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## **THE STRATEGIES OF DISCOUNT STORES ON THE ROMANIAN RETAIL MARKET**

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**BELAŞCU Lucian**

**Abstract:**

*A pertinent analysis of the retail industry's future must include a substantial analysis on emerging countries. These markets will play a more important role in future global economic dynamics, but nevertheless, most concerns focus still on the side that brings opportunities for major retailers. In this context, this article proposes a presentation of the Romanian discount market, with emphasis on positioning strategies of discount supermarkets and hypermarkets.*

**Keywords:** Romanian retail market, discount, strategies, supermarket, hypermarket

If the department store is the type of store which is representative to the commerce of non-food merchandize, the supermarket is the sales unit which revolutionized in every country the food retail.

As defined by the French Institute of Self-service, the supermarket is a commercial self-service retail unit (or a separate sector in a department store), by which, with a wide range of consumer goods, a more or less important variety of non-food goods of current demand is being commercialized (10-15% of total sales); purchase payment is made at cash registers, located at the exit of the self-service flow. The main technical and commercial features of supermarkets are: sale area between 400-2500 m<sup>2</sup>; structured on one level; rapid rotation of stock merchandise (12-24 rotations per year); a cash register for 100 m<sup>2</sup> of sales area; location, mainly, in new neighborhoods.

Hard discount fits into the supermarket category as well, which is a self-service store with a limited variety of basic goods (less than 1.000 items), composed, almost exclusively, of distributors' brands. Such stores are Lidl, ED, Aldi etc. Another option for hard discount is soft discount (for example, Leader Price, Plus, Profi, Penny Market), which is characterized by a wider assortment (1.300-2.000 items), and commercializes best known and appreciated brands, prices being higher.

Discounters have increasingly more interest in modern trade, their market share at European level increasing slowly, but steady, in the past two decades (from 10% in 1991 to 16% in 2001 and 20% in 2008). Norway and Germany are examples of

countries in this regard, discounters holding a share of approximately 50%. Significant percentages are registered in countries such as Belgium (39%), Austria (33%), Denmark (30%), Holland (19%), Hungary (18%), Portugal (17%), Finland (16%), Sweden (15%), Poland (13%), Greece (12%), Spain (11%), and France (11%).

In 1917, Bernard Shulmann created in the USA the first convenience store. Such a store expanded in Germany, where the Albrecht brothers created Aldi, after the Second World War. The concept was put into practice in order to meet basic needs, within a shortage economy with a systematic search for cost control.

A hard discount store is a full self-service retail store, with a sales surface generally between 300-1.000 m<sup>2</sup>, with an average of 700 m<sup>2</sup>. It puts forward a limited assortment of items representing a majority of own brands, with household products with high rotation and sold at very low prices. Each item is profitable, with a contribution margin rate of approximately 15%, with a small compensation between them. Costs are minimized: little staff, untidy decoration, without customer service. These stores are generally found in high transition areas. Hard discounters prefer to be located in neighborhoods with dense and/or disadvantaged population, where they take advantage of the traffic created by a hypermarket, settling down nearby. Hard discount operators' know how results from the effectiveness of the upstream activity: the limited variety allows increasing volumes, thus optimizing buying conditions, logistics, and structure and administration costs.

The average surface of the most successful chains (Aldi, Lidl) is 700m<sup>2</sup>. There are soft-discount stores as well, with significant chains such as Dia%, Penny, Plus. It is the neighborhood store that offers a limited, but a more thorough range of items than a hard discount store, combining manufacturer brands, own brands and dumping prices.

Hard discounters' assortment is almost exclusively composed of consumer goods. With little profoundness, it is limited to basic products that have a strong rotation, and proposes only one reference, generally below its own brand. The range consists of less than 1.000 items, of which a strong dominant of grocery-beverages and a few references of fresh industrial products (dairy products, frozen products). The most extreme chains can reach a maximum of 500 items, with few fresh products and with no frozen products at all. Such a limited offer explains the Anglo-Saxon name of hard discounters: LADS (Low Assortment Discount Stores).

