their status as members of the EU, and on the other hand, in the late set up of a coherent, conceptual framework and good practices on promotion of quality and TQM in public administration in the end of 1990s. In fact the model of the European Administrative Space that provided after 2000 the standards in view to assess and monitor the progress in national public administration reforms does not contain explicit approaches on the necessity to introduce and implement quality and TQM policies in public administrations (Matei, Săvulescu, 2011, p. 55).

Analyzing the reform documents of those states we notice strong similarities between the states concerning the broad objectives of developing a quality policy in public administration, there being a high level of convergence.

These similarities are mainly about:

- improvement of public administration performance;
- increase of efficiency and effectiveness in the public sector;
- improving administrative and management capacities;
- improving professional and ethical standards and the transparency in public administration;
- developing an administration oriented towards the citizen;
- professionalizing the civil service;
- introducing compulsory quality standards for public services;
- decentralizing public services;
- modernizing institutional structures;
- developing e-government.

Also, convergence implies the existence of common structures or similar structures to implement the reform in public administration and implicitly in implementing the elements of quality management. By analyzing the

institutional framework which leads to the reaching of the above mentioned objectives we can affirm that there is institutional convergence between the seven states. This institutional convergence derives from the responsibility of the institutions in reaching the objectives regarding implementing and promoting quality management elements in the public administration of each state. The main institutions, in all seven states, which are responsible for implementing and promoting quality management elements are central public institutions, more precisely ministries (The Ministry of Interior, Decentralization and e-Governance in Greece, The Ministry of Administration and Interior in Romania, Ministry of State Administration and Administrative Reform in Bulgaria, The Ministry of Justice, Administration and Local Self-Governing in Croatia, The Council of Ministers in Albania, the Foreign Affairs and European Integration Ministry in The Republic of Moldova and the Secretariat for European Affairs in the Republic of Macedonia).

As for the putting into practice the performance models in public institutions and ISO standards in the analyzed countries, we find once more levels of convergence, but on a higher level in the EU Member States and in a lower one in the future Member States.

In the seven states there are similarities also in what concerns the modes of promoting performance models. In the states that are not yet members of the EU there are very few or no elements of quality management such as: prizes, excellence models, charter for citizens, conferences, testing customer satisfaction, measuring the quality of public administration or sharing best practices. CAF is included in the strategies and national documents of all the states analyzed (for example: the National Plans for Reform) as a modality of increasing performance and efficiency in public institutions and as a basis for modernizing strategies that will be elaborated on an institutional level, this contributing to the well-functioning of public sector organizations and to the quality of providing citizen services.

In all of the analyzed states, except Bulgaria, the use of excellence models and quality norms are only recommended and used on voluntary basis; in Bulgaria the EFQM model is compulsory. These models and instruments receive the help of the states in the process of implementing them, in material aids, financial aids, expertise, training, etc.

As far as the measuring of public administration quality is concerned, none of the states analyzed, with the exception of Bulgaria through the

self-evaluation based on the EFQM model, hasn't achieved such a thing, and the evaluation of citizen satisfaction is made through various surveys organized at a national level, in order to know their needs better.

III.5. The impact, outcomes and convergence of application of quality management on civil service through the strategies and reform documents in public administration of states examined

The reform processes paid attention to civil service, the reform strategies of the states analyzed having a significant impact on it.

Improvements on the quality and effectiveness of public services depend on the motivation of civil servants and broadening their skills and abilities (OCDE, 2001). In this respect, steps have taken in their integration in the strategies for public administration.

Following the examination of the legislation on civil service (Status of Civil Servants, Law on Civil Service, etc.) in analyzed states the promotion of quality was done through the introduction of EU standards on the quality of civil service and the convergence towards the principles of the European Administrative Space.

Table 5

Principles of national civil service and the EU standards

Nr. crt.	State	Principles of civil service⁽¹⁶⁾	EU Standards⁽¹⁷⁾	Principles of European Administrative Space
1	Greece	a) professionalism, b) openness, c) efficiency, d) reasonableness, e) promptly, f) objectivity, g) fairness.	- political neutrality, - impartiality, - rule of law, - transparency and openness, - efficiency and effectiveness,	- rule of law; - openness and transparency; - responsibility; efficiency and effectiveness in public administration.
2	Romania	a) legality, impartiality and objectivity, b) transparency, c) efficiency and effectiveness, d) responsibility, in accordance with the laws, e) citizen oriented, f) stability in the exercise of civil service position, g) hierarchical subordination, g) confidentiality.	- serving public interests, - social equality and justice, - responsibility and accountability, - reliability and predictability, - loyalty to the constitutional government, - legality,	

3	Bulgaria	a) lawfulness, b) loyalty, c) responsibility, d) stability, e) political neutrality, f) hierarchic subordination, g) openness, h) confidentiality.	- fairness, - citizen, participation (involvement).	
4	Croatia	a) legality, b) responsibility, c) confidentiality, d) professionalism, e) impartiality, f) serving the public interest, g) hierarchic subordination.		
5	Albania	a) legality, a) integrity, b) openness, c) professionalism, d) honesty, e) impartiality, f) loyalty.		
6	Republic of Moldova	b) efficiency, c) transparency, d) neutrality, e) confidentiality. f) competence, g) legality, h) impartiality, i) independence; j) professionalism.		
7	Republic of Macedonia	a) legality, b) equality, c) transparency, d) fairness, e) neutrality, f) professionalism, g) competence, h) equal treatment.		

Table 6

Frequency of principles emphasized in different national legislation⁽¹⁸⁾

Principles / values	Frequency of principles / values
Legality	6
Confidentiality, impartiality, professionalism	4
Responsibility, efficiency, hierarchical subordination, openness, neutrality, transparency, fairness	3
Competence, stability in the exercise of civil service position, loyalty, objectivity	2
Citizen oriented, serving the public interest, effectiveness, independence, promptly/reasonableness, equal treatment, integrity/honesty	1

Analyzing the principles of civil service on national level (see Table 5) for each of the states concerned we observe that both the EU standards (except predictability) on civil service principles and principles of European Administrative Space are reflected in national legislation on the civil service.

In this regard, there is a high degree of convergence achieved in the seven states by the existence of some common values and principles, related to the European democratic tradition and contemporary administrative practice, which have a strong influence on the EU administrative space as a whole and on each of the Member State (Matei, Dogaru, 2010, p. 16). Thus the seven states analyzed fulfill the conditions required to become full members of the European Administrative Space.

Since 1999-2000, the analyzed states began to adopt the law on civil service and to implement these laws pursuing to build a professional civil service, reliable and neutral (Bossaert, Demmke, 2003). Because these laws do not refer only to the status of civil servants, but also to the system of recruitment, remuneration and promotion, human resources management and development of managerial and leadership skills of the civil service, they directly affect the quality of civil servants and their performance (Engel, 2003, p. 80).

As characteristic activities related to the quality of public services we find also the ethical conduct in civil service, and all analyzed states have adopted, relatively recently, codes of conduct and ethical behavior. Many, if not the most European states, to varying degrees, are involved in establishing the foundations of a trust, neutral and professional civil service, following the model of neutral and professional ideal “Weberian” (Bossaert, Demmke, 2003, Goetz, Wollmann, 2001, Verheijen, 1999).

Conclusions

The main conclusion of the study is that the introduction of elements of quality management in public administration in the states surveyed is determined by internal factors and, in general, closely related to administrative reform initiatives.

In our study, EU accession serves as a reference framework for the introduction of quality of public administration.

Public administration based on European standards can be considered a cornerstone for its efficient functioning. We can remark that both the states acceding to the EU, as well as the EU Member States have implemented a comprehensive public administration reform on the introduction of these standards in the public sector, the reason being that citizens were using inefficient public services at all levels, and, in this respect, concrete, reform programmes and strategies in public administration are preparing the implementation of quality management in the public sector.

Compliance of services provision in generally at European standards will provide a legal framework less arbitrary and less corrupt. For citizens, this will mean efficient and effective services, information system more transparent and professionalized staff.

Regarding the introduction of self-assessment methodology and the organizational quality management systems, the study shows that states have progressed to a certain extent, but the self-evaluation just begun to develop.

It is desirable that quality management tools would be implemented in all central and local institutions of public administration - mainly for reasons of *transparency, credibility and efficiency*.

The quality of public sector is indispensable for legitimate governance. At the same time, this seems to be impossible, intangible, opaque, ambiguous, and multidimensional (Pollitt, Bouckaert, 1995, p. 162). This paradox becomes one of the main challenges of the decade (OCDE, 2001, p. 103).

Notes

(1) www.eipa.nl.

(2) www.eupan.eu.

(3) EFQM Excellence Model, Common Assessment Framework (CAF), ISO 9000 Standards.

(4) For more information about this model see www.efqm.org.

(5) For more information about this model see www.eipa.nl.

(6) For more information about this model see www.iso.org.

- (7) According to Zurga, G. 2008. *Quality Management in Public Administrations of the EU Member States – Comparative Analysis*, Ministry of Public Administration of the Republic of Slovenia, p. 14, www.eupan.eu quality management elements are: Quality Management Development, QM Approach at the State Level, QM strategy, strategic documents and initiatives, QM Policies, Organizational structure for promoting quality, Excellence Models, International Quality Standards, Quality Conferences, Quality Awards, Benchmarking, Quality/Citizen's Charters, Measuring the Quality of PA, Testing Customer Satisfaction, Training for QM, Publications on Quality in PA, Quality Tools in PA Organizations, Government Support for the Use of Excellence Models and Other Quality Tools in PA Organizations, Sharing good practices.
- (8) Hellenic Ministry of Interior, Decentralization and E-Government, www.yypes.gr/en.
- (9) See Zurga, G. (2008). *Quality Management in Public Administrations of the EU Member States – Comparative Analysis*, Ministry of Public Administration of the Republic of Slovenia, www.eupan.eu.
- (10) Although the International Standards Organization has conducted researches on the number of certificates ISO 9000, it has not created a centralized database of ISO certificates which have been consulted.
- (11) Newsletter no. 2/2009, www.eipa.eu.
- (12) <http://www.sgg.ro/docs/File/SGG/memo.pdf>.
- (13) <http://modernizare.mai.gov.ro/evenimentcaf/>.
- (14) www.itap.gov.al.
- (15) To see the names of institutions and for more details see EIPA Database with the institutions that were registered before 1 January 2011 (according to their project) using CAF, www.caf.eipa.eu.
- (16) Heading of table undertaken and updated from Matei, L. and Lazăr, C., Development and Regulation of Civil Service in Central and Eastern European States - A Comparative Analysis in View of Good Governance, IIAS Conference, Helsinki, 2009, p. 21, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1440099
- (17) According to Demmke, C. 2004. *Working Towards Common Elements in the Field of Ethics and Integrity*. Study for the 43rd Meeting of the Directors-General of the Public Services of the Member States of the European Union, EIPA.
- (18) 1 – Principles stipulated in Constitution; 2 – Principles identified in Civil Service Act; 3 – Principles emphasized defining civil servants' duties; 4 – Principles mentioned in Code of ethics/Code of conduct.

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- www.mdaar.government.bg/docs/strategia_modern.pdf

Croatia

- www.uprava.hr/strat-en.pdf
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- www.gov.mei.hr

Albania

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Republic of Moldova

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- www.gov.md/homepage.php?l=ro
- www.parlament.md
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Republic of Macedonia

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Transfer Pricing in the European Union

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Abstract. *The transfer pricing mechanism is a tool commonly used to transfer the tax base from countries with high taxation in countries with low taxation. In the European Union, this financial operations generate significant tax revenue losses. In an attempt to limit the handling of corporate tax systems, many public authorities have introduced regulations on transfer pricing, but the effectiveness of these rules has proved limited, and they contributed to the increasing complexity of tax laws and to the appearance of additional costs for companies. A solution to the solving of the transfer pricing problem in the European Union is represented by the introduction of the common consolidated corporate tax base.*

Keywords: transfer pricing; tax evasion; compliance costs; tax laws; fiscal consolidation.

JEL Codes: G3, H2, H3.

REL Codes: 10I, 11E.

1. Introduction

The role of transnational companies in the world economy has grown significantly in recent decades. This situation partly reflects the trend of national economies integration and the technological progress (especially in the field of communications).

The internal financial corporation's system offers the possibility of some imperfections exploitation, resulting from differences in national regulations of countries. In order to avoid barriers and restrictions on transactions, corporations frequently used the tax arbitrage: the reduction of the fiscal “burden” by transferring tax profits located in countries with high taxes in countries with low taxes (Munteanu, Horobet, 2005).

Currently, a large number of corporations have been structured to avoid the taxation in various jurisdictions in which it operates. The ability of corporations to use tax havens and offshore centers as part of their strategy to avoid the taxation has increased significantly in recent years and this is against the principle of fair competition and corporate responsibility. According to a study by the Organisation for Economic Cooperation and Development (OECD) at the end of 2008, tax havens have attracted worldwide assets worth USD 5,000-7,000 billion, but the exact amount of the capital transferred is difficult to determine precisely, because in these jurisdictions govern a certain degree of confidentiality. Although there are no clear figures about the extent of international tax evasion in the European Union (EU), however, a value was estimated: between 2% and 2.5% of EU GDP, i.e. between EURO 200 and 250 billion.

According to a report by the Economic and Monetary Affairs Committee in 2009, the international tax evasion has generated following specific situations:

- about one third of the 700 largest corporations in the United Kingdom did not pay anything in the corporate income tax in 2005 and 2006;
- 25% of US companies that hold assets worth over USD 250 million or income exceeding USD 50 million per year is not paid, also no income tax between 1998 and 2005;
- the largest French corporations currently pay a tax of 8% in average real benefits, even though the official corporate tax rate is around 33%.

The study “Promoting Transparency and Exchange of Information for Tax Purposes” by the OECD in 2010 estimated that tax avoidance practices used by corporations generate tax revenue losses of about USD 100 billion for the US economy and several billion Euros for many EU countries.

2. The transfer pricing mechanism

The transfer pricing mechanism is a tool often used by corporations to avoid high taxation in certain countries. This can be illustrated by a simple example: the branch of a multinational company builds a car at a real cost of 30,000 Euros, sold on the market at a price of 50,000 Euros. In a high tax rate, say 30%, manufacturing company should pay a tax of 6,000 Euros (20,000 Euros $\times$ 30%). To avoid paying taxes in the producing country, the subsidiary sells the car for 40,000 euro to another branch (located in a more relaxed tax area) that will put the product on the market. Suppose that in this country corporate tax rate is 10%. The income tax of the companies group will be 4,000 Euros (10,000 euro $\times$ 30% + 10,000 euro $\times$ 10%), achieving a significant saving of resources. For the producing country, however, this situation creates a significant loss of tax revenue.

Transfer pricing is a term that refers to prices charged in transactions between affiliated organizations (sale and purchase of tangible and intangible assets, provision/procurement of some services, including administrative, financial, leasing, etc.). Transfer pricing is set at the transnational corporate decision-making structures, and can perform the following role:

- reduction in corporate income tax payments or duties;
- transferring income from countries with bans or limitations on profit repatriation.

The corporate policy regarding transfer pricing is based on many factors, such as:

- fiscal aspects of countries involved in the cross-border activity of member companies of the group;
- currency legislation;
- political and economic risks (for example, legislative changes, currency devaluation, etc.);
- price level in the host country etc.

Generally, transfer pricing involves establishing prices of goods and services traded between members of the group companies for tax purposes: the reduction of the tax on profits to the group of companies. By decreasing (increasing) prices of intra-group transactions, the corporation manages to fix the most of the benefit in the most permissive tax jurisdictions.

After interviewing a number of 850 companies with cross-border activities in 24 countries worldwide, Ernst & Young organization achieved, in 2008, a study that clearly highlights the growing of transfer pricing issues importance. The authors estimated that about two thirds of global transactions take place between affiliated organizations, such as transfer pricing at a level

that maximize the tax benefits is a strategic interest objective for the multinational companies policy.

To highlight the importance of transfer pricing issues in the European Union, Weichenrieder Alfons (2007) has developed a model of correlation between the level of taxation on profits and the profitability of affiliated organizations. Analysing the situation of foreign corporations with subsidiaries in Germany, the author found that an increase of corporate tax rate in the origin country by 10 percentage points causes an increase of subsidiaries profitability (artificially generated through transfer pricing) with a half percentage point.

3. International rules governing transfer pricing

Repeated transfer pricing practices of transnational corporations have generated efforts to define the phenomenon and its regulation. The OECD has realized since 1979 a report on transfer pricing mechanism used by transnational companies, and in 1995 wrote the transfer pricing guide addressed both transnational companies and fiscal administrations.

The issue of transfer pricing is becoming increasingly important in the globalized economy, as more companies expand their business beyond the borders of the origin country, making transactions of goods and services within the group. In principle, transfer pricing rules recommended by OECD provide the following conditions that a transaction must meet to fall under the transfer pricing regulations:

- a) the existence of cross-border transactions;
- b) the transaction take place between two affiliated entities;
- c) the transaction will be subject of a good, service or any other thing with economic value.