Product quality varies depending on chains: some offer only products with a good price-quality ratio, selling basic products rather than low quality products. Other chains are willing to compromise in terms of product quality in order to obtain lower prices at all times, thus becoming sellers of dumping prices. The first option is inevitably the most efficient: the hard discount world leader, Aldi, is known for the quality of its products.

As shown by its name, hard discount is entirely directed toward the search for low prices. Focusing on products with very strong rotations allows obtaining very advantageous purchase conditions by concentrating on a few manufacturers and thus compensating for low margin rates through the importance of large volumes. The

margins do not excel 12%, but personnel costs are maximally reduced (less than 5% in the best chains).

The hard discounter uses 2-3 cash registers located at the exit and 4-5 employees (the manager, assistant manager and 2-3 cashiers/ commercial workers per department). The stores are somber; the products are arranged on shelves in their original cardboards, lacking refinement, with complete self-service and no departments with traditional serving whatsoever.

Introducing some brands familiar to manufacturers and adding some fresh product references, leads to sales increase, in the beginning. This however does not guarantee the concept's sustainability. Moreover, despite what is sometimes said, hard discount stores are not for the poor. Studies about consumers show that if families with low income frequent them, many families with higher income also make storage shopping for basic products, adding to it the shopping made in supermarkets or hypermarkets.

We will present below the status of the Romanian retail market, with a particular emphasis on discount networks. Beyond absolute values, all merchants, and suppliers as well, have felt the decrease of sales' volume and value. Thus, in the middle of this year, most of them have adopted drastic measures to restructure and become more efficient.

At present, the Romanian retail market has the following characteristics: drastic contraction of orders for distributors; people reduce their food costs and are moving towards shops closer to home to eliminate transportation costs; increasing number of insolvencies among producers and distributors; sales keep dropping; late payments are more frequent and payment periods become longer; traders spread only by small shops; instead, discounters continue their aggressive expansion; the assortment is limited and the presence of its own brands on shelves is increasing even on once considered peak periods (weekend, afternoons), and the stores use a minimum of open cash registers; black market and smuggling proliferate; it is also a turning point for the retail market where underperforming players leave the market, local supermarket being absorbed by international chains or even by buying direct competitors.

Lower consumption will be increasingly felt especially in the urban environment, which has the best coverage in terms of modern retail, because rural population is still focused on self-consumption and has no access to major retail chains. So far, the expansion of stores with the best penetration chance - discounters - has reached the medium urban environment, meaning in areas of 10 000-12 000 inhabitants. The expansion towards the rural area – whether, or not, it will take place – will be long term. Moreover, studies carried out earlier this year by GFK already indicate that household consumption began to be affected. Given the new circumstances, suppliers and merchants are expecting an additional drop in sales of 10-15 %. Another factor that will negatively influence consumption is the arrival of the warm season and vacations (or dismissals) when sales are already affected, even in growth periods.

Discount networks are the ones that are supporting 80% of the expansion of modern trade in Romania in 2010. The number of hypermarkets and supermarkets will continue to grow this year, but not in line with the previous years. The four discount supermarket chains in Romania planned and announced the opening of 80 new stores in 2010.

The retailer Penny Market has scheduled for 2010 to extend the network with 25 stores. As a result, Rewe Romania, the Penny store operator, is expected to reach 124 stores later this year. The amount of investment in a Penny Market is approximately 1.5 million euro in a green field situation and to 0.5 million euro if the location is rented. Plus Network has planned the opening of 24 new stores this year. The network of Plus stores, which belongs to the German group Tengelmann, sold to Schwarz Group the Plus store chain in Romania and Bulgaria; they will be rebranded as Lidl. This is the new retailer on the Romanian market - by acquiring Plus, which officially announced its entry in Romania and Bulgaria. Two territories with a combined population of nearly 30 million is not an insignificant market, related to the advantage of already having a network of 120 stores. The entrance of Lidl in Romania could largely change the image of discount stores in Romania. Profi Network, recently acquired by the investment fund Enterprise Investors for the amount of 66 million US Dollars, has the opening of ten stores planned for this year. According to the press release given by the investment fund the target is to double the number of stores in the coming years. Profi owned, earlier this year, 65 stores and opened 15 stores last year. MiniMAX retailer aims to open 20 stores in 2010.

Profi opened the first store in Romania in 2000; it was a success, and people began to know and be acquainted with products offered by PROFI and the quality / price ratio. In 2006, Profi was represented by 146 stores, of which 45 in Belgium, 75 in Hungary, 45 in Romania and is present in over 25 cities in our country. In 2007, Profi Romania opens 10 stores and acquires the network of shops named "Albinuta". In 2008, the expansion of Profi continues, reaching a total of 51 stores and shops begins rebranding the "Albinuta" chain. In 2009, Profi completes the rebranding action and intends to open at least 10 stores. Currently, Profi Romania includes 67 stores in 27 counties.

Profi is a retail company which offers for sale food in particular (60% of the total sales) and other household goods for permanent use. The product categories that can be found in Profi stores are: articles in special offers, vegetables and fruits, greens, sweets, frozen foods, dairy, groceries, meat, bread, staple foods, cosmetics, detergents, breakfast products, alcoholic drinks, juices and mineral water. The Profi organization provides thus for sale a wide selection of food and non-food products and various brands, but the best sold are the products' branded Profi involving" quality at low prices "(slogan profile).

Within the assortment structure, the Profi network, non-food represents only 5% of the total. In the current economic conditions, consumers will focus probably ever more to the type of trade which provides 90% of what they need at a price very accessible price, including proximity to the store. All this aspects are very important

and here are the advantages of Profi. Profi began to change massively the assortments commercialized in stores in 2005. That was the moment when the company took a radical measure and has decided clearly the separation of the hard discount concept which they had until then. In 2005, they doubled the assortments through an empirical method for the sake of doing it quickly. Consumer reaction to this change was quite rapid, with sales growing at 20-25%. Until then, the Romanian consumer has been reluctant, Profi opening its first store in 2000 and being the first discounter in Romania during the period.

When they opened the first store, the consumer response was not the expected one, Romanian consumers being demanding customers; even though in nine cases out of ten he chooses the cheapest product, he would desire to have where to choose from. The clients adored the Profi prices, but did not like how the store looked, with products directly on pallets, in boxes and then they gradually turned to a concept of "soft discount". After that, starting with the second half of 2006, the firm began implementation of a fine-tuning of products and assortments covered.

Within the store, the costumers are highly interested in products with price appeal. Consumers are moving ever more toward first-price products; the sell for these products is raising a lot. This will obviously increase the number of such products on the shelf. But here comes the need to be careful not to exaggerate in any direction because the customer wants to find on the shelves good quality products at affordable prices, but also the branded products. The advantages that Profi has besides the direct competition of the network is given by the very good locations and the assortments which customers can find in Profi stores.

REWE Group, the third largest player in the food trade sector in Europe, recorded in Romania the highest business growth rate out of the 14 countries where it operates. Romanian market has brought the German group in 2006, almost one quarter of sales in Eastern Europe, region where it operates with a total of approximately 700 stores in eight countries. Rewe entered the local market in 1999 with the Billa supermarket chain, subsequently bringing divisions Selgros Cash & Carry (2001) and discount stores (XXL Megadiscount 2001). Rewe Group subsidiary in Romania is currently fourth in the group (excluding Germany), where Austria, Italy, and France, when referring to sales volumes.

In order to strengthen its position on the discounters market, Rewe Group regrouped, giving up the brand XXL Mega Discount. Rewe Romania changed its strategy on the discount segment. The company has abandoned one of its brands, bringing Discounters stores under one name. More specifically, XXL Mega Discount stores were gradually transformed into Penny Market XXL. The first XXL Mega Discount store was opened in Romania in 2001; nowadays, residents of Bucharest, Sibiu, Buzau, Braila and Targoviste enjoy the benefits XXL Mega Discount. Penny Market XXL is the adapting to modern requirements of the former XXL Mega Discount.