Since transfer pricing may also have other purposes than tax avoidance, fiscal authorities should not automatically assume that companies with cross-border activity is trying to manipulate profits, especially as, in some cases, it is very difficult to accurately determine the price market. Fiscal Affairs Committee of the OECD has created a set of rules to reduce the risk of misinterpretation or abuse regarding the taxation of some operations in groups of companies, implementing the so-called “arm’s length principle”. The OECD Model Tax Convention explains the essence of this principle: “[When] conditions are made or imposed between... two [associated] enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise

and taxed accordingly”. So, it tries the adjustment of corporate profits by reporting intra-group transactions to the conditions should be governed the relations between independent firms in comparable transactions and in a similar context. The principle of “arm's length” put independent firms and those associated with an egalitarian plateau in terms of taxation, avoiding the creation of advantages and disadvantages that could distort the competitive position of each type of entity (Bişa et al., 2005). Applying the principle has proved efficient in situations where they can make comparisons with other similar transactions made between independent entities. There are many situations where this principle is difficult: for example, if multinational groups active in the production of highly specialized goods.

According to the transfer pricing guide developed by the OECD, there are five methods for determining them, divided into two main groups: traditional methods based on analysis of the transaction (“Transactional Traditional Methods”) and methods based on analysis of profit (“Transactional Profit Methods”). Transactional traditional methods are based on comparing prices, while transactional profit methods are based on comparing transactions between related entities and between unrelated entities through analysis of profit from that transfer.

Methods for determining transfer prices based on transaction analysis are:

A. Comparable Uncontrolled Price (CUP) is based on the price compare of transaction analyzed with prices of other independent entities, when comparable goods or services are sold.

For the transfer of goods, products, merchandises or services between related entities, the market value is that price which would be agreed independent entities, under the conditions of some comparable markets in terms of commercial for the transfer of identical or similar goods or merchandises, in comparable amounts, at the same point in the chain of production and distribution and in comparable conditions of payment or delivery. In this regard, to establish the market value may be used to:

- comparing the prices agreed between the entities affiliated with the prices agreed as between independent entities for comparable transactions (internal comparison of prices);
- comparing the prices agreed between independent entities for comparable transactions (external comparison of prices).

B. Resale Price (RP): the market price is determined on the resale price of products and services to independent entities, less distributing costs and a profit rate.

This method is applied starting from the resale price of a product purchased from an affiliate organization to an independent entity. This price is

then reduced by an adequate gross margin (resale price margin) representing the value of which the last seller of the group will try to cover sales costs and other operating expenses based on operations and to make an adequate profit.

The method takes into account the following aspects:

- factors relating to the period of initial purchase and resale, including those regarding the changes in the market in terms of costs, exchange rates and inflation;
- changes in the situation and the degree of wear of the goods – subject to the transaction, including the technological changes in a particular field;
- the exclusive right of the reseller to sell certain goods or rights that might influence the decision on a change in the price margin.

C. Cost Plus (C+) is based, to determine the normal market price, on the increase of main costs with a profit rate similar to the activity field of the taxpayer. The starting point is costs of the manufacturer or the service provider.

Where goods or services are transferred through a larger number of affiliates, this method will be applied separately for each stage, taking into account the role and specific activities of each affiliated entity.

Methods based on analysis of profit are:

D. Profit Split (PS) involves calculating the net profit margin obtained by a person from one or more transactions with affiliates and the estimation of this margin on the net profit margin obtained by the same person in transactions with entities independent or on the margin obtained in comparable transactions by independent entities.

This method entails a comparison of certain financial indicators of organizations affiliated with the same indicators obtained by independent organizations operating in the same area.

E. Transactional Net Margin (TNMM) is used when transactions are interposed between the affiliated organizations, so it is not possible the identification of comparable transactions. This method involves the estimation of the profit obtained by affiliated organizations from one or more transactions, and sharing those profits between the affiliated organizations in proportion with the profit that would have been obtained by independent organizations. The division of profits must be made through an adequate estimate of revenues and costs incurred as a result of one or more transactions by each organization. Profits must be divided so that they reflect the activities performed, risks assumed and assets used by each of the affiliated parties.

Establishing the most adequate method for determining transfer prices is envisaged, in principle, the following elements:

- a) the method that is closest to the circumstances in which prices-subject to free competition are set in comparable markets in terms of trade;
- b) the method for which information regarding the actual activity of affiliated organizations involved in the transaction – subject to free competition is available;
- c) the precision with which we can make adjustments to achieve comparability;
- d) the circumstances of the individual case;
- e) the actual activities of various affiliated entities;
- f) the method used must match the circumstances of the taxpayer's business and market;
- g) the documentation that the taxpayer can provide.

The circumstances of the individual case taken into account in the examination of the market price are these: the type, the condition, the quality and degree of novelty of merchandises, goods and services transferred; the market conditions that goods, merchandises or services are used, consumed, treated, processed or sold to independent entities; the activities and stages of production and distribution of entities involved; the clauses contained in contracts regarding obligations, payment terms, discounts, guarantees, risk taking; the special conditions of competition.

When comparable uncontrolled transactions can be determined, the price comparison method is the most direct and sustainable way to apply the “arm's length”. Also, the fiscal authorities in most countries found in the price comparison method the most sustainable way to determining price transactions between related companies. Using transactional profit methods should be limited in case of exceptional circumstances, when there is no information or there is insufficient information for applying one of the traditional methods of transfer pricing.

4. Transfer pricing problem in the European Union

Current systems of corporate income taxation in the Member States allow firms with cross-border activity to avoid the taxation due to the existence of a significant differences between corporate income tax rates and rules under which each subsidiary is subject of taxation depending on its activity in the host state. The economic integration has complicated the corporate tax problems and diminished the fiscal administration's ability to monitor commercial flows and cash flows for companies with cross-border activity. The economic globalization also reduces the capacity of fiscal administrations to verify the accuracy of transfer prices used by taxpayers, through the significant increase

of foreign companies revenues and their diversification. To avoid the possibility of manipulating corporate tax systems through transfer pricing, fiscal authorities impose requirements concerning the preparation of some documentation related to transfer pricing, increasingly more onerous. Thus, companies are faced with the situation where they need to develop complex documentation on transfer prices in all countries where it operates, so they are much more likely to incur penalties for noncompliance with the requirements of fiscal authorities. In addition, the application of different methods for determining the correct transfer price is becoming increasingly complex and costly, given that new technologies and business structures (implying a greater emphasis on the firm's intangible assets) created difficulties in identification of comparable uncontrolled commercial transactions necessary for the correct transfer pricing. There are also substantial differences in the rules for applying the methods of transfer pricing between Member States so that EU companies face with uncertainty regarding the prices of intra-group transactions, because they could be considered unacceptable by fiscal authorities at a later audit (European Commission, 2005). The transfer pricing adjustment, made after the fiscal authorities audit, can lead to double taxation risk. For example, the double taxation through transfer pricing occurs when a fiscal authorities of a Member State unilaterally adjust the price for a sale achieved between companies of the same group, without this adjustment to be offset by a corresponding adjustment in the Member State in which the purchase was made. Although, researchers conducted by the European Commission suggests that the number of disputes between fiscal authorities and corporations regarding transfer pricing adjustments is quite limited in the Member States, business representatives have complained that often litigation costs are so high that the acceptance of double taxation is a less expensive option (Ernst & Young, 1999).

Specifically, the costs that corporations have to commit for compliance of the tax liabilities regarding transfer pricing are following:

- the company's obligation to determine transfer prices under the “arm's length, which means the finding comparable uncontrolled transaction prices, the development of documentation and the justification of these prices at any controls by fiscal authorities;
- the protect against the risk of double taxation if transfer pricing are adjusted (bringing proceedings against the tax authorities, determining transfer pricing, etc.).

According to estimates by the European Commission in 2001, compliance costs regarding the transfer pricing of European companies accounted for about 4 to 5.5 million per year, i.e. 1.9% of corporate income taxes payable (European

Commission, 2005). Estimates were made on the basis of an analysis of 700 companies from 14 countries. Other authors have found that these costs would amount to 2% -4% of corporate income taxes paid by companies (Lanno, Kevin, 2002). The organization Ernst & Young' study in 2008, made at a sample of international corporations, reveals that 39% of subjects of the research believed that the transfer pricing is their biggest fiscal problem, because in recent years, fiscal authorities have granted a greater attention on the mechanism for determining transfer prices used by corporations. Thus, 52% of the companies that participated in the study have been subjected in the past six years, of an transfer pricing investigation by fiscal authorities, while 27% of them have proceeded to transfer pricing adjustments. Under these conditions, 53% of those companies' representatives stated that, in recent years, the costs of compliance regarding transfer pricing have increased significantly.

Since many of issues concerning the tax treatment of transfer pricing are obstacles for the activities on the internal market, limiting the efficiency, effectiveness, transparency and simplicity, the European Commission proposed in 2005 a set of rules for partial resolution of European companies difficulties, encountered by them in connection with the preparation of transfer pricing documentation.

Thus, in 2006, the EU has adopted a code of conduct for documentation that affiliates companies in Member Countries must prepare in connection with transfer prices used in intra-group transactions. This code is intended to standardize the documentation that corporations must submit to fiscal authorities when the way of determining prices for cross-border intra-group transactions is checked. In February 2007, the European Commission made a statement which it summarized the results of Joint Transfer Pricing Forum activities, bringing additions of the code of conduct, specifying procedures regarding the dispute avoidance and orientations for Advance Pricing Agreements within the European Union.

The measures listed above have the potential to help the reduction of corporate compliance costs regarding the transfer pricing documentation, but not entirely resolve the transfer pricing problem. For this reason the European Commission has repeatedly reaffirmed the need of the corporate income tax base consolidation as a solution for solving the transfer pricing problem. At the same time the European Commission pointed the need to ensure a good governance in tax matters among Member States as an essential tool to combat the cross-border tax evasion and fraud and to provide a financial base for public spending.

The European Parliament also recently stated that the introduction of a common consolidated corporate tax base would help resolve issues of double

taxation and transfer pricing in the EU. Until finalizing a legislative proposal in this regard, the European Parliament recommend the Commission to move the emphasis of the inspection on transfer pricing transaction to the company, in order to diminish the ability of corporations to handle corporate tax systems through the transfer pricing mechanism. In this respect, comparable profits method is suggested for the transfer pricing determination because it focuses on the comparison of benefits obtained by companies for each industry. Thus, the decrease of a branch profits well below the sector average could be the evidence of a transfer pricing used by company to avoid taxation.

In recent years, the outward opening of South-Eastern Europe economies and the increasing of the political stability in the region has encouraged the establishment of European corporations' subsidiaries in the respective states. If in these states there is no a transfer pricing legislation (Table 1) and it practiced low corporate tax rates, the risk of intensifying the phenomenon of avoiding the imposition by using the transfer pricing mechanism increases significant.

Table 1

Issues relating to the transfer pricing legislation and the rate of corporation tax in the countries of South-eastern Europe

	National legislation follows the principles of the OECD	National legislation complies with "arm's length"	National legislation requires the development of a documentation	Rate of corporation tax in 2010 (%)
Azerbaijan	-	-	-	20
Bulgaria	x	x	-	10
Croatia	partly	x	-	20
Czech Republic	x	x	x	19
Estonia	x	x	x	21
Hungary	x	x	x	19
Kazakhstan	x	partly	for some taxpayers	20
Latvia	x	x	-	15
Lithuania	x	x	x	15
Macedonia	partly	x	-	10
Poland	x	x	x	19
Romania	x	x	x	16
Russia	partly	partly	-	20
Slovenia	x	x	x	20
Slovakia	x	x	x	19
Ukraine	partly	x	-	25

Source: PriceWaterhouseCoopers, Transfer Pricing Perspectives, 2010.

On the other hand, even in some Euro Zone countries there is no regulations regarding transfer pricing (Malta) or no requirement to achieve a transfer pricing documentation (Luxembourg).

5. Conclusion

Since the transfer prices have important implications for the budgets of Member States, there is an increasing complexity of tax issues for both fiscal administrations and corporations that are forced to respect different tax rules in the countries where working. The different national tax rules generate interest conflicts between fiscal administrations and corporations, and lack of administrative coordination between fiscal jurisdictions can support the capital flight from some countries and the loss of tax revenue.

The protection of national tax revenue has become a major target for the financial policy of all Member States but especially of states with a high level of taxation. In this context, the introduction of a common consolidated corporate tax base in the European Union can be a useful tool for limiting the migration of tax base between countries through transfer pricing, ensuring, at the same time, increasing the efficiency of the corporate income tax by a significant simplification operations regarding the declaration of the profit by corporations. The consolidation of the tax base will allow the determination of the taxable income for the group of companies, so the transactions price will have no influence on corporate income tax paid by companies. Because the costs of compliance with fiscal authorities requirements regarding the transfer pricing are becoming larger, this measure is supported by representatives of European business.

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The Relationship between Gender Type in Mentorship and Mentees' Advancement: An Empirical Study in Malaysia

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Abstract. *The aim of this study is to examine the relationship between gender type in mentorship and mentees' advancement using 153 usable questionnaires gathered from employees who worked in a public university in East Malaysia, Malaysia. The results of exploratory factor analysis confirmed that the measurement scales used in this study satisfactorily meet the standards of validity and reliability analyses. Next, the outcomes of stepwise regression analysis showed four important findings: firstly, interaction between same-gender positively and significantly correlated with mentees' career. Secondly, interaction between cross-gender positively and significantly correlated with mentees' career. Thirdly, interaction between same-gender positively and significantly correlated with mentees' psychosocial. Fourthly, interaction between cross-gender positively and significantly correlated with mentees' psychosocial. Further, this result demonstrates that gender type does act as an important antecedent of mentees' career and psychosocial in the mentoring programme model of the organizational sample. In addition, discussion, implications and conclusion are elaborated.*

Keywords: gender type; mentorship; mentees' career and psychosocial; Malaysia.

JEL Codes: M1, M12.

REL Code: 14C.

1. Introduction

According to ancient Greek history, mentoring is first mentioned in the epic story of the Odyssey written by Homer. In this story, Odysseus tells his loyal and experienced friend, Mentor who has great wisdom and trustworthy to teach his son, Telemachus, a mentee or protégé who has less experience about the tips for handling challenging lifestyles before he goes to the Trojan War (Edlind, Haensly, 1985, Merriam, 1993). Based on this story, mentoring is viewed as an important field of education (Johnson et al., 1991) and/or counseling (Gregson, 1994) where mentors are old men who have wisdom and can be trusted to educate young men who have little experience (Johnson et al., 1991, Kram, 1985, Russell, Adams, 1997, Wanguri, 1996). Hence, it has inspired Human Resource Development (HRD) scholars to generally interpret the concept and practise mentoring programmes in line with the development of the current organizational practice (Dennison, 2000, Ismail, Boerhannoedin, Rasip, 2009, Northcott, 2000, Oliver, Aggleton, 2002). In an organizational perspective, mentoring is often seen as an important development method where it establishes a relationship between a manager or someone more experienced with another member who is less experienced. This mentoring relationship if properly carried out, will increase group and/or individuals' potentials to handle successfully particular duties and responsibilities, familiarize with new techniques, and care for all aspects of mentees (Cummings, Worley, 2009, Johnson et al., 1991, Long, 2002).

Mentoring models vary according to different organizational contexts and there is no one best model to fit all organizations. These models have been designed and administered based on differences and uniqueness of an organization in terms of beliefs, orientations, stresses, strengths and weaknesses (Hawkey, 1997, Irving et al., 2003, Ritchie, Conolly, 1993, Ritchie, Genoni, 1999). These factors have strongly affected the implementation of mentoring type in formal and/or informal mentoring activities in organizations (Chao et al., 1992, Ismail, Khian Jui, Abdullah, 2009, Ragins, 1997, 1999, Ragins, Cotton, 1993, 1999). A formal mentoring programme is often viewed as the structured and coordinated relationship between mentor and mentee, using standard norms, continuous action plans, time frame, and particular objectives (Bahniuk, Hill, 1998, Hansford et al., 2003, Noe et al., 2002). Conversely, informal mentoring is often seen as the process and systems of relationship between mentors and mentees to achieve specific, spontaneous and adhoc demands. This mentoring programme is widely implemented to complement and strengthen formal mentoring programmes (Friday, Friday, 2002, Goldstein, Ford, 2002, Ismail et al., 2007).

Recent studies in this area highlight that formal and informal mentoring activities are different in terms of procedure, but they require comfortable relationship between gender type in order to maintain and support mentoring programme strategies and goals (Cummings, Worley, 2009, Okurame, Bologun, 2005, Turban, Dougherty, Lee, 2002, Young, Cady, Foxon, 2006). According to many scholars like Gaskill (1991), Ragins, (1997, 1999), Ragins and Cotton (1993, 1999), Young et al. (2006), and Ismail, Khian Jui and Abdullah (2009), gender type refers to the interaction between same-gender and the interaction between cross-gender in mentorship. Same-gender in mentorship is the interaction between male mentor-male protégé and the interaction between female mentor-female protégé (Allen, Eby, 2004, Hegstad, Wentling, 2005, Lyon et al., 2004). Cross-gender in mentorship is the interaction between male mentor-female protégé and female mentor-male protégé (Allen et al., 2005; Gaskill, 1991; Lyon et al., 2004). The interactions between the same and cross genders in mentoring programmes are often done through building good contacts, exchanging personal and work problems in friendly situations, and supporting individuals' advancement (Baugh, Scandura, 1999, Hansford, Ehrich, 2006, Hansford et al., 2003, Lyon et al., 2004).

Interestingly, a further observation of mentoring relationship reveals that interaction between gender type in mentorship may have a significant impact on mentees' advancement, especially career and psychosocial which is one's psychological development in and interaction with a social environment (Okurame, Bologun, 2005, Niehoff, 2006). Many scholars, such as Kram (1985), Kram and Bragar (1991), Baugh and Scandura (1999), Hunt and Michael (1983) and Ragins and Cotton (1999), explain that career is often viewed as helping individuals to acquire the skills and experiences needed to perform current and future jobs, giving advices, increasing the ability of individuals to positively influence others, and protecting individuals' dignities from affected by negative environments. Several scholars like Kram (1985), Noe (1988, 2008), Noe et al. (2002), and Lyon et al. (2004) state that psychosocial is often seen as helping individuals by building confidence, overcoming pressures and strains, assisting their personal life, having their opinions heard and valued, sharing dreams, providing feedback, being aware of contribution to relationship, and teaching with examples. In a mentoring system framework, many scholars think that same-gender in mentorship, cross-gender in mentorship and mentees' psychosocial are distinct constructs, but highly interrelated. For example, the willingness of same-gender and cross-gender to implement comfortable interactional styles in formal and/or informal mentoring programmes (e.g., communication openness and active participation) will provide mutual benefits. As a result, it may lead to an increased mentees'

psychosocial attributes. (Cox, Nkomo, 1991, Ismail et al., 2007, Scandura, 1992, Chao et al., 1992, Ragins, Cotton, 1993, 1999).

Even though numerous studies have been carried out, little is known about the predicting role of gender type in mentoring programme literature (Allen et al., 2005, Scandura, Williams, 2001). Many scholars reveal that gender type in mentorship is less emphasized in previous studies because they have stressed on the characteristics of a mentoring programme and given less attention on the significance of gender perspective in developing mentoring programme models. As a result, findings from such studies have neglected the views of gender in explaining the strength and direction of complex mentoring relationships in dynamic organizations (Allen et al., 2005, Hegstad, Wentling, 2005, Niehoff, 2006, Okurame, Bologun, 2005). Thus, this motivates the researchers to further explore the nature of this relationship.

Purpose of the study

This study was primarily conducted to examine two major relationships: the same gender and the cross-gender relationships. Firstly is the relationship between same-gender in mentorship and mentees' career. Next is the relationship between cross-gender in mentorship and mentees' career. Thirdly is the examination of the relationship between same-gender in mentorship and mentees' psychosocial and lastly, between cross-gender in mentorship and mentees' psychosocial.

Literature review

This section provides theoretical and empirical evidence supporting the relationship between gender type and mentees' psychosocial. Based on this review, a theoretical framework and related hypotheses are proposed.

Relationship between gender type and mentees' advancement

There are several recent studies which used a direct-effect model to investigate general mentoring programmes using different samples, such as the study by Allen and Eby (2004) which has 600 members of a professional women's business association in the US. Other examples of samples are 560 employees in Southeastern healthcare organization (Allen et al., 2005), Fortune 500 companies in US (Hegstad, Wentling, 2005), 510 first-line bank managers (Okurame, Balogun, 2005), and 194 practising veterinarians (Niehoff, 2006). These studies found that the willingness of same-gender and cross-gender to implement comfortable interaction styles in formal and informal mentoring activities (e.g., create a match relationship, no interpersonal communication barriers, cooperation and active participation in decision making) is a major

predictor of mentees' advancement, such as career and psychology (Allen et al., 2005, Hegstad, Wentling, 2005, Okurame, Bologun, 2005, Niehoff, 2006).

These findings are consistent with the notion of organizational behaviour theory, similarity-attraction paradigm (Byrne, Griffitt, 1973), and attachment theory (Bowlby, 1969). In general, these theories explicitly posit the interaction styles among individuals who have different backgrounds in doing activities that may affect individuals' advancement (Bowlby, 1969, Byrne, Griffitt, 1973, Turban et al., 2002, Young et al., 2006). Specifically, similarity-attraction paradigm (Byrne, Griffitt, 1973) is often viewed from a social psychology emphasizes more on the integration of similarity, attractiveness, and liking in human relationship (Berscheid, 1994, Sprecher, 1998). The application of this theory in a mentoring programme shows that the ability of mentors and mentees who have different and same gender types to comfortably interact in formal and informal mentoring programmes may lead to increased mentees' advancement, such as career and psychosocial in organizations (Hegstad, Wentling, 2005, Niehoff, 2006, Turban et al., 2002).

The attachment theory (Bowlby, 1969) states that our ability to develop and maintain relationships begin at a very early age based on our attachment to a parent or primary caretaker (Ainsworth, et al., 1978). This theory may add to the explanation of why some mentors and mentees may feel more comfortable to keep a professional relationship and develop a personal bond (Young et al., 2006). The application of this theory in a mentoring programme shows that comfortable and active interactions between same and different gender types in formal and informal mentoring activities may lead to improved mentees' advancement, especially career and psychosocial advancement in organizations (Allen et al., 2005, Okurame, Bologun, 2005, Young et al., 2006).

Conceptual framework and research hypotheses

The literature given above is used as a basis to develop a new structural conceptual framework for this study as shown in Figure 1.

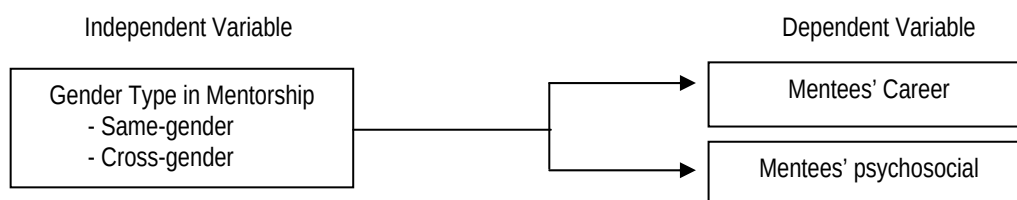


Figure 1. Relationship between gender type in mentorship and mentees' advancement

Based on the framework, it seems reasonable to assume that the willingness of same-gender and cross-gender types to comfortably interact in mentorship may positively influence mentees' advancement in a public university in Sarawak, Malaysia (EMUNIVERSITY) employees as this practice has influenced Western employees. Therefore, it can be hypothesized that:

H1: Same-gender positively related with mentees' career;

H2: Cross-gender positively related with mentees' career;

H3: Same-gender positively related with mentees' psychosocial;

H4: Cross-gender positively related with mentees' psychosocial.

Methodology

Research design

This study used a cross-sectional research design that allowed the researchers to integrate literature review, in-depth interviews, pilot study and survey questionnaires as the main procedures to gather data for this study. As supported by many researchers, the use of such methods may gather accurate and less bias data (Cresswell, 1998, Sekaran, 2000) and it allows the researcher to create differences among variables being studied. At the initial stage of data collection, in-depth interviews were first conducted involving four experienced employees, namely two from the human resource department and two from the academic sector of the target public university in Sarawak, Malaysia (EMUNIVERSITY). The candidates were selected based on a purposive sampling technique where each of them has more than seven years of working experience. The information gathered from interviews showed that the studied organization had consistently and continuously implemented a formal mentoring programme since 1993. This mentoring programme was implemented to support the organization's vision, that is, to become an exemplary university of an internationally acknowledged stature and a scholarly institution of choice through human capital development programmes, for example this formal mentoring programme. For confidential reasons, the name of the organization is kept anonymous.

A mentoring programme is implemented at both non-academic and academic divisions in the studied organization. In order to understand the nature of this mentoring programme, the in-depth interviews were conducted involving two members of the human resource staffs and two from the academic staff during and before the pilot study. Information gathered from the interviews show that mentors are management employees and senior employees whereas mentees are supporting staff and junior staff. Interviews between mentors and mentees are often done through formal and/or informal group discussions

(i.e., department/teamwork meetings) and/or individual discussions (i.e., individual assignment, counseling and performance appraisal).

A majority of employees perceived that same-gender and cross-gender groups are willing to use comfortable interaction styles (i.e., communication openness and participation style) in planning and implementing organizational functions, such as human resource, finance, academic programmes and physical facilities. As a result, it may enhance mentees' career and psychosocial in the organization. Although the nature of this relationship is interesting, little is known about the predicting role of gender type in the mentoring programme model of the organization because of the scarcity of research literature in this country (Khian Jui, 2008).

The information gathered from such employees was refined, categorized and compared with the related literature review. The outcomes of the triangulated information were used as a guideline to develop the content of survey questionnaires for a pilot study. Next, a pilot study was conducted by discussing pilot questionnaires with four employees who worked in the organization. Finally, the information gathered from the literature, the in-depth interviews and the pilot study were considered to verify the content and format of questionnaires for an actual survey. Back translation technique was used to translate the content of questionnaires in Malay and English in order to increase the validity and reliability of the instrument (Van Maanen, 1983).

Measures

The survey questionnaire has three sections. The first section, same gender type in mentorship had seven items and cross gender type in mentorship had seven items that were modified from mentoring programme literature (Gaskill, 1991, Okurame, Bologun, 2005, Ragins, McFarlin, 1990, Young, Cady, Foxon, 2006). The second section, mentees' career had 5 items that were modified from career development literature (Allen, Eby, 2004, Hegstad, Wentling, 2005, Levesque et al., 2005, Ragins et al., 2000). Finally the last section, mentees' psychosocial had five items that were modified from psychosocial literature (Allen, Eby, 2004, Allen et al., 2005, Levesque et al., 2005; Niehoff, 2006, Noe, 1988, 2008). These items were measured using a seven-item scale ranging from "very strongly disagree/dissatisfied" (1) to "very strongly agree/satisfied" (7). The demographic variables were used as controlling variables because this study focused on employees' attitudes.

Unit of analysis and sample

The unit of analysis for this study was 1456 employees who work in one public university in Sarawak, Malaysia. During the data collection, the human

resource (HR) manager did not provide the list of registered employees and did not allow the researchers to directly distribute survey questionnaires to employees who worked in the organization. After considering this situation, a quota sampling was used to determine the number of samples based on the duration of study and budget constraints, which is 200 employees. Besides that, a convenient sampling technique was chosen to distribute the survey questionnaires to employees because the researchers could not choose the respondents randomly. Therefore, 200 survey questionnaires were distributed to employees who were willing to answer the survey questionnaires through contact persons (i.e. assistant HR manager, supervisors and/or heads of department/unit) in the organization. Out of the 200 questionnaires, 153 usable questionnaires were returned to the researchers, yielding a response rate of 76.5 percent. The survey questionnaires were answered by participants based on their consent and on a voluntary basis. The number of this sample exceeds the minimum sample of 30 participants as required by probability sampling technique, showing that it can be analyzed using inferential statistics (Sekaran, 2000, Leedy, Ormrod, 2005).

Data analysis

A statistical package for social science (SPSS) version 15.0 was used to analyze the questionnaire data. Firstly, exploratory factor analysis (EFA) was used to assess the validity and reliability of measurement scales (Hair et al., 1998, Nunally, Bernstein, 1994). Relying on the guidelines set up by these statisticians, a factor analysis with direct oblimin rotation was first done for all items that represented each research variable, and this was followed by other tests, that is, Kaiser-Mayer-Olkin Test (KMO), Bartlett's test of sphericity, eigenvalue, variance explained and Cronbach alpha. The value of factor analysis for all items that represented each research variable was 0.5 or more, indicating the items met the acceptable standard of validity analysis. All research variables exceeded the acceptable standard of Kaiser-Meyer-Olkin's value of 0.6 and were significant in Bartlett's test of sphericity, showing the measure of sampling adequacy for each variable was acceptable. All research variables had eigenvalues larger than 1, signifying the variables met the acceptable standard of validity analysis (Hair et al., 1998). All research variables exceeded the acceptable standard of reliability analysis of 0.70, indicating the variables met the acceptable standard of reliability analysis (Nunally, Bernstein, 1994). Variables that meet the acceptable standard of validity and reliability analyzes will be used in testing hypotheses. Secondly, Pearson correlation analysis and descriptive statistics were conducted to determine the co linearity problem and the usefulness of the data set. Finally,

Stepwise regression analysis was used to assess the direct relationship between variables as well as show the causal relationship and the nature of relationship between variables. Stepwise regression can accurately quantify the magnitude and direction of many independent variables and one dependent variable (Aiken et al., 1991, Berenson, Levine, 1992, Foster et al., 1998).

Findings

Sample profile

Table 1 shows that the majority respondents were female (57.5 percent), male supervisors (56.9 percent), aged between 21 to 30 years (46.4 percent), STPM/diploma holders (33.3 percent), staff who served less than five years (54.9 percent), non-academic staff (58.2 percent), and employees who worked in academic department (53.6 percent).

Table 1

Respondent characteristics (N=153)		
<u>Gender (%)</u>	<u>Age (%)</u>	<u>Length of Service (%)</u>
Male=42.5	21 to 30 years old=46.4	0 to 5 years=54.9
Female=57.5	31 to 40 years old=39.2	6 to 10 years=22.2
	41 to 50 years old=9.8	11 to 15 years=13.7
	More than 51 years old=4.6	More than 16 years=9.2
<u>Supervisor's Gender (%)</u>	<u>Academic Qualification (%)</u>	<u>Position (%)</u>
Male=56.9	PMR=0.7	Academic Staff=41.8
Female=29.4	SPM=22.9	Non-Academic Staff=58.2
Male and Female=13.7	STPM/Diploma=33.3	
(More than one Supervisor)	Degree/Bachelor=15.0	<u>Division (%)</u>
	Master Degree=18.3	Academic Department=53.6
	PhD/Doctor of Philosophy=9.8	Non-Academic Department=46.4

Note:

PMR : Lower Certificate of Education

SPM/MCE : Sijil Pelajaran Malaysia/ Malaysia Certificate of Education

STPM : Sijil Tinggi Pelajaran Malaysia/ Higher School Certificate

Exploratory factor analysis

Table 2 and Table 3 show the results of validity and reliability analysis for measurement scales. These statistical analyses confirmed that the measurement scales met the acceptable standard of validity and reliability analyses.

Table 2

Item validity					
Variable	Item	Component			
		1	2	3	4
Same gender	1. Increase relationships with key persons in the organization			.79	
	2. Achieve work objectives, career goals, and recognition			.72	
	3. Enhance contact with senior executives			.86	
	4. Increase work performance			.82	
	5. Be proposed for promotion			.74	
	6. Become a role model for others by setting good attitude, value and behavior			.82	
	7. Enhance enjoyable informal work exchange and other outside experiences			.91	
Cross-gender	1. Increase relationships with key persons in the organization	.78			
	2. Achieve work objectives, career goals, and recognition	.84			
	3. Enhance contact with senior executives	.81			
	4. Increase work performance	.89			
	5. Be propose for promotion	.86			
	6. Become a role model for others by setting good attitude, value and behavior	.90			
	7. Enhance enjoyable informal work exchange and other outside experiences	.90			
Career	1. My immediate boss/supervisor provided specific guidance for achieving my career goals				.76
	2. My immediate boss/supervisor gave me assignments that prepare me for a higher position				.62
	3. My immediate boss/supervisor suggested specific strategies to accomplish work objectives				.58
	4. My immediate boss/supervisor reduced work risks that could threaten the possibility of advancement				.63
	5. My immediate boss/supervisor exchanged experiences with me to improve job problems in the workplace				.69
Psychosocial	1. My immediate boss/supervisor act as a good role model for me		.77		
	2. My immediate boss/supervisor encouraged me to try new ways of behaving in doing my job		.57		
	3. I respect and admire my immediate boss/supervisor		.84		
	4. I agree with my immediate boss's/supervisor's attitudes and values		.84		
	5. My immediate boss/supervisor helped me meet new colleagues		.63		

Table 3

The validity and reliability analyses for measurement scales

Measure	Items	Factor Loadings	KMO	Bartlett's Test of Sphericity	Eigenvalue	Variance Explained	Cronbach Alpha (α)
Same gender	7	.72 to .91	.92	937.10	5.23	74.73	.94
Cross gender	7	.78 to .90	.89	831.10	4.68	78.01	.95
Career	5	.58 to .76	.85	739.90	4.57	65.30	.91
Psychosocial	5	.57 to .84	.87	503.39	3.65	73.06	.91

Analysis of the constructs

Table 4 shows the results of Pearson correlation analysis and descriptive statistics. Mean scores for all variables are between 4.8 and 5.2, signifying the levels of mentees' psychosocial, same-gender, and cross-gender ranging from high (4.0) to highest level (7.0). The correlation coefficients for the relationship between the independent variable (i.e., same-gender and cross-gender), and the relationship between the dependent variable (i.e., mentees' career and psychosocial) were less than 0.90, indicating the data were not affected by any serious co-linearity problem (Hair et al., 1998).