As appears in the name, the stores are being revised after the Penny Market format, but at larger dimensions. Thus, Penny Market XXL stores have an average sales area of 2500 square meters and an assortment of 3,500 products, combining

both food and nonfood products. In addition to the larger assortments, Penny Market XXL brings a selling space with assisted service, where customers can buy sliced groceries and dairy products in bulk. But perhaps the most important advantage of the Penny Market XXL is its own butchery, all meat products and products being very fresh and made in the same day.

Penny Market, the successful concept of REWE Group, was founded in 2005 in Romania. The store has a standard sales area of 750 square meters and an assortment of 1400 articles. The expansion will cover the entire country, in towns of over 20,000 inhabitants. All the time, besides the basic assortment, promotional offers are available in limited quantities, in addition to the standard range. They are valid for two weeks, according to the brochure from that period, distributed free to the clients' homes. Penny principle is based on the purchase of goods from Romania, so that the main weight of the items offered for sale to be of local provenance. In some cases they rely on foreign suppliers, for some categories of items that are not produced in Romania and whose price - quality ratio match Romanian customer requirements.

SC MiniMax Discount SRL is a Romanian company founded in 2003 with the aim of developing a network of medium-sized Discounter stores in cities in Romania. Mercadia Holland BV Group acquired the entire shares package of SC MiniMax Discount SRL in a deal concluded recently.

MiniMAX network has now 31 Discounters stores in towns with over 10,000 inhabitants throughout the country. The final stage of the network aims to open 100 stores. MiniMAX commercial spaces have an average selling area of 750 square meters and the overall activity of the stores is managed and maintained by MiniMax Discount logistics center, located on an area of 15,000 square meters in Bucharest.

The retail stores are modern spaces equipped according to European standards, self-service system, with four cash registers and 25 parking spaces. Product offering includes approximately 2000 references. MiniMax Discount promote their own brands including range developed in partnership with local suppliers: Steiner - beer, Coria - carbonated and non-carbonated juices, MAX - carbonated soft drinks, Montan - meat / sausage, and a wide range of products under the brand MiniMAX Discount, such as sunflower oil, cheese / cheese products, rice, corn flour, flour, milk, cans, syrups.

The discount is not a specificity of supermarkets only. It also applies to hypermarkets: small, medium or large sized; of course, if the company decides to adopt a discount policy.

As far as hypermarkets are concerned, the discount is a type of selling with the following characteristics:

- Low prices for the whole range of products;
- A simple manner of displaying goods (box, pallet);
- Low general costs in maintaining the store, meaning first of all selling goods directly in the cardboard or plastic packing; it leads to the lowest costs as far as displaying and handling the goods are concerned;

- Regarding the shelves and the whole aspect of the store, functionality comes before esthetics;
- Branded products will be sold only if the difference in price is balanced by quality or they are too important to be abandoned;
- The image of price – the most advantageous business in the area/region;
- Choosing the competitive variety out of a wide range of products of the same kind; each product can also be found in the lowest price category; regional variety; the quality of local products.

The Romanian commercial landscape, as far as discount hypermarkets are concerned, is represented by: Kaufland, in the small size category, and Auchan, in the large size category.

Auchan is on the second position in the stores business in France and in top 10 worldwide. Regarding Auchan, its advertising slogan is "We only have low prices, for absolutely all products". From now on, you don't need to hunt for promotions. All our over 60.000 products have low prices, permanently". In order to differentiate itself of classical hypermarkets, Auchan counts on larger spaces between shelves, better displayed and easy-to-find products, and is proud to have the largest parking areas among the hypermarkets.

The same important fight is lead in creating an image as strong as possible in the mind of the customer. Auchan comes with arguments: it explains to the customers (via posters inside the store and on the local radio) that the company purchases large quantities of goods, thus obtaining the lowest prices.

Auchan has limited promotions, simply because all products are offered at the lowest prices on the market, this fact being underlined in all kind of advertising. Auchan has a different approach: it doesn't cut prices only for several products and raise them for all the rest; all the products have low prices at Auchan. The discount policy of Auchan includes negotiating large quantities with suppliers in order to have the lowest prices. There are no fidelity cards, because they cost a lot and lead to price increase for all the products in the store, without great savings for the customer. Auchan customers are loyal because they find low prices, not because they enter a rewarding system. There is very little investment in advertising. They prefer to invest in prices the savings with advertising, so that the customer wins. Why paying more?