Table 4

Pearson correlation analysis and descriptive statistics

Variable	Mean	Standard deviation	Pearson Correlation Analysis			
			1	2	3	4
1. Same-gender	4.8	1.1	1			
2. Cross-gender	4.9	1.1	.59**	1		
3. Career	5.0	1.1	.55**	.55**	1	
4. Psychosocial	5.2	1.1	.56**	.46**	.72**	1

Note: Significant at * $p < 0.01$

Outcomes of testing hypotheses 1 and 2

Table 5 shows that demographic variables were entered in Step 1 and then followed by entering independent variable (i.e., same-gender and cross-gender) in Step 2. Mentees' psychosocial was used as the dependent variable. An examination of multi co-linearity in the coefficients table shows that the tolerance value for the relationship between the independent variable (i.e., same-gender and cross-gender) and the dependent variables (i.e., mentees' career) were 0.88 and 0.95, respectively. These tolerance values were more than the established tolerance value of .20 (as a rule of thumb), indicating the variables were not affected by multi co linearity problems (Fox, 1991, Tabachnick et al., 2001).

Table 5

Result for stepwise regression analysis

Variables	Dependent Variable (Mentees' Career)	
	Step 1	Step 2
<u>Control variables</u>		
Gender	.08	.21**
Supervisor's gender	.14	.06
Age	-.26*	-.13
Academic qualification	-.02	.11
Length of services	.21	.10
Position	-.01	-.05
Division	-.07	.01
<u>Independent variable</u>		
Same-gender		.35***
Cross-gender		.37***
R ²	.07	.44
Adjusted R ²	.02	.41
R ² change	.07	.37
F	1.52	12.56***
F change R ²	1.52	47.77***

Note: Significant at *.05; **.01; ***0.001 .

Table 5 shows the results of hypothesis testing in Step 2. Firstly, same-gender positively and significantly correlated with mentees' career ($\beta=0.35$, $p<0.001$), therefore H1 was supported. Secondly, cross-gender positively and significantly correlated with mentees' career ($\beta=0.37$, $p<0.001$), therefore H2 was supported. In terms of explanatory power, the inclusion of gender type in the Step 2 had explained 44 percent of the variance in dependent variable. This result confirms that same-gender and cross-gender in mentorship are important antecedents of mentees' psychosocial in the studied organization.

Outcomes of testing hypotheses 3 and 4

Table 6 shows that demographic variables were entered in Step 1 and then followed by entering independent variable (i.e., same-gender and cross-gender) in Step 2. Mentees' psychosocial was used as the dependent variable. An examination of multi- co-linearity in the coefficients table shows that the tolerance value for the relationship between the independent variable (i.e., same-gender and cross-gender) and the dependent variable (i.e., mentees' psychosocial) were 0.88 and 0.95, respectively. These tolerance values were more than the established tolerance value of .20 (as a rule of thumb), indicating the variables were not affected by multi co linearity problems (Fox, 1991, Tabachnick et al., 2001).

Table 6

Result for Stepwise Regression Analysis		
Variables	Dependent variable (Mentees' psychosocial)	
	Step 1	Step 2
<u>Control variables</u>		
Gender	.08	.20**
Supervisor's gender	.13	.04
Age	-.31**	-.18
Academic qualification	-.00	.12
Length of services	.27*	.14
Position	.015	-.01
Division	-.109	-.05
<u>Independent variable</u>		
Same-gender		.45***
Cross-gender		.22**
R ²	.08	.40
Adjusted R ²	.04	.36
R ² change	.07	.32
F	1.78	10.68***
F change R ²	1.78	38.57***

Note: Significant at *p<0.05; **p<0.01; ***p<0.001.

Table 6 shows the results of hypothesis testing in Step 2. Firstly, same-gender positively and significantly correlated with mentees' psychosocial ($\beta=0.45$, $p<0.001$), therefore H3 was supported. Secondly, cross-gender positively and significantly correlated with mentees' psychosocial ($\beta=0.22$, $p<0.001$), therefore H4 was supported. In terms of explanatory power, the inclusion of gender type in the Step 2 had explained 40 percent of the variance in dependent variable. This result confirms that same-gender and cross-gender in mentorship are important antecedents of mentees' psychosocial in the studied organization.

Discussion and implications

Findings of this study confirm that gender type is an important determinant of mentees' career and psychosocial in the studied organization. In the context of this study, formal and informal mentoring programmes are properly done according to the university's policy and procedures. The majority of employees perceive that interaction styles between same-gender and cross-gender in mentoring programmes are done comfortably and actively. Consequently, it may lead to an increased mentees' career and psychosocial in the organization.

The implications of this study can be divided into three categories: theoretical contribution, robustness of research methodology and practical contribution. In terms of theoretical contribution, the findings of this study show that interaction between same-gender and cross-gender in mentoring programmes will create caring and comfortable environments to discuss, seek

clarification, and encourage sharing knowledge and experiences, as well as make decisions for improving job performance and solving work problems. As a result, it may lead to an enhanced mentees' career and psychosocial in the organization. This result is consistent with studies by Allen, Day, Lentz (2005), Hegstad, Wentling (2005), Okurame, Bologun (2005), Niehoff, (2006). This study supports and recognises the importance of gender's perspective as stated in mentorship literature mostly published in Western countries.

With respect to the robustness of research methodology, the survey questionnaires used in this study met the acceptable standards of validity and reliability analyses. Thus, it results in the production of accurate and reliable findings.

In terms of practical contributions, the findings of this study can be used as guidelines by management to improve the implementation of mentoring programmes in organizations. In order to achieve such objectives management needs to implement some improvement efforts. Firstly, update learning content and method. For example, continuous training programmes should focus on up to date knowledge, relevant skills and good moral values. If this training programme is properly implemented it can upgrade the capability of same-gender and cross-gender to use comfortable interactional styles in handling the mentees' needs expectations and demands. Second, encourage communication openness style. For example, mentees should be allowed to provide suggestions, comments and take part in planning and managing mentoring activities. If this aspect is appropriately implemented it will increase mentees' perceptions of fairness, satisfaction, commitment, trust and appreciation about the programmes. Third, diversify mentoring activities. For example, mentoring activities should be diversified to cater mentees' needs and preferences, such as sports and retreats. Readiness of mentors and mentees to commit with such activities beyond office hours and outside the office may strengthen brotherhood, accountability and motivation in the workplace. By considering these suggestions, an organization may motivate mentors and mentees to put great effort in order to maintain and increase organizational competitiveness in an era of global competition.

Conclusion

This study proposed a conceptual framework based on the mentoring research literature. The measurement scales used in this study satisfactorily met the standards of validity and reliability analyses. The outcomes of stepwise regression analysis confirmed that gender type in mentorship did act as an important predictor of mentees' career and psychosocial in the studied organization. This result has supported and extended mentoring research literature mostly published in Western organizational settings. Therefore, current

research and practice within mentoring programme models need to consider gender type in mentorship as a crucial aspect of organizational mentoring programme where the willingness of same-gender and cross gender to properly use comfortable interactional styles (e.g., communication openness and active involvement) in mentoring programmes may strongly induce positive subsequent mentee outcomes (e.g., career, satisfaction, commitment, performance, trust, and good moral values). Thus, these positive outcomes may motivate mentees to sustain and attain organizational strategic visions, missions and objectives.

The conclusions drawn from this study should consider the following limitations. First, a cross-sectional research design used to gather data at one time within the period of study might not capture the developmental issues or causal connections between variables of interest. Second, this study does not specify the relationship between specific indicators for the independent variable and dependent variable. Third, the outcomes of multiple regression analysis have only focused on the level of performance variation explained by the regression equations (Tabachnick et al., 2001), but there are still a number of unexplained factors that need to be incorporated to identify the causal relationship among variables and their relative explanatory power. Finally, the sample for this study was taken from one public organization that allowed the researchers to gather data via survey questionnaires. These limitations may decrease the ability to generalize the results of this study to other organizational settings.

The conceptual and methodological limitations of this study should be considered when designing future research. First, several organizational and personal characteristics should be further explored, as this may provide meaningful perspectives for understanding how individual similarities and differences affect the mentoring programme within an organization. Second, other research designs (e.g., longitudinal studies) should be used to collect data and describe the patterns of change and the direction and magnitude of causal relationships between variables of interest. Third, to fully understand the effect of gender type in mentoring programmes on mentees' career and psychosocial, more organizations need to be used in future study. Fourth, other specific theoretical constructs of gender type, such as gender ethnic, gender age, gender position and gender culture to be considered because it has widely been recognized as an important link between mentoring programme and mentees' psychosocial (Gaskill, 1991, Ismail, Boerhannoedin, Rasip, 2009, Levesque et al., 2005, Turban et al., 1994, Young et al., 2006). Finally, other mentee outcomes of gender type in mentoring programme (e.g., leadership, motivation to learn, transfer of learning and performance) should be considered given their prominence in mentoring research literature (Cumming, Worley, 2009, Goldstein, Ford, 2002, Ismail, Khian Jui, Abdullah, 2009, Noe, 2008). The importance of these issues needs to be further elaborated in future study.

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The Global Economic Crisis Challenges for SMEs in Romania

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Abstract. *The economy of the European Union (EU) has left behind the downturn and is gradually recovering. In 2010, both the EU and the Eurozone posted economic growth, mostly because Germany did better than expected. All considered, the German economy is growing at a faster pace than in the last two decades. Recession, however, has persisted in states like Greece, Romania and Latvia, and analysts expect growth rates, especially in Eastern Europe, to remain low in the next period. Recovery in this part of Europe largely depends on a pickup in the activity of small and medium-sized enterprises (SMEs), which were seriously affected by the credit crunch the economic crisis entailed. The adverse impact on most SMEs causes a decline in the development rate and a rise in the number of bankruptcies. But the growth of the German economy, however, has a beneficial effect on companies in Central and East European states as well.*

Keywords: SMEs; economic crisis; Romania; Germany; Eastern Europe; economic developments.

JEL Codes: M21.

REL Codes: 14K.

Content

In September 2008, the collapse of Lehman Brothers marked the starting point of the financial crisis that then triggered the world economic crisis.

The world economy seems to recover faster than certain economists anticipated, mostly because of the drop in aggressive interest rates, of the emergency credit of the central bank and the governmental financial stimulus.

According to analysts, the European Union's economy has left behind the free fall period and is gradually recovering.

The main factors determining the recovery are the scope of the problems in the banking sector (showing in harsher lending terms) and the obstacles as to restoring people's confidence. The slow export growth rate (notably to the Eurozone) and the drop in foreign investment in the region are another two factors further influencing the recovery.

The latest statistics supplied by Eurostat indicate that in the fourth quarter of 2010, the economy of the Eurozone and that of the European Union grew 0.2% and 0.3%, respectively, from the previous quarter, and 2.1% and 2%, respectively, from the same period of the previous year. The highest growth was posted in Bulgaria and Lithuania (1.7%), but it is to mention that for eight member states of the European Union the data are still not available.

The trade balance of the Eurozone recorded, in November 2010, a deficit of 0.4 billion Euros, compared to +3.1 year earlier. In the European Union the deficit stood at 14.7 billion Euros, as against 7.3 billions in November 2009.

In connection with inflation, the data supplied by Eurostat early in 2011 show that in 2010 the inflation rate averaged 2.2% in the states that adopted the single currency and 2.6% across the European Union.

Moreover, Eurostat shows that the unemployment rate stagnated in December 2010 at 9.6% in the European Union, and 10% in the Eurozone, the total number of jobless people in the 27 member states rising to over 23 millions.

Since the beginning of the economic crisis in 2008, it has been noticed that plummeting production has had a major effect on SMEs in the EU. The European Commission's annual report on SMEs shows that the crisis has hit medium and large companies harder than small and micro ones. A major issue SMEs have to cope with is that of access to financing. The profitability of SMEs in the EU is under huge pressure, which diminishes the number of new market entries and increases the number of exits. Implicitly, the phenomenon entails growing unemployment. According to the same report, the production of SMEs has been marked by the sharpest decline since 1930.

At the level of the European Union, SMEs stand for 99% of all enterprises. The 23 million small and medium-sized enterprises account for nearly 70% of jobs in the private sector.

Here below is a presentation of the economic situation in Germany, Eastern Europe and Romania.

Germany

In 2010, both the EU and the Eurozone posted economic growth, mostly on account of Germany's performance. Overall, the German economy is growing at a higher rate than in the last two decades. For most sectors, 2010 brought profits, despite experts' gloomy forecasts.

After having fallen for four quarters in a row, from Q2 2008 to Q1 2009 (Figure 1), Europe's biggest economy returned to growth in April-June 2009, being one of the first states to leave recession behind.

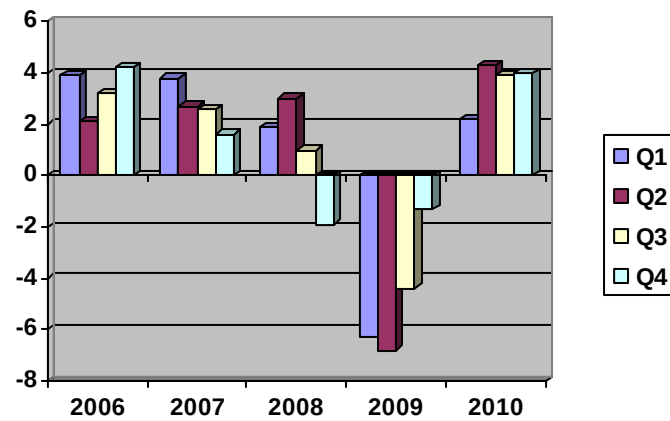
The German economy has grown gradually beginning in the second quarter of 2009, when it increased 0.5% from the first three months of the year. Over July-September 2009, the growth averaged 0.7%, whereas over October-December it stood at 0.3%. 2010 again saw economic growth: Q1 – 0.6%, Q2 – 2.3%, Q3 – 0.7%, Q4 – 0.4% (Table 1, Figure 1, Figure 2).

Table 1

Gross domestic product in terms of market prices

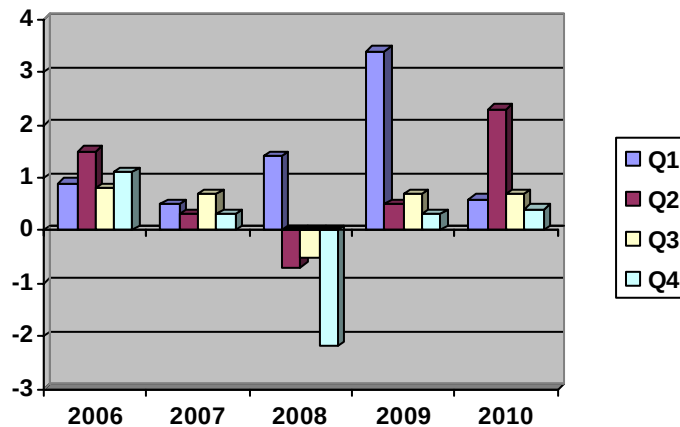
Year. quarter		Value bn euro	Year on year change (%)	Value bn euro	Change from previous quarter (%)
2010	IV	111.61	4.0	110.05	0.4
	III	111.13	3.9	109.64	0.7
	II	108.58	4.3	108.88	2.3
	I	104.62	2.2	106.43	0.6
2009	IV	107.31	-1.3	105.83	0.3
	III	106.95	-4.4	105.49	0.7
	II	104.10	-6.8	104.77	0.5
	I	102.37	-6.3	104.27	-3.4
2008	IV	108.73	-1.9	107.99	-2.2
	III	111.88	1.0	110.40	-0.5
	II	111.66	3.0	110.90	-0.7
	I	109.30	1.9	111.66	1.4
	IV	110.84	1.6	110.16	0.3
2007	IV	110.84	1.6	110.16	0.3
	III	110.74	2.6	109.88	0.7
	II	108.38	2.7	109.10	0.3
	I	107.29	3.8	108.75	0.5
2006	IV	109.07	4.2	108.25	1.1
	III	107.93	3.2	107.05	0.8
	II	105.53	2.1	106.17	1.5
	I	103.38	3.9	104.55	0.9

Source: Federal Statistics Office.



Source: Federal Statistics Office.

Figure 1. Year on year GDP evolution (%)



Source: Federal Statistics Office.

Figure 2. Quarter on quarter GDP evolution (%)

The latest data made available by the German authorities show that, overall, the economy grew by 3.6% in 2010 (Table 2), by far exceeding the initial expectations. Marked growth occurred on the background of growing exports and domestic consumption recovery. For 2011, however, analysts expect a lower growth rate, i.e. only 1.2%, with industry further being a circumstantial driving force.

Table 2

Year on year GDP change, %:										
2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
+ 3.2	+ 1.2	+ 0.0	- 0,2	+ 1.2	+ 0.8	+ 3.4	+ 2,7	+ 1.0	- 4.7	+ 3.6

Source: Federal Statistics Office.

There is a certain sensitivity to the various economic risks manifest mostly outside the German economy. Nevertheless, overall Germany's economy has displayed a markedly upward trend, managing to set off most of the adverse impact of the economic crisis.