Regarding Kaufland, it reached the expansion objective settled when entering the Romanian market (autumn 2005), that is 50 stores by the end of 2010. Nowadays, Kaufland is the largest hypermarket chain in Romania, as far as the total selling area is concerned (about 250.000 sqm) and the fourth as far as income is concerned. Since entering Romania, Kaufland expanded exclusively by building new stores. Company officials say that the expansion strategy does not include takeovers, but they don't exclude this possibility in the future, on the condition that the characteristics of the targeted location adapt to the Kaufland concept.

Taking into consideration the present economic situation, most of the specialists agree that discount stores have an advantage on other types of commerce. Study papers and reports from surveying institutions certify it. According to them, last

year the supermarkets lost 4% of the market share to hypermarkets and discount stores.

Most of the retailers are offering way too many products. This is a symptom specific to dysfunctional relation between the purchasing policy and company's ability to understand consumers, in general. We can add to that the incapacity to increase awareness regarding the life cycle of a product or a brand. Retailers often consider that a large number of brands in the store represent a selling argument in itself. In the future, retailers will consider it more efficient to communicate how many brands they eliminated following the restructuring of the portfolio, thus betting on the message of an increased attention regarding the needs of the customers. The strengthening of customers' loyalty will be based more and more upon a continuous demonstration that retailers understand their preferences and lifestyle and are able to anticipate changes.

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## **CONSIDERATIONS ON THE ISSUANCE OF MUNICIPAL BONDS IN ROMANIA<sup>1</sup>**

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**BUNESCU Liliana**

**Abstract:**

*The global financial crisis raised the price of the access to bank loans, a viable solution for financing is represented by issuing municipal bonds. This paper presents the current situation of municipal bonds issues in Romania focusing on destination, on costs, on loans' guarantees and their impact on indebtedness of local government. Local municipal bond market in Romania has a relatively short history, tailored after 2001, knowing that a considerable advance in recent years. The most common reasons for which public authorities are calling for loans are: either in need of cash or in need to balance the budget.*

**Keywords:** *municipal bonds, interest rate, maturity, grace period*

Bonds play a key role in daily economic life of Europe and of the whole world. Calling the financial resources obtained from state or regional ones it is a universally valid practice applied by all countries. It can be noted the large share of governmental bonds in total bonds issued in a country, municipal bond having a relatively low weight. The phenomenon of globalization and increasing number of European bonds' markets had created a range of opportunities for investors. Although the global bond market has been dominated traditionally by the U.S., the U.S. bond market currently attracts less than half the size of the market, about 44%. In Europe, 60% of the bond market is held by government bonds ([http://www.investinginbondseurope.org/Pages/LearnAboutBonds.aspx?folder\\_id=464](http://www.investinginbondseurope.org/Pages/LearnAboutBonds.aspx?folder_id=464))

Currently, the international bond market size amounts to about 45 trillion dollars, with an optimistic outlook. U.S., Britain and the eurozone countries are those that dominate this market. U.S. bond market is the best in the world, accounting for more than half the world market (<http://finance.mapsofworld.com/bond-market/outlook.html>). Spectacular growth of bond market recorded in Asian countries like India and China.

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<sup>1</sup> Research made under project POSDRU/88/1.5/S/60370 co-funded by European Social Fund through the Sectoral Operational Programme - Human Resources Development 2007 - 2013

Local budget revenues consist of own revenues (taxes, contributions and other payments, other income and allowances deducted from the income tax), amounts deducted from certain income of state budget, state budget subsidies and other budgets, donations and sponsorships (Article 5, para. 1 of Law no. 273/2006 on local public finances). Territorial-administrative units are entitled to sufficient financial resources, the local government authorities can use in their duties. Local government authorities have the power to establish rates for local taxes. According to Art. 20 of the Law on local public finance, administrative-territorial units have powers to direct contracting of domestic and foreign loans, on a short, medium and long term. They must repay them at liabilities' maturity. The local public administration have the right to guarantee internal or foreign loans. Annual surplus of the local budget will be used to repay any outstanding loans, interest payments, commissions, charges and other related costs. Administrative-territorial units may benefit from external loans contracted or guaranteed.