Private consumption expenditures continued to grow in 2010. After visible reinvigoration in the second quarter of 2010, in the third and fourth quarter consumption spurred economic growth in general.

External economic relations favorably influenced growth in the fourth quarter of 2010. A contribution in this respect was made by higher exports of goods, which in September last grew 3.0% in current prices, after having slightly declined (0.2%) the previous month.

The trend is for exports to keep growing, even though at lower rates. To note, however, that exports have only slightly exceeded the peak reached before the economic and financial crisis, in price and season adjusted terms.

Germany has increasingly close commercial ties with the emerging markets, which are posting high growth rates. But, just as before, the industrialized countries represent the most important commercial partner, accounting for three-fourths of exports in 2010. Many of these, however, currently have to cope with an unfavorable economic situation and high unemployment.

German exports to Eastern Europe grew by 22% in the first 10 months of 2010. With an estimated growth rate of 4% in the region in 2011, German exports bound for Eastern Europe are expected to rise by 10%.

Imports, too, have already returned to the level before the crisis, with price adjustments.

Both the trade balance and the current account balance posted surpluses in 2010 – 15.6 and 13.2 bn Euros, respectively (seasonally adjusted). Positive balances in the same period of the previous year were exceeded by 5.0 and 2.9 bn Euros, respectively.

Therefore after an extended decline, the indicators related to expectations regarding exports began growing again.

To reach these positive results, the authorities in Berlin adopted a first anti-crisis package in 2008, with long-term solutions that could be applied rapidly and had immediate results, the main goals being to stabilize the German financial system and stimulate growth and employment. Early in 2009 there followed a second package of measures that pursued particularly to have GDP growth resumed and to ensure social stability.

Even though the government's economic stimulus programs and export growth helped the country out of recession in the second quarter of 2009, in that year Germany's economy recorded its poorest performance ever since World War II.

In 2010 the German government continued to apply anti-crisis measures but this time it was against the background of Germany's best economic evolution since reunification, recorded in Q2. Thus a law was passed, under which 80 bn Euros are provided over a 4-year period, covering most of the austerity program.

The positive evolution of the German economy exerted a favorable impact on the labor market as well. In 2010 the unemployment figure fell below the 3 million threshold for the first time after autumn 2008.

The unemployment rate continued its decline, going from 7.7% in 2009 down to 7.0% in 2010, which was the lowest level in the past 20 years. In January 2011, unemployment in the biggest European economy stood at 7.4%.

It has been noted that during the current economic crisis unemployment has grown at a lower rate than in the case of the previous recessions in Germany, thanks largely to the generous subsidies the government came up with to stimulate the companies. The latter did not operate layoffs, but switched to shorter work hours.

On the other hand, Germany is facing a major problem, i.e. the shortage of skilled labor. Demographic developments indicate that the workforce keeps declining. To secure the needed skilled labor, decision-makers supplemented the budget allocated to education and research for 2010-2013 by 12 bn Euros (for 2011 the budget stands at 11.65 bn Euros, which is 6.2% of GDP). In this context, German analysts are more and more often speaking of integrating the migrants, who can contribute significantly to Germany's economy.

As far as the business environment is concerned, the Berlin government has taken measures to encourage it. A special fund for microcredit has been set up, totaling 100 million Euros meant to help small companies that find it had to get financing from commercial banks (individual loans of up to 20,000 Euros are given for a 3-year period). The program is to continue until 2015, 60% of

the 100 million coming from European funds and 40% from the budget of the federal Ministry of Labor.

Owing to the measures taken, it can be noted that, despite the crisis, the number of German firms that filed for bankruptcy in 2009 was lower than the number of newly established companies, and the ratio further declined in 2010.

The latest data released by the Federal Statistics Office show that in October 2010, 13,374 firms went bankrupt, or 5.7 less than year earlier, whereas over January – October 2010 the number of bankruptcies stood at 140,440, which is 3.6% less than in the same period of 2009.

Table 3

Bankruptcies in 2000 – 2010

Year	Bankrupt companies	
	Total no.	Year on year change (%)
2000	42,259	24.2
2001	49,326	16.7
2002	84,428	71.2
2003	100,723	19.3
2004	118,274	17.4
2005	136,554	15.5
2006	161,430	18.2
2007	164,597	2.0
2008	155,202	-5.7
2009	162,907	5.0
2010 Jan – Oct	140,440	3.6
Oct	13,374	-5.7

Source: Federal Statistics Office.

For the next two quarters, specialists announce a solid though not spectacular performance of the German economy. Thus, as already mentioned, for 2011 a growth rate of 1.2% is expected.

Eastern Europe

Despite positive signals, in 2010 recession persisted in certain European Union member states (Greece, Romania), analysts predicting that the growth rate will stay low in the next period, notably in Eastern Europe. Economic recovery in this part of Europe largely depends on improvement as regards the situation of small and medium-sized companies, which have been seriously affected by the credit crunch determined by the crisis. This sector was the first hit by the hardships of the crisis.

The growth of the German economy more than it had been expected has had a beneficial effect on companies in the states of Central and Eastern Europe (CEE). German companies in countries like Poland, the Czech Republic, Slovakia or Hungary are expanding as the German economy grows stronger and stronger.

The investment they made helps both Germany and the respective states, and economic recovery in Central European countries based on exports to Germany is increasingly visible.

For this year the economists of the European Bank for Reconstruction and Development (EBRD) anticipate a growth rate of 4.2% in Central Europe, the Baltics, South-Eastern Europe and Central Asia. The economies of states in this region have posted higher growth rates than initially estimated.

For Croatia and Romania, which in 2010 posted a budget deficit, this year is expected to bring economic recovery: the Croatian economy will grow by 2% (up from -1.3% in 2010) and the Romanian one will return to a modest rate of 1.1% (-1.2% in 2010).

The economies worst hit by the crisis are healing more slowly, recovery in Eastern Europe being still braked by the measures taken to consolidate state budgets, which reduce domestic demand.

For the new member states of the European Union, i.e. Romania, Bulgaria, Cyprus, the Czech Republic, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia, the Economist Intelligence Unit (EIU) anticipates for this year a 2.8% growth rate, to be followed by 3.4% in 2012. Inflation in the region will run at 3.2% and 2.6%, respectively. Moreover, according to EIU estimates, the economy of the Eurozone, supported by Germany, will grow by 1.5% this year, only to slow down to 1.3% in 2012. The EU as a whole is expected to managed a 1.6% growth rate both for 2011 and for 2012. Inflation in the Eurozone will average this year 1.2% and will rise to 1.5% next year.

In Hungary, the Czech Republic and Poland, SMEs account for 60 to 70% of all jobs and for about half of each country's GDP, which means they are crucial for post-crisis economic growth.

In *Bulgaria*, bankruptcies multiplied by 63%, but most of the companies that went bankrupt are small, with limited possibilities to cushion the impact of the recession. EIU estimates that this year the Bulgarian economy will manage a modest recovery. The country's crisis response capacity was curtailed by the strict exchange rate of the leva in relation to the Euro and by the need to stick to a strict budgetary policy.

The only country that did not experience recession is *Poland*. In the last 14 years Poland has uninterruptedly posted positive growth rates, even in 2009 when its GDP grew by 1.8%. That performance, however, has a downside – the growing budget deficit. For the current year, the International Monetary Fund (IMF) expects the Polish economy to grow by 3.25%.

Romania

As already mentioned, Romania, alongside Greece, saw its economy shrink (1.2%), whereas all the other EU member states have already left the recession behind.

Along with Hungary and the Baltic countries, Romania is considered as displaying a rather high risk of social instability because of the deteriorating economic situation and (the prospect of) rising unemployment.

At a macroeconomic level, one of the challenges Romania has to face up to is the need to resume economic growth and avoid prolonged recession, to adopt a long-term economic strategy, to implement the structural reforms likely to lend it stability, and to increase the absorption of structural funds.

In this connection, the Government in Bucharest negotiated a financial package with the International Monetary Fund, the World Bank and the European Bank for Reconstruction and Development (EBRD) and other international bodies. That package is designed to support the economy in difficulty, the Government pursuing to reduce the budget deficit to 4.4% in 2011 and to less than 3% in 2012.

On February 2, 2011 the Government adopted a decision to support young entrepreneurs. The decision involves a state grant amounting to maximum 50% of what the project proposed is worth, but not more than 10,000 Euros, as well as the guaranteeing of loans the young entrepreneurs will raise.

According to Eurostat, in October 2010 Romania's annual rate of inflation was the highest in the EU, i.e. 7.9% compared to the EU's average of 2.3% and to the 1.9% in the Eurozone. To mention that, on the background of effects from the increased VAT, the National Bank of Romania altered its estimate for the 2010 inflation to 8.2%.

On the other hand, the IMF expects for this year an inflation rate of 5.2% (a level Turkey alone has exceeded) and an unemployment rate of 7.1%. Romania, considering the data for the third quarter of 2010, has a joblessness rate of 7.3%.

The sector of small and medium-sized enterprises, the most dynamic in the Romanian economy, is the first to have been hit by the economic crisis. SMEs are much more sensitive to change than the big companies, which have a higher capacity to adjust.

In Romania, the 600,000 SMEs stand for 99.6% of all companies, contributing nearly 80% of GDP and accounting for approximately 60% of all employees.

The adverse impact of the crisis on most SMEs determines a decline in the growth rate and a rise in the number of bankruptcies. Nevertheless, for a small number of SMEs, that is, for those that are aware of the changes in the market and react promptly, this period can prove propitious.

In times of crisis, certain SMEs, unlike the big companies, show greater flexibility, being able much more easily to implement new services and launch new products. The main challenges to SMEs in Romania come from the problem of liquidity and credit, from the declining demand for products and services, exchange rate variations and inflation. Moreover, sudden surges in the price of raw materials are another challenge.

The adverse effects of the financial crisis are visible notably in the case of SMEs in sectors such as commerce, construction and real estate. The drop in exports and investment, and the liquidity blockage are the main effects of the financial crisis, and they certainly affect the companies.

However, Romania has managed to obtain a rise in investors' confidence, at a European level. The business environment in Romania is confident and trusts long-term growth prospects are good, on a background of relative economic stabilization and of signals that financial consolidation, too, is on the way.

Exponents of the Romanian business environment claim Romania's economy will grow this year, such growth being crucial to fiscal and budgetary consolidation with a view to sound long-term economic growth.

The Romanian economy will most likely show a positive trend beginning in the second half of 2011. According to a study by the National Council of Small and Medium-Sized Private Companies in Romania (CNIPMMR), the number of companies registered in the first six months of 2010 declined 3% from the second semester in 2009, whereas the number of companies deleted from the register grew by nearly 465%. The number of firms that made profit in this interval declined by 2%, and the profit itself dropped by 5.1%. The turnover of SMEs diminished by 7.8% on average, losses grew by 7.71%, and investments declined 6.45% from the second half of 2009.

According to analysts, because of the problems in the EU and in other zones of the world, states like Romania will only be able to recover relatively late, based on a rise in exports, the solution being a recovery at internal level, but that takes longer and involves higher deficits.

The estimations of the National Prognosis Commission (CNP) for 2010-2014 are as follows:

- *GDP*: after a fall of 1.2% in 2010, in 2010 a rise of 1.5% is estimated, followed by +3.9% in 2012 and +4.5% in 2013;
- *Inflation*: the average annual rate is estimated at 5.9% in 2010, 5.3% in 2011, with the downward trend to continue to an annual average of 2.8% in 2014;
- *Unemployment*: the unemployment rate is estimated at 8.5% for 2010, to be followed by 8% in 2011 and 6.5% in 2014.

Conclusions

Economists hold that the sector of SMEs is the most important in the Romanian economy and concurrently the only sector that can determine economic recovery, entrepreneurs being the key to recovery. Stimulating the strengthening of SME potential, they contribute to securing growth resources in times of difficulty.

To help spur economic growth, the Government in Bucharest should further take measures to improve the environment for entrepreneurs, such as tax-exempted reinvested profit, which is one of the most important development levers, and lower taxation of labor.

With a view to backing the SME sector in Romania, it is imperative for the state to pay its debts (over EUR 1.5 billion so far), to invest in infrastructure, encourage absorption of European funds and the normalization of crediting. Moreover, the business environment needs a stable fiscal framework, such as to encourage investment and to attract European money.

Likewise, there is no overemphasizing that, particularly at this time when SMEs are grappling with difficulties, Romania needs very good, highly trained and experienced managers.

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Formal Institutions and Regional Development. Considerations Regarding Romania

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Abstract. *Assuming that a theory of development is incomplete without a theory of institutions, we propose in this paper to analyze, in a first part, the interrelation formal institutions-regional development and the ways through which these two components sustain themselves, then, in the second part of the paper, we will analyze the degree of convergence of the eight development regions in Romania, taking into account indicators such as: GDP per capita, average net wage gain, unemployment rate, labor productivity, the share of sectors in total employment.*

The results of our research we hope to lead us, in the final of the paper, to draw some future action directions by which to reduce development disparities between regions, both at national level and at European level NUTS2.

Keywords: formal institutions; regional development; convergence; regional gaps; measures.

JEL Codes: O1, O5, R1.

REL Codes: 16F, 16J, 19G.

1. The interrelation formal institutions - regional development

The scientific literature of the last years emphasizes the fact that a great part of the studies/inspiration from the field of regional development has its origin in institutional economy. Numerous empirical studies have proven the existence of a positive relationship between the institutional quality and economic growth, but other studies reached the conclusion that the states must have a minimum level of economic development in order to appropriately capitalize the institutional matrix. We can affirm that, in general, between institutions and development a mutual relationship, of reciprocal strengthening is established: the developed countries become stronger because development means supports of institutional efficiency, while the poor countries remain in a poverty trap due to the fragility of formal institutions.

When we speak about institutions, we refer to something more extensive than merely a set of legal entities easy to identify, such as parliaments, central banks or syndicates. The institutions represent a network of formal and informal rules meant to introduce order in the economic and social life and to edify a mechanism of applying and monitoring these rules in view of efficiently using the available national resources. The institutions form the environment that can influence positively or negatively the course of economic and social activities of a country.

The *formal institutions* (property rights, law's authority, free market, contract) must to consolidate the state of law and ensure the law's ruling, a moral political class, and a strong and independent justice. Through these institutions, we can eliminate social conflicts and, instead, promote cooperation relations that economize the resources and allow directing them towards useful, productive activities. The formal institutions are responsible for ensuring the normal functioning, without market obstacles. The effective and efficient functioning of market institutions is determined not only by the capacity of economic operators to organize themselves and operate in the competition environment, but, to a larger extent, by the capacity of governmental entities to establish and apply the rules of the game, to bring the necessary corrections to these rules when it is appropriate. (Iancu, 2008). Besides the formal institutions, there can also be *informal institutions*, made up of customs, traditions, way of life, cultural inheritance etc. These differ from country to country and from individual to individual, being much more difficult to change and having a more reduced influence on development. This is why we have chosen to focus on studying the formal institutions that determine the way the economic system functions. In order to have efficient economic processes, we must discover the inconsistencies that lead to the market failures and to the

faulty allocation of resources, and then to find means of eliminating them. D. North, the most important exponent of the new wave of institutionalists, emphasizes that *institutions* represent the rules of the game in a society, configuring the relationships between people (North, 2005). In order to prosper, a nation must defend and strengthen its institutions. Gravitating around this idea, the following question was often asked: which institutions are important in generating economic performance? In this sense, the significance of formal institutions was mostly highlighted since they establish the framework where the economic activity is carried out and provides the norms to regulate the production and exchange of goods.

There is diversity between the countries as regards the economic growth, structure and efficiency of mentioned institutions. At a large scale, it is known for a fact that the property has a deep impact on innovation and entrepreneurial behavior. The significant growth of market economies since the industrial revolution has represented not only benefits in efficiency but moreover innovation rated unequalled in history. Property gives entrepreneurs the freedom to try new things, to earn profits, based on the previous economic calculation, which compensated the risks and investments it assumes. Moreover, there cannot be a competitive behaviour without dispersed power and responsibility. When the property rights are sure, the individuals have stronger incentives to attain profit earning, improving productivity, capitalizing innovations, achieving qualitative goods, signing contracts, solving the eventual disputes, investing both in the physical and the human capital (Boudreaux, Aligică, 2007, pp. 29-30). Only on a free market can we achieve a reallocation of property rights, based on voluntary exchange, towards the most efficient uses and relative correct calculations of transaction costs. Moreover, on a free market, the necessary connection between the healthy currency and the private property institutions is established, idea supported by the most important representative of the Austrian School of Law and Economy, Ludwig von Mises. The markets evolve when people are free to use and develop the goods and contractual rights. The private property institution determined that the allocation of resources is made in a reasonable manner, taking into account the needs of the future generations as well. The neo-institutionalists consider that the market is a complex institutions that demands, in order to function correctly, an organization based on some known rules: at the level of countries in course of development, it is firstly imposed to create an economic-social framework favorable for markets, afterwards they must adopt creative destruction, suggested by J. Schumpeter, by which everything old and unprofitable must be replaced by new productive activities that support an adequate economic growth. Another formal institution, that of contract, is especially important

since the property rights are certain and the contracts are complied with, investments grow. The formal institutions imposed in a society are good when the result is the emergence of trust between strangers. The empirical studies emphasize the fact that there are multiple correlations between the level of trust between individuals and the welfare of a country (expressed in GDP), its growth rhythm and the economic climate. More exactly, there is a direct causality between trust and prosperity. Trust grows together with the perfecting of formal institutions and with the salaries' growth and decreases through the heterogeneous component of population and polarization (incomes' heterogeneity).