Lack of vision and understanding in economics has made in previous years of the crisis that funding needs to be accomplished by municipalities through repayable loans, neglecting other forms of financing such as public-private partnership or absorption of EU or government funds. It is currently in accession the issuance of municipal bonds to attract financial resources. Both investors and mayors of municipalities have a number of advantages from bonds' issues: both parties avoid financial intermediation of banks. Investors receive interest greater than on deposits and municipalities are borrowing cheaper than if they apply to a bank loan. Municipal bonds are treated theoretically, financial instruments with a slightly higher risk than bonds, but at least until now, the bond market did not experience incidents of payment. Capital market allows local councils to obtain financing better tailored to investments, although issuing costs are not insignificant and they are involving many formalities. The 33 currently listed bonds' issues in Romania (1.04.2010) are almost 185 million euros. On Romanian market already exists a number of local councils with a clear funding strategy, calling it a series of successive issues of municipal bonds.

Romania's economy and capital markets have provided the conditions of new issuers that offer to investors some viable long term development businesses and contribute to overall economic growth. Such movements were observed in the market since 2001 when they were launched and the first public offerings of municipal bonds which were subsequently listed on the Stock Exchange and have had an upward trend for the number, amount of repayment schedules and deadlines. Trading in bonds on the capital market in Romania should be characterized by transparency, assuming competitive market mechanisms, early publication of plans for contracting public loans, bringing clear to the investors of the terms and conditions of new issues so that they are well understood.

For bankers, the municipalities are interesting for several reasons. First, it is a large amount of funding that they need - hundreds of millions of euros in each case. Secondly, public authorities have a reasonable risk share, much lower than at retail or corporate. And last but not least, there is a sufficiently large number of municipalities

that are not in competition, as in corporations. The largest municipal bond issues so far are the City (180 million lei) and Bacau (122.45 million lei). Most seasoned municipal bonds have been issued so far is 20 years. 15 local authorities have already called more than a bond issue, moreover, eight of them are already in more than two bond issues, and cities such as Timisoara, Bacau Alba or more than five successive issues municipal bonds.

**Box No. 1 market for municipal bonds in figures 04.01.2010**

Total municipal bond issue in Romania	65
Number of municipal bond issues listed on BVB	33
The total value of listed debt securities	758,15 mil. lei
The largest municipal bond issue	100 mil. lei Iași 2008-2028
The smallest issue municipal bonds	Listed - 1,5 mil. Teiuș Unlisted – 0,5 mil. Aiud and Predeal
Most maturity of a bond issue listed on stock exchange	20 years Alba – Iulia, Bistrita, Hunedoara, Iași, Orăștie, Predeal, Slobozia, Tg. Mureș, Timișoara etc.
The lowest maturity of bond issues listed on the stock exchange	Listed – 6 years Oradea, Timișoara Unlisted – 1 year Cluj-Napoca, Slobozia
The most indebted local authority	Timișoara 170 mil. lei, Bacău 110 mil. lei
Number of local authorities who made successive issues of municipal bonds	15 cities (Timișoara 7, Alba Iulia 6, Bacău 5, Tg. Mureș 4, Cluj Napoca 3, Sebeș 2, Deva 2, Bistrita 3, Aiud 2, Hunedoara 3, Oradea 2, Predeal 3, Năvodari 2, Lugoj 2, Slobozia 2)
Highest coupon rate	Listed – variable + 3% Oradea, fixă 8,25% Timișoara Unlisted – variable + 3% Predeal, flat 14% Arad
Lowest coupon rate	Listed – variable + 0,1% Timișoara Unlisted – variable + 0,98% Oradea
The largest denomination of municipal bonds	150 lei Oradea, Aiud
The smallest denomination of a municipal bond	10 lei Predeal, Slobozia, Zalău, Cluj Napoca

Source: Processed data from the Bucharest Stock Exchange statistics ([www.bvb.ro](http://www.bvb.ro)) and primary offering prospectuses of municipal bonds available electronically on the website [www.kmarket.ro](http://www.kmarket.ro)

Not all municipalities have been issuing successful debentures. For example, Botosani city recorded first municipal bond market failure, it failed to sell only 10% of the issue of bonds amounting to 10 million lei. The program was launched in January 29, 2010 and the deadline by which it could subscribe was extended three times, the last being on March 3, 2010. For considering the municipal bonds offer as successfully completed the degree of subscription must exceed 50%. One of the reasons for this failure was competition with governmental bonds, which are preferred by banks. The local authority planned to sell 100,000 bonds, each with a nominal value of 100 lei. Securities were scheduled a maturity of 17 years and a variable interest rate, calculated according to average interest ROBOR ROBID and six months plus 2.3% (BT Securities, Prospectus for public offerings of bonds issued by the city of Botosani, CNVM Decision no. 79/19.01.2010). Botosani city intended to attract co-investment projects supported by 75% from funds and assistance. For Botosani bonds offer no bank subscribed to the funding bid, BT Securities as a broker attempted to obtain money only from investors in the market. Whether successful or not an issue is accompanied by a number of significant costs, for Botosani city reached the equivalent of 5,600 euros. So Euro 5000 has been a fixed fee of BT Securities intermediary and promote a cost about 600 euros in two national newspapers.

Currently there are 33 marketable municipal bonds issues on Bucharest Stock Exchange. Thus 19 municipalities, cities or municipalities have resorted to this method of financing for their local budgets, most are due after 2020. Municipal bond issues were made at a nominal value of 100 lei per title and shall bear a variable coupon based on the average of ROBID (Romanian Interbank Bid Rate - the benchmark interest rate calculated as the arithmetic average of interest rates quoted by the 10 participants in fixing for deposits. Can be calculated from maturities of 1 day, 1 week, 1, 3, 6, 9, 12 months) and ROBOR (Romanian Interbank Offer Rate - the benchmark interest rate calculated as the arithmetic average of interest rates quoted by the 10 participants in fixing for credits. Can be calculated from maturities of 1 day, 1 week, 1, 3, 6, 9, 12 months) to 3 months or 6 months, plus a percentage of interest, it ranging from 0.1% in Timisoara and 3% for Oradea. Timisoara is the only local government which in 2005 issued municipal bonds with fixed interest rate of 8.25%. Nine administrative-territorial units in the period 2004-2010 issued securities with maturities over 20 years, namely Alba Iulia, Bistrita, Hunedoara, Iasi, Orastie Predeal, Slobozia, Tg. Mures, Timisoara. The reasons for the slower development of fixed income securities market in Romania may be related to the lack of bond trading companies (until 2008) and to the low number of issues. Issuance of municipal bonds may be seen as another step towards local financial independence, supported by local decentralization. This kind of loans are redeemable only from locally collected resources.

Until now most issuers that have used this way for their financing needs are local councils of various cities from Romania which started development programs. Mostly local projects were financed by bonds gave a favorable note of the local budgets. The first municipal bond issuers were Predeal and Mangalia cities and their

destination was, in both cases, to finance tourist projects. Since then, municipal bonds have funded infrastructure projects, housing construction or upgrading, gyms or schools or even municipalities have provided co-financing required to participate in European projects.

**Table 1 Destination of funds collected by issuing municipal bonds**

Destination	City
Public spaces (parks, fountains, market management, cemetery management), infrastructure (sewer, asphalt streets, building parks, pedestrian facilities, water network, building passages, extending the natural gas distribution network), social canteens repair, building passages, housing construction , public lighting, waste management, cleaning station, sewer rehabilitation, land acquisition for housing	Băile Herculane, Iași, Oravita, Aninoasa, Slobozia, Alba Iulia, Timișoara, Năvodari, Focșani, Bistrita, Eforie, Aiud, Orăștie, Siret, Oradea, Cluj Napoca, Câmpulung Muscel, Zalău, Giurgiu, Deva, Sebeș, Teiuș, Târgu Mureș
Loan repayment	Alba Iulia, Bistrita
Theater, swimming