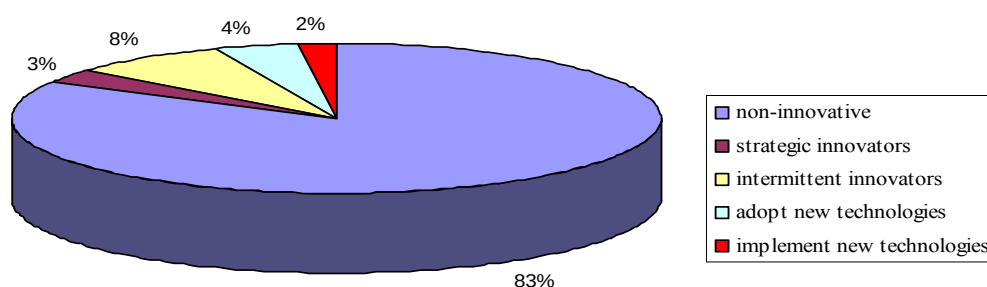
In essence, the institutions which favor development are those encouraging collective and individual freedom, favoring the adaptation to change, assimilating innovation, extending the common knowledge, accumulating social capital, emphasizing the performance of governing through a more reduced bureaucracy, a high degree of cooperation and flexibility, small corruption levels etc. In other words, the institutions and rules of law are the criteria and means for diminishing the potential conflicts and consolidating a social order. According to Freedom House and Heritage Foundation, the countries should take into account the quality of their institutions no matter the system they choose to rely on – German, Japanese or American – and correlate the formal institutions in a well-defined set, since these rationales will facilitate the path towards prosperity.

The identification of institutions and the differences between the countries represents the first step in understanding the manner in which an economy grows, stagnates or declines. The second step is that of knowing the manner in which business activities adapt commercial or change contracts to specific institutional environments. A thing is certain: if the institutions of the state of law, which are meant to control and sanction the abnormalities of persons, companies or organizations from the game rules, are weak, then the market economy functioning occurs chaotically, producing ample negative effects, from massive stealing and other frauds to wasting the resources and increasing social inequalities. To the extent that institutions concentrate their efforts to non-productive activities, making abstraction of the creative sphere, then, certainly, there are institutional rules incompatible with the economic performance. The differences between the formal institutions represent the main source of discrepancies between the countries as regards prosperity. However, we demand ourselves how we can obtain appropriate institutions. A possible answer is suggested by the institutionalist message which is a very clear one: in order to generate economic performances, it is necessary to transform the institutional framework or architecture of a social system in a certain direction.

The systems effectively combining institutions in order to foresee relatively low transaction costs, which promote voluntary exchange, reduce insecurity, grasp and distribute relevant information, encourage innovation, grow coordination and cooperation and control conflicts, determine better conditions for supporting economic growth (Steiger, 2006).

In the last years, the specialists in the endogenous growth theory emphasized in their works that a region can become a significant source of competitive advantage if it attracts local assets and associates externalities and economies of scale with spatial and specialization clusters. This supposes the reduction of transaction costs, agglomeration, concentration, technological innovations, qualified working force etc. This is where institutional economy comes forward, emphasizing the proximity and association character of the regions with a certain centre, which represents a learning and knowledge source. The main exponent of this vision is Michael Storper, who suggested that the core, place where globalization is in accordance with the localization of economic activity, is the power of relational assets or non-negotiated interdependencies. These include tacit local knowledge and open exchange, the quality of local institutions etc.

The economic potential of clusters enjoys attention at all the decision levels from Europe. As regards our country, the picture shows rather clearly the insufficient development of competitiveness clusters, the relatively incipient character of their formation, especially through the activity's profile, but also through the absence of some characteristics of mature clusters (Bîrsan, 2006, p. 39). The studies carried out at the national level by the Group of Applied Economy and the International Centre for Entrepreneurial Studies (CISA) emphasize a rather painful truth, namely that the native clusters are in an incipient stage. The Figure 1 suggests this.



Source: adapted after the data offered by GEA and CISA, in Bîrsan, M., 2006.

Figure 1. *The situation of the firm to national level*

Analyzing the data of the graphic, we observe that 85% of the companies have a non-innovative character, 3% are strategic innovators, 8% are intermittent innovators, 4% adopt new technologies and only 2% implement new technologies. We believe that this is mostly due to the problematic managerial capacity. This has determined us to establish one of the objectives of this project: showing the manner in which managers can initiate and develop activities of collaboration, of signing intelligent partnerships and emphasizing their impact on the reduction of regional discrepancies. Within the European economies, there are already examples of partnerships that could represent a model reuniting key both public and private actors, in view of generating the regional economic development. In this regards, we mention Strathclyde European Partnership.

2. Regional development strategies

The issue of disparities in the regional economic growth represents a reference element, which arouses lively discussions both regarding the field of conceptual-methodological approach and in that of implications on the economical-social practice. The existence of an inequality in the economic development of different countries or within the same country, between its different regions, represents an accepted reality, largely explained and partially remedied. The regions vary regarding their dependency towards the external market and their competitive goods, so that those who are in a strong market position can be much more selective regarding the types of development to choose while the others from the opposite pole can feel forced to reduce or eliminate the general social expenses, compete based on the cheap working force, reduce the environment standards or, in general, to adapt to the multinational capital. From an analysis of the tendencies and orientations, we can mention four types of development strategies (Keating, 2008):

1. *The strategy of bourgeois regionalism* encountered in strong regions from the economic point of view, and focused around a local business elite found in cooperation with the regional governments or agencies. The emphasis is moreover put on the economic competitiveness, on productivity, technology and added value rather than on employments. This is a growth model with high costs, with an important public expense in the field of infrastructure and other development elements such as professional training and education, research and technology transfer;

2. *The sweatshop economy*, a way towards competitiveness that supposes reduced costs and functions based on small salaries and taxes. The region accepts moreover its role in the global distribution of work rather than actively trying to create jobs. Such a strategy can produce benefits on the short term for the internal investments and for employment, but always risks to be outrun while other regions in the world come into competition. Its viability on the long term is also under the question mark, since it attracts social investments (in infrastructure, education and public services) without reinvesting in the future;
3. *The social-democrat project*, another model where there is a high public investment in development, but those elements that simultaneously increase social equality or access to the labour market are considered the priority;
4. *The project of creating a nation*, found in regions with aspirations to national autonomy or even independence. Here, independence is seen both as valuable for itself, and as a necessary component in the process of creating a nation as an action system and actor in the new Europe.

According to regional specificity, we can apply one of these strategies, which will certainly generate different levels of development and peripherality.

According to the neoclassical model, which emphasizes the offer's role, regional growth leads to convergence in the economic-social development of the regions, while in the vision of models based on post-Keynesian approaches of demand (model based on the export potential, cumulative causes model), the regional growth emphasizes divergence. Nevertheless, the relatively recent researches in the field have proposed not to consider these visions as being totally opposite, but to approach them from their possible complementarily angle, in such manner as to offer explanations as comprehensive as possible regarding the causes lying at the foundation of the different rates of economic growth at the regional level.

We mention that there is no universal model to follow as regards development but only alternative models specific to each institution, given by the historical time, geographical space and state of things from different countries, the conditions appropriate to a subsequent ascension. The change must be switched to the formula of sustainable development and capitalized as support generating modernization. In this sense, focusing the transforming effects on individual is essential (Dinu, 2006, p. 97). The changes can be slower or more sudden, according to the start positions in the transition process.

Referring to this subject, there have been a series of opinions expressed in different studies. Some claim that the experience accumulated in the last years, no matter whether it is analyzed informally or with the help of data, tables and regressions, support the idea according to which the most successful transition economies are those with comprehensive and stabilized reforms. Others emphasize the fact that the role of initial conditions in explaining the growth variations is surprisingly small. The difference between the performance of countries from the Central and Eastern Europe is best explained through the differences of structural reforms than the initial conditions. However, the majority of theses from the specialty literature assert the opinion according to which the initial unfavorable conditions should not become an excuse for the lack of action. First, their negative effects decrease along time. Secondly, the empirical studies suggest, clearly, that these effects can be compensated by a not too fast progress in the direction of reforms. Thirdly, the most important fact is indirect: initial unfavorable conditions result from a less political will and capacity for reform and less reform means less growth. We must remember the fact that the specificity of the institutional change process mainly finds its explanations at the level of informal institutions and their role in consolidating the capitalist system. From that perspective, the change is associated with a high level of uncertainty that results from the disparity of a certain order and the creation of an institutional gap: on the one hand, the institutions in the past are no longer appropriate for the new realities and must disappear, and on the other hand, we do not know too much about the new institutions which must replace them and especially, they do not develop over night. The structure and economic transformation differs from one country to the other. Although there are some common elements between them, we can really understand the unique properties of each one if we make comparisons with other countries (Kornai, 2007, p. 8).

We must mention that although the west European economies have implemented and were aware of the importance of institutions for development, those situated in the centre and East of Europe cannot import their institutional structures since these states are either too weak to act as guarantee of these rights and institutions, or are too rapacious regarding the imposed requirements (Pranab, 2005, p. 512). The facts show us that the developed European economies have been aware of the importance of welfare and protection of institutions, which explains their prosperity and the existence of a solid institutional framework, with high incomes, relatively certain property rights, this determining a diminishing of transaction costs and expropriation cases. In these states, the formal institutions have reduced insecurity, have provided

information and have put contracts into application. In exchange, the post-communist European economies have ignored the institutions' roles in development, generating a defective institutional framework, with high transaction costs, uncertain property rights, not clearly imposed laws, barriers in the way of products' entry on the market, corruption and immoral activities, waste of available resources, uncompetitive services, high social costs, subverting property, weakening the enforcement of contracts, decreasing the foreign investors' interest for the business environment. Thus, the poverty heightens and that rod which contaminates with inefficiency is extended.

3. Notes concerning the indicators of regional development

The development disparities between countries or regions can be analyzed from different perspectives from the unemployment or employment rates – indicators relevant to the general welfare, productivity/capita, which measures the relative economic efficiency of regions, to indicators introduced recently in some reports of European Commission and which treats disparities in terms of demographic trends, levels of education of the population, level of investment in research and development, number of patented applications, etc. Although comparisons between these indicators may be useful in establishing trends in national or regional economic development, the major criterion for policy intervention is the regional disparities in terms of revenue and production. Without insisting on numerous indicators that can measure differences for the categories mentioned, we review some alternative instruments that can quantify the notion of *regional development*:

- long time, the main indicator used by the European Commission to establish eligibility for support through regional politics was *GDP per capita calculated on the basis of the exchange rate*, measured both at national and regional levels;
- gradually the standard practice became the use of *GDP per capita calculated on the basis of purchasing power parity* allowing considerable reduction of differences;
- development disparities are reduced, if *the standard purchasing power* is calculated at the regional level. In many states, there are significant variations in what regards the purchasing power between different geographical areas or between cities and rural areas;
- because it was very important to determine whether redistributive efforts of Member States should or not to be taken into account in defining progress in regional policy, a new indicator was introduced:

regional GDP per capita, adjusted by taxes, transfers and other public spending. According to the principle of additionality, the contributions of European funds should not replace national investments, but to supplement and expand them;

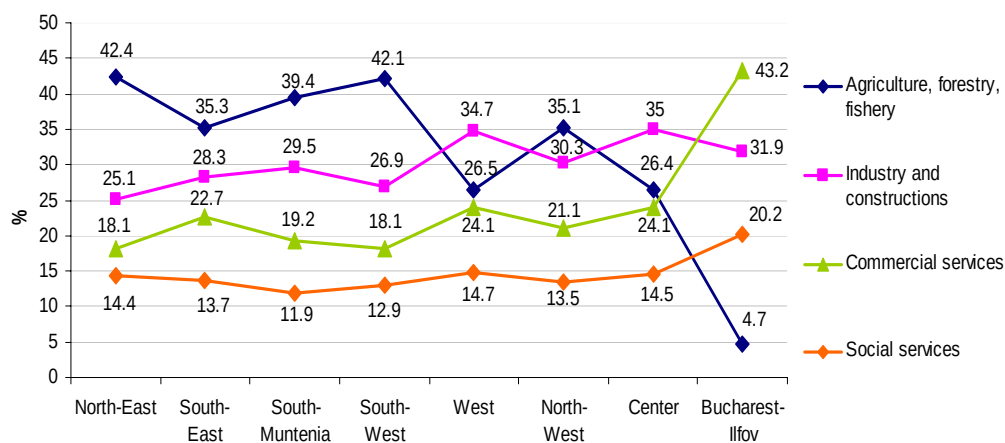
- there are studies that demonstrate the regional distribution of income after the deduction of taxes is more modest than the values recorded for regional GDP disparities. *Disponibile income (individual)* is an indicator that, unlike other indicators, includes private capital flows, which may be relevant to less developed regions, where local population is dependent on the support of those who emigrated.

Obviously, indicators we spoke about, whatever the successive attempts of using in a way as accurate and representative as possible in the analysis of regional convergence processes, provides only one image of synthesis, prevailing economic.

4. The analysis of regional development in Romania

In recent decades, emerging countries reduce the disparities compared to developed countries but also the disparities within them grow. It is what Robert Barro and Xavier Sala-i-Martin, in the 90s, have defined as “beta convergence” and “range convergence” (Barro, Sala-i-Martin, 1991).

To highlight the inter-regional differences, we will examine several indicators which reflect the economic situation from Romania. One of them refers to *the share of sectors in total employment* (Figure 2). Of the eight development regions of the country, half are based on agriculture, with its share of overall regional employment between 35% and 42%.



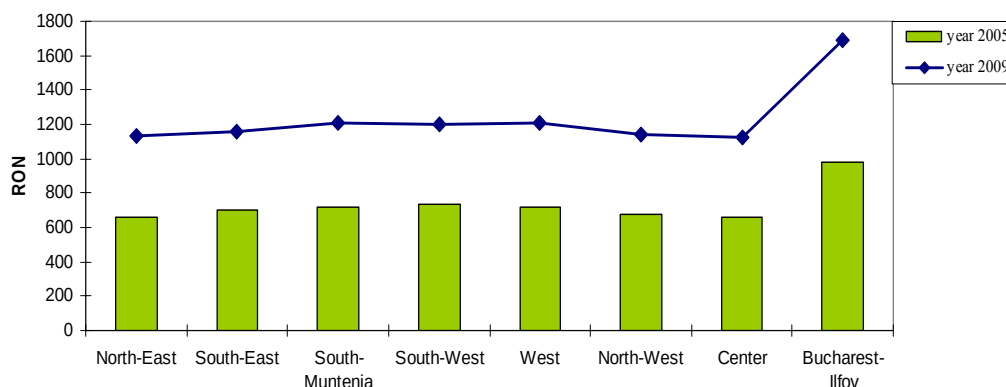
Source: data provided by the National Commission of Prognosis, 2009.

Figure 2. Share of sectors in total employment (%)

Industry and constructions have an average of 30% of total employment, the regions that are above this level are Center (35%), West (34.7%), Bucharest (31.9%) and North - West (30.3%). The Bucharest region is the only region of the country where services, which at national level are 38% of total employment, generates the most important jobs, bringing to 43.2% of total employment of the region. The North-East region is the poorest, contributing with 15.2% of total employment in the country, holding, at the same time, the highest participation in employment in agriculture, forestry and fishing (42.4%), followed by industry and construction (25.1%), services (18.1%), social services (14.4%).

We mention that reducing the gap between developed areas and those left behind is a durable phenomenon, as well as reducing disparities between countries because the areas/developed countries advance in time, even if in slower growth rates.

And on *average net wage gain*, the situation is not very pleasant (Figure 3).



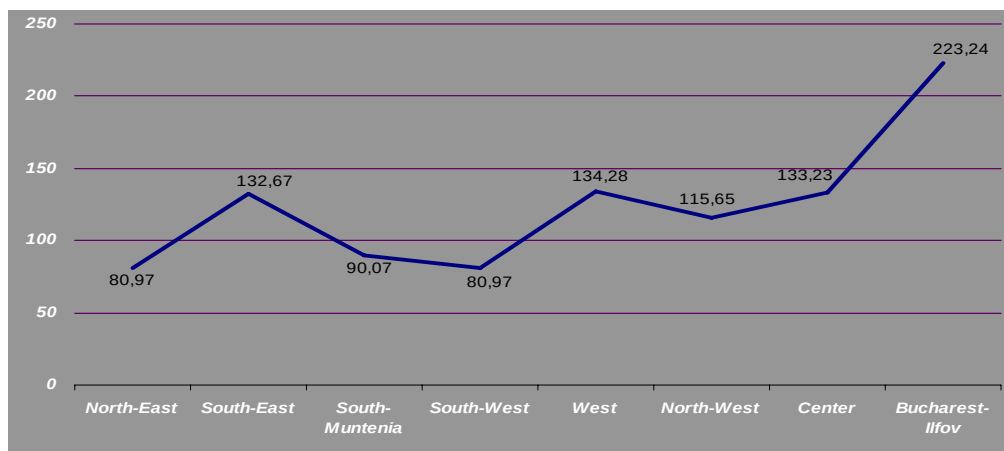
Source: data offered by National Institute of Statistics, 2009.

Figure 3. Average net wage gain in the development regions of Romania

Thus, we see that in the Bucharest-Ilfov region, which contributes significantly to national economic growth, the average net wage gain in 2009 is 1,692 RON (402.85 Euro). However, we point out a significant increase from 2005 when it was only 977 RON (232.61 Euro). North-East recorded the lowest earnings in 2005, 663 RON (157.85 Euro) and in 2009, 1,129 RON (268.80 Euro).

Besides all these statistics which places the North-East region on the last place, *The fourth report on economic and social cohesion*, since 2008, confirms that this is part of EU regions with very low GDP, with regions that Ipeiros (Greece), Calabria (Italy), Extremadura (Spain), Burgenland (Austria), Dessau (Germany), Lubelskie (Poland), Severozapaden (Bulgaria) etc.

Also, another important indication of development refers to labor productivity (Figure 4).

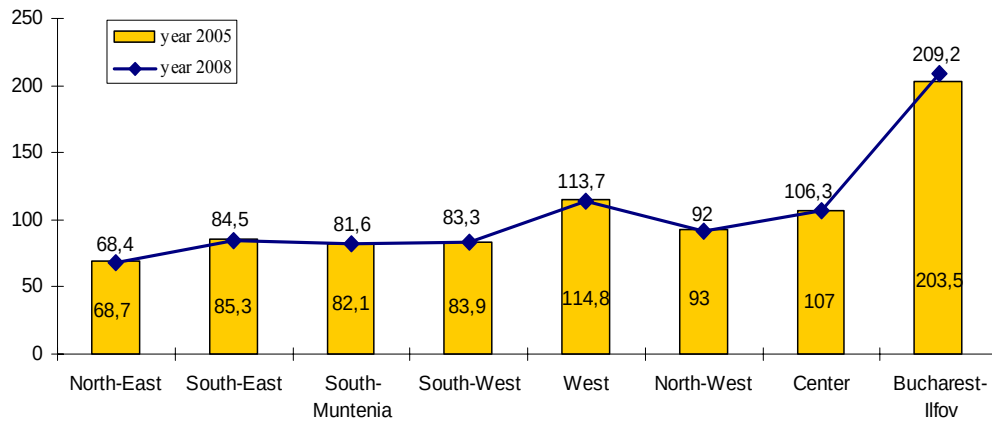


Source: data provided by the National Commission for Prognosis, 2009.

Figure 4. *Labor productivity*

Thus, five of the eight development regions (South-East, West, North-West, Centre and Bucharest-Ilfov) have labor productivity above the national average.

To see how these differences are reflected, in the graphic bellow we represent the disparity of the eight development regions comparing with national average in 2005 and 2008, respectively.



Source: data provided by the National Commission for Prognosis, 2009.

Figure 5. Disparity index versus total country (national level=100)

As discussed above concerning the indicators, we see that the North-East region is below to the national average in terms of level of development, with the South-East, South-Muntenia, South-West and the other four regions is above national average.

To see how it reflects the effect of the peripherality of the North-East region and which its economic implications are, we will use statistical analysis, using variables as: GDP/capita, average net wage gain, the unemployment rate.

Thus, the results revealed that, in the year 2008, the Pearson correlation coefficient, which describes the relationship between GDP/capita and average net wage gain, has a value close to 1 (0.862), which shows that between two variables is a direct relationship (Table 1).

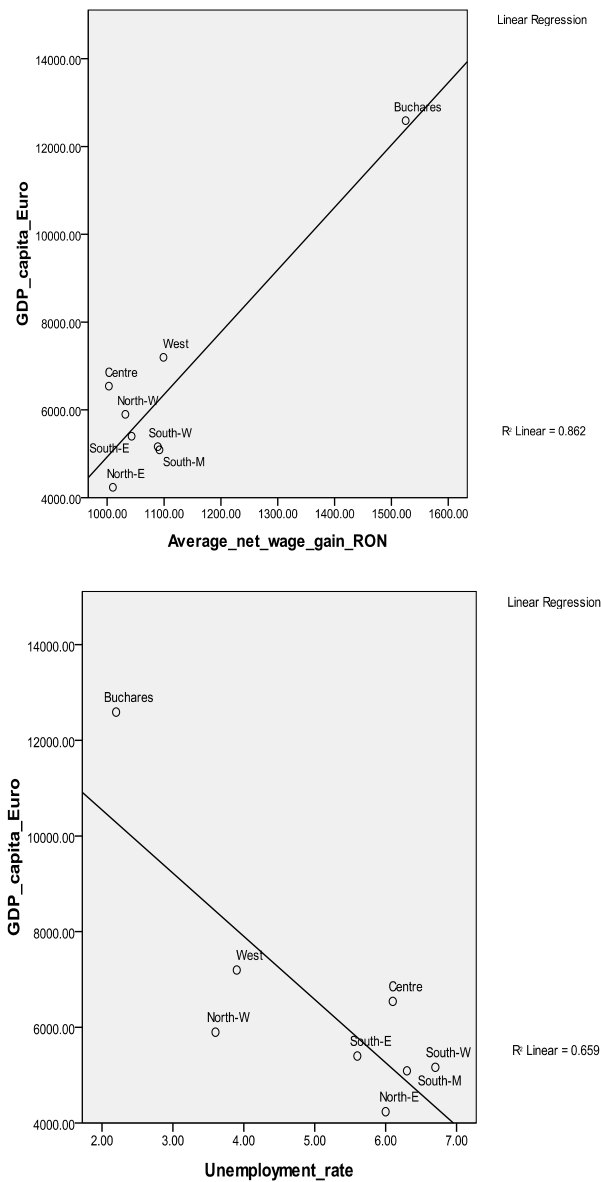
Table 1

Correlation index		GDP_capita_Euro	Unem- ployment_rate	Average_net_wage_gain RON
GDP_capita_Euro	Pearson Correlation	1	.659(*)	.862(**)
	Sig. (2-tailed)		.014	.001
	N	8	8	8
Unemployment_rate	Pearson Correlation	.659(*)	1	-.704
	Sig. (2-tailed)	.014		.051
	N	8	8	8
Average_net_wage_gain RON	Pearson Correlation	.862(**)	-.704	1
	Sig. (2-tailed)	.001	.051	
	N	8	8	8

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

The diagrams confirm all mentioned above.



Source: Own calculations based on the indicators offered by the National Commission for Prognosis, 2009.

Figure 6. Correlation diagrams

Analyzing the two diagrams we find that in 2008 the region that knows the slowest economic development (measured by the indicator GDP per capita) is the North-East. In this region, the average net wage gain is the lowest (1,010 RON) and the unemployment rate is 6%. To the opposite pole is the Bucharest-Ilfov region, with an average net wage gain of 1,525 RON and an unemployment rate of 2.2%.

5. Lines of action to reduce the development gaps

Romanian realities point out that current policies, structures and mechanisms aimed at reducing economic and social disparities among regions are not useful as long as these differences are increasing. The achievement of some cohesion objectives at national level should not be based on increasing disparities but rather on their reduction. Therefore, must be put in place policies and strategies of real convergence in order to ensure a higher growth rate of the less developed regions compared to developed ones. It is the obligation of the authorities and citizens to take actions, through solidarity and responsibility, to take advantage from the opportunity to reduce economic and social disparities and to benefit from multilateral progress promoted by the European Union Member States.

But we consider what can be done to improve the economic situation of North-East region, which is on the last position regarding the degree of development at regional level, as we found in the analysis conducted, aimed the decision makers. In this direction, it is necessary: the provision of the increasing accumulation of detailed information about region (depending on the scale of analysis) for the purpose of diagnosis and forecasts; the need to deepen and update ongoing studies to ensure correct information of the decision factors and based on more current data; rationalize public expenditures, focusing on investment in human capital; more accurate allocation of funds to those who truly need them; strengthen the business environment, transparency of public administration and policies implemented; boosting the rural economy.

Only an institutional and functional transparent, non-bureaucratic regulation framework facilitates the economic development and ensures the accomplishment of exigencies imposed by the integration into the EU. Following the example of western economies, it is necessary that Romania and, in general, the Central and East-European countries understand that the definition, assigning and protection of the property rights represent one of the most complex and difficult problems that they must solve, one way or the other. Moreover, we must adopt a comprehensible and coherent implementation strategy. The institutional development is, before everything, a social

transformation exercise and, as a result, needs a systematic support. Therefore, a coherent and solid institutional construction is that of responding to a certain reality in which the institutions interact, support and complete each other, the property rights are clearly defined, correctly and efficiently applied, the citizens are able to get information about the way they can begin and extend a business, there is a high quality of infrastructure necessary to a democratic system based on the market, the emphasis is placed on property and contract protection, the private investments are supported, mentalities are changed. Moreover, in a moment when Europe confronts with the globalization challenges, the bottom-up concept – based on identifying the problems and some concrete modalities for solutions offered by the local actors – must also be identified in the process of formulating the regional politics at the community level, with the purpose of not attaining an artificial construction, with objectives declared at the declarative level, which are not feasible because, on the one hand, they do not take into account the potential or the specificities of the regions aimed at, and on the other hand the regions do not assimilate them. The politics aiming at regional development cannot be taken from the shelf and universally applied for all the types of regions since in the centre of economic success there is a set of common elements (for example, rationality, profit maximizing, free market etc.). We must know to attract both the hard benefits, resulted from more efficient business transactions, more profitable investments, reduced expenses, which generate profit and jobs and soft benefits, obtained by accumulating knowledge, innovation. If we are indifferent regarding our capacity to create economy based on innovation, which is supported by institutions adequately, it is obvious that we will lose the potential growth poles.

6. Final remarks

We conclude that the regional development must adapt in the future to two types of challenges, both pressing, and which require immediate action: 1) it must face the competition pressures that EU is confronting with on the world plan and which were concretized in reactions of the Lisbon Strategy type or Europe 2020 Strategy and 2) it must answer the challenges regarding the achievement of convergence between the member states and the EU regions, especially through formal institutions. Therefore, adapting the regional development politics to these two challenges practically supposes a synergic action through concrete measures at the level of two pillars, which must be approached distinctively, not together, as it happened until now: outlining some strategic directions through measures aiming at achieving a real convergence, diminishing the development potential differences between the regions. Also it is necessary to shape a clear framework which to provide support and a precise

direction of action that a free market, especially the private firms and decision makers to follow in order to obtain competitive advantages.

According to “The National Strategy for Sustainable Development of Romania”, the main objective pursued at national level and desired to be achieved by 2013 is that “to support economic and social development of regions, in correspondence with their needs and resources, focusing on urban growth poles; improving the infrastructure and the business environment to make from the regions, particularly those lagging behind, more attractive places to live, to visit, invest and work”.

Starting from the premise that things not should remain as they are and that we deserve what we do, we consider that both Romania and other European countries will find their place in economic, political, social, depending on the efforts which they submitted and on the implemented strategies for proper management of existing resources, based on an effective economic policy, contributing to reducing the competitiveness disparities. We believe that the way in which the competitive authorities will know how to implement the best measures, adapted to national specificities, will make the difference between the states. History demonstrates this fully.

Acknowledgements:

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Tourism Heritage – An Important Dimension for Assessing/Shaping a City's Image. Study Case: Bucharest

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Abstract. *In a world where, lately, on one hand, more destinations can be “replaced” one for the other and the tourists’ desire to find a mean of expressing their own identities (Morgan, Pritchard, 2004, pp. 50-80) is more and more evident, and, on the other hand, the image is gradually replacing the identity, leads to the fact that the authenticity of every single aspect that one community has needs to be assessed and reassessed from an economical and socio-cultural point of view.*

Keywords: tourism destination; tourism image; regional tourism brand; forms of tourism; destination marketing.

JEL Code: M31.

REL Codes: 14F, 14G.

Introduction

In general, the perception/formation of a city's image is a long and complex process that involves a set of different images/perceptions, namely: an *a priori* perception (a "mental construct within the space of knowledge" of an individual without him visiting the "physical" place), an *in situ* perception (on arrival at the destination while "experimenting" that place) and an *a posteriori* perception – after "consuming the experience" of the specific elements of the visited place (Di Marino, 2008, p. 4).

The "a priori" perception of a city is formed from different angles (geographical-territorial, urban-economic, demographic, cultural, etc.) which are specific to that person's social status, moral, culture or personality, as was the case, from ancient times, for some metropolitan cities (Babylon, Jerusalem, Athens, Rome, etc.), "whose mere evocation awakened interest, aroused curiosity for those who have never been there". In time, however, due to the changes they suffered, their image obviously changed as well. Some of them, usually those who "see their future for tourism", always work to "reawaken the past who left a particular impression on everyone and a certain character as well" (adapted after Dragicevic-Šešić, Stoicov, 2002, pp. 60-65). Even if the past was not only full of... beauty and glory! ...

Destination marketing, which is an integral part of urban marketing if that city (place) wants to become a successful tourism destination, is given a central place; its starting point is represented by the inventory of its "tourism heritage" (an important component being its cultural heritage) and its perception by different market segments, starting with its direct beneficiaris – the inhabitants (whether permanent and/or casual).

Methodological framework

The perception of a tourism destination, with its specific forms of tourism (cultural, historical, business, leisure etc.), is important for the marketer in order to shape its image, thus necessary for developing a marketing/urban development strategy, with the purpose to provide appropriate tourism products in accordance with consumers' demands and desires, caused/determined among other things by their socio-cultural identity (hence, the need for a permanent investigation on various categories and market segments). The undertaken research aimed to identify main forms of tourism, that respondents from different regions of the country – young people aged 20 to 24, current and potential tourists – can associate to Bucharest.

In October-December 2010 – January 2011, a statistical survey was conducted within several Universities from Romania (Bucharest, Braşov, Craiova, Sibiu, etc.). The main objectives of the research were:

- a) to identify the predominant form of tourism for Bucharest;
- b) to identify the representative form of tourism for Bucharest, taking into account the region of origin of the respondents;
- c) to highlight the tourism potential (natural and anthropic) of Bucharest;
- d) to identify some representative tourism attractions that may contribute to the image of the tourism destination.

The sampling of the statistical survey was represented by 1.887 young people, aged between 20 and 24 years, persons with ongoing studies. In terms of age category and territorial distribution for Romania, according to the methodology established in the speciality literature, the sample is representative.

The method used was the statistical survey and the instrument was the semistructured written questionnaire completed by the respondent.

Research results

According to the classification of the forms of tourism proposed by the World Tourism Organization (WTO/UNO) in 1979, which starts from the reasons guiding the choice of tourism destination (business and professional tourism, cultural tourism, leisure tourism, visiting friends and relatives and other forms of tourism), respondents were able to select the main form of tourism prevailing in that region.

When it comes to the repartition of the tourism forms for Bucharest, the results are as follows: 75.2% of respondents considered *business and professional tourism* to be representative for the country's capital, 8.4% opted for *cultural tourism*, 7.9% chose the form of tourism *visiting friends and relatives*, 5.6% opted for leisure tourism, while 2.9% of respondents chose *other forms of tourism* (Figure 1).

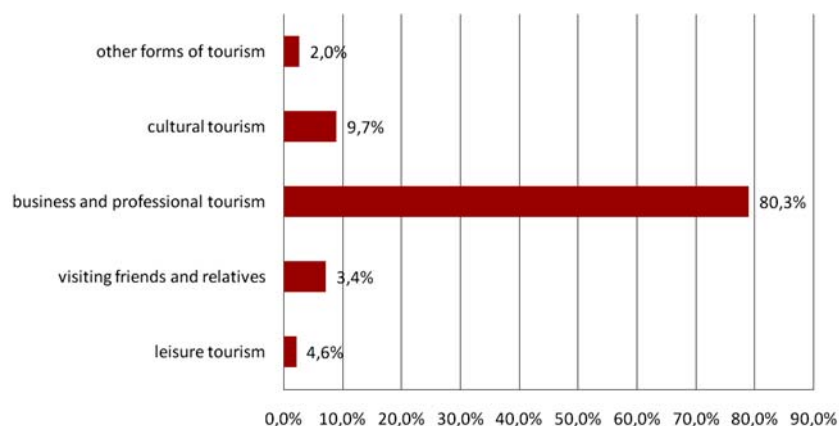


Figure 1. The distribution of the forms of tourism for Bucharest

It is notable, after taking into account the respondents' region of origin, that *business and professional tourism* is constantly top-ranked as the main form of tourism for the city of Bucharest, which is frequently followed by *cultural tourism*. So, the situation is as follows (Table 1):

1) Bucharest as region of origin (Figure 2):

- 82.5% of the respondents chose the *business and professional tourism* as the representative tourism form for the capital city;
- 10.3% chose *cultural tourism*;
- 3.0% opted for the form of tourism visiting friends and relatives;
- 2.7% opted for the leisure tourism;
- 1.5% of the respondents chose other forms of tourism.

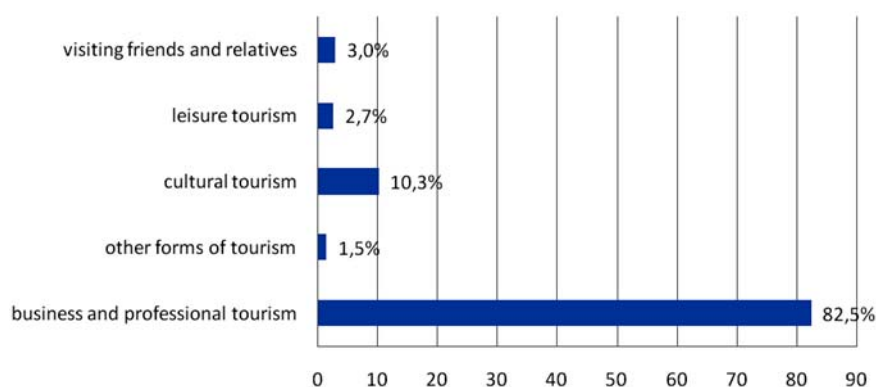


Figure 2. The distribution of the forms of tourism for Bucharest.
Respondents' region of origin: Bucharest

- 2) Muntenia region of origin, except Bucharest (Figure 3):
- 79.0% of respondents chose *business and professional tourism* as representative for Bucharest;
 - 8.8% opted for *cultural tourism*;
 - 5.7% chose leisure tourism;
 - 5.0% opted for visiting friends and relatives;
 - 1.5% of respondents – other forms of tourism.

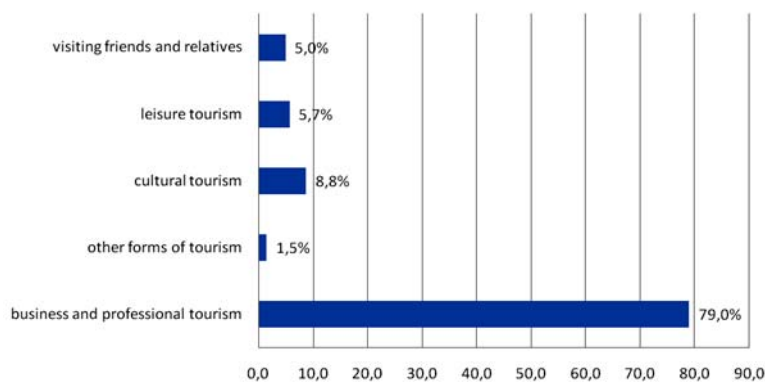


Figure 3. The distribution of the forms of tourism for Bucharest.
Respondents' region of origin: Muntenia (except Bucharest)

- 3) Oltenia region of origin (Figure 4):
- 57.2% of respondents chose *business and professional tourism* as representative form of tourism for Bucharest;
 - 23.5% opted for *visiting friends and relatives*;
 - 9.1% chose leisure tourism;
 - 8.4% opted for other forms of tourism;
 - 1.8% of respondents – cultural tourism.

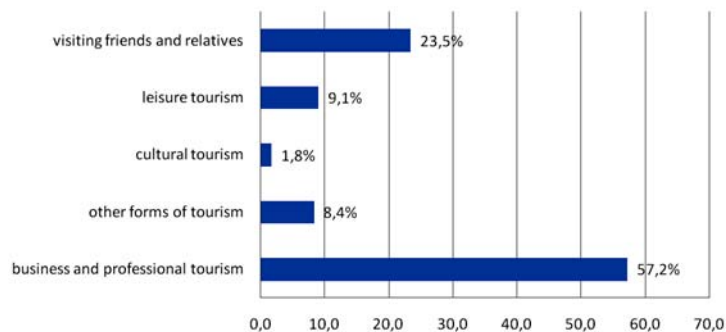


Figure 4. The distribution of the forms of tourism for Bucharest.
Respondents' region of origin: Oltenia

4) Transylvania region of origin (Figure 5):

- 83.1% of respondents chose *business and professional tourism* as representative form of tourism for Bucharest;
- 7.1% chose *cultural tourism*;
- 4.2% opted for *leisure tourism*;
- 2.8% opted for *visiting friends and relatives*;
- 2.8% of respondents – other forms of tourism.

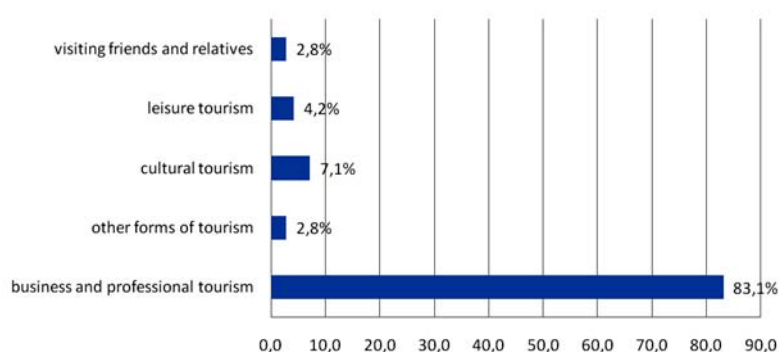


Figure 5. The distribution of the forms of tourism for Bucharest.
Respondents' region of origin: Transylvania

5) Banat-Crișana region of origin (Figure 6):

- 57.3% of respondents chose *business and professional tourism* as representative form of tourism for Bucharest;
- 20.2% chose *cultural tourism*;
- 12.4% opted for *visiting friends and relatives*;
- 7.9 chose *leisure tourism*;
- 2.2% of respondents – other forms of tourism.

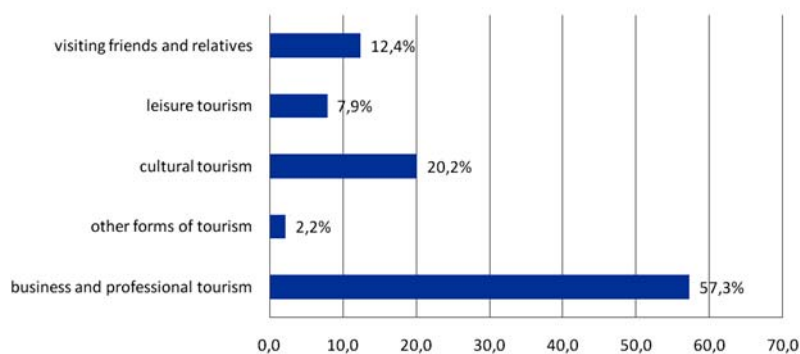


Figure 6. The distribution of the forms of tourism for Bucharest.
Respondents' region of origin: Banat-Crișana

6) Moldavia and Maramureş region of origin (Figure 7):

- 76.4% of respondents chose *business and professional tourism* as representative form of tourism for Bucharest;
- 12.3% chose *cultural tourism*;
- 6.6% opted for leisure tourism;
- 2.8% chose other forms of tourism;
- 1.9% of respondents opted for visiting friends and relatives.

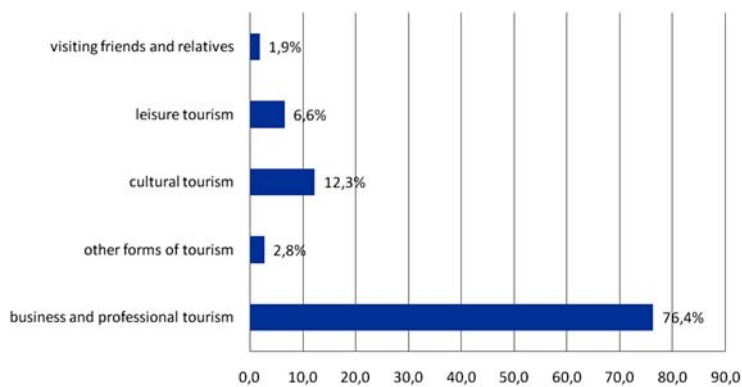


Figure 7. The distribution of the forms of tourism for Bucharest.
Respondents' region of origin: Moldavia and Maramureş

7) Bucovina region of origin (Figure 8):

- 67.7% of respondents chose *business and professional tourism* as representative form of tourism for Bucharest;
- 14.7% chose *cultural tourism*;
- 8.8% opted for other forms of tourism;
- 5.9% opted for visiting friends and relatives;
- 2.9% of respondents – leisure tourism.

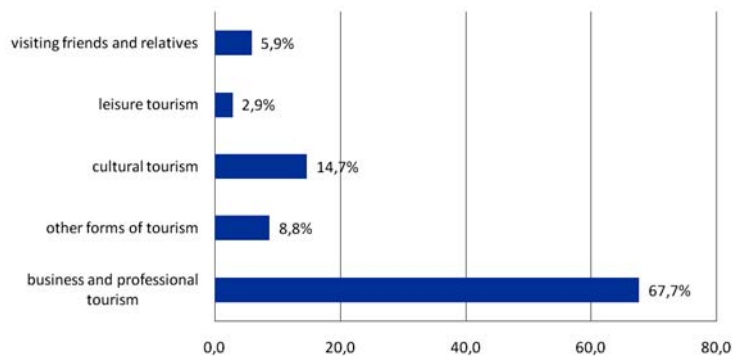


Figure 9. The distribution of the forms of tourism for Bucharest.
Respondents' region of origin: Bucovina

8) Dobrogea region of origin (Figure 9):

- 73.8% of respondents chose *business and professional tourism* as representative form of tourism for Bucharest;
- 11.5% chose *cultural tourism*;
- 6.5% chose *leisure tourism*;
- 4.9% chose *other forms of tourism*;
- 3.3% of respondents opted for *visiting friends and relatives*.

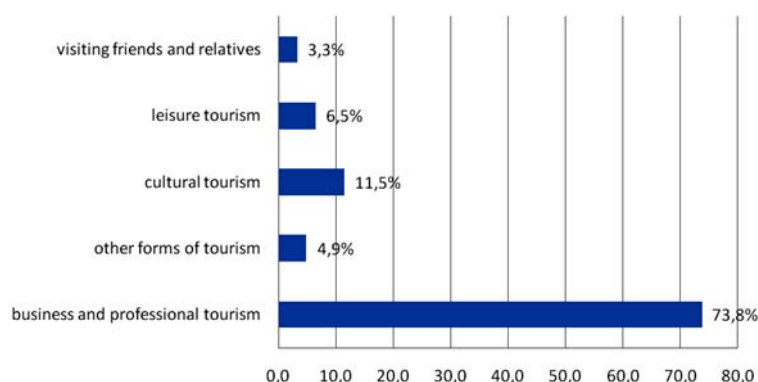


Figure 9. The distribution of the forms of tourism for Bucharest.
Respondents' region of origin: Dobrogea

Table 1

**The distribution of the responses by forms of tourism
and by region of origin of the respondents**

Forms of tourism Respondents' region of origin	(%)				
	Business and professional tourism	Other forms of tourism	Cultural tourism	Leisure tourism	Visiting friends and relatives
Bucharest	82.5	1.5	10.3	2.7	3.0
Muntenia (except București)	79.0	1.5	8.8	5.7	5.0
Oltenia	57.2	8.4	1.8	9.1	23.5
Transylvania	83.1	2.8	7.1	4.2	2.8
Banat-Crișana	57.3	2.2	20.2	7.9	12.4
Moldavia and Maramureș	76.4	2.8	12.3	6.6	1.9
Bucovina	67.7	8.8	14.7	2.9	5.9
Dobrogea	73.8	4.9	11.5	6.5	3.3

The respondents' option for *business and professional tourism*, as predominant form of tourism for the capital city, can be explained mainly by the presence of numerous (national and international) prestigious organizations, as a result of a good infrastructure (especially the existence of two airports and

a rail node), but also due to the fact that the existent university environment offers highly trained workforce in various fields.

Associations of natural and anthropic resources that are associated to Bucharest are presented, by the order of importance, in Figure 10.

A. NATURAL POTENTIAL	% of respondents
<i>hydrography</i> : Dâmbovița River, Herăstrău Lake	0,2
B. ANTHROPIC POTENTIAL	% of respondents
<i>historical traces and art monuments</i> : Palace of the Parliament, Arch of Triumph, Cotroceni Palace, Șuțu Palace, Curtea Veche, Ghika Palace, Victoria Palace, Casa Scânteii (The House of the Free Press), etc.	29.7
<i>important areas of the city</i> : historical center (Lipscani)	2.7
<i>museums</i> : Village Museum, „Grigore Antipa” National Museum of Natural History, Museum of the Romanian Peasant, National Museum of Romanian History, The National Museum of Art of Romania, National Museum of Contemporary Art, National Geology Museum, „King Ferdinand I” National Military Museum, „George Enescu” Museum, „Prof. Ing. Dimitrie Leonida” Technical Museum, etc.	12.0
<i>cultural – artistic institutions</i> : Romanian Athenaeum, Romanian National Opera, theatres (National Theatre Bucharest, Tândărică Theatre, „Ion Dacian” National Operetta Theatre), Palace Hall, Romanian Patriarchal Cathedral from Bucharest, monasteries (Radu-Vodă Monastery), churches (Sf. Anton church/St. Antons's church, Sf. Gheorghe church/St. George's Church), Romanian Cultural Institute, Globus Circle, art galleries, cinemas, etc.	5.5
<i>cultural – artistic events</i> : fairs and exhibitions, conferences, concerts, festivals, International Festival „George Enescu”, Tuborg Green Fest, etc.	2.1
<i>contemporary constructions</i> : National Bank of Romania, Palace of Justice, Romexpo, Botanical Garden, Zoological Garden, shopping centers (malls), business centers, C.E.C. Palace, Romanian Commodities Stock Exchange, Romanian Chamber of Commerce and Industry, university center (Bucharest Academy of Economic Studies, Polytechnic University of Bucharest, University of Bucharest), parks (Herăstrău Park, Cișmigiu Park, Carol Park, Tineretului Park), lux hotels (Intercontinental, J.W. Marriot, Howard Johnson, Pullman, Radisson, Hilton, Rin Grand Hotel, Capșa), restaurants, Casa Oamenilor de Știință, Hanul lui Manuc, subway, airports, embassies, bars, etc.	20.5
<i>economic units</i> : numerous (national and international) prestigious organizations, factories.	3.2
C. MISCELLANEOUS	% of respondents
<i>personalities</i> : Nicolae Ceaușescu, Ion Mincu.	0,1%
<i>other associated words</i> : capital city, metropolis, crowd, agitation, pollution, Little Paris, people (inhospitable, gloomy, depressed), affiliation (home, grandparents, family), opportunities, fun, traffic, modernization, (economic) development, etc.	24,0%

Source: adapted after Minciu, R. (2001). *Economia turismului*, Ed. Uranus, p. 161

Figure 10. “Tourism heritage” of Bucharest

Bucharest enjoys a rich and diverse cultural offer, the respondents frequently stating the following attractions (Table 2):

Table 2

Top 10 attractions of Bucharest

No.	Tourist attractions in Bucharest	Associations from all answers (%)
1	Palace of the Parliament	24.9
2	Historical Center of the City (Lipscani district)	2.6
3	Village Museum	2.5
4	Arch of Triumph	2.1
5	Romanian Athenaeum	2.0
6	„Grigore Antipa” National Museum of Natural History	1.9
7	Museum of the Romanian Peasant	1.9
8	Herăstrău Park	1.5
9	National Museum of the Romanian History	1.3
10	Cotroceni Palace	0.9

The results presented in the table above suggest that respondents have superficial knowledge of Bucharest’s tourism heritage, although these tourist attractions organically fit. Thus, the most frequent responses show that the Palace of the Parliament is leading compared with the following by over 20% (which was promoted by three characteristics, namely, the largest office building for civil use, the most expensive and the heaviest building in the world). Top 10 attractions include the Historical Center, the Village Museum and the Arch of Triumph, etc., the last being Cotroceni Palace.

In order to sustain a proper tourism development of the Bucharest city, beside its people (personalities or ordinary citizens) and tourist attractions (natural and anthropic), the infrastructure has also an important role, but if it is inadequate or missing the tourist may choose other tourism destination.

Research limitations

Without claiming that the present research by its results would reflect a complete image of Bucharest, it can be viewed as a starting point for a future research, a permanent one, more detailed, on the one hand, and by covering more market segments (with different ages and education levels) on the other hand, thus providing the basis for the “architecture” of a successful brand.

Conclusions

The results show that, in general, the two dominant forms of tourism, located on top regardless of the region from which respondents come from, business and cultural tourism, can influence each other, and from this perspective, Bucharest can be an attractive European city, since it has an “old” identity and rich tourism heritage, its only problem being that, as our great historian Nicolae Iorga said, “we live in a town that we do not understand and therefore we do not care for and often develop it in ways that should remain forever foreign to us, thus ruining, helped by our additions and changes, a character that, despite many shortages and slatternlinesses, was preferred to in the past by foreign visitors.” (Iorga, 2008, p. 5)

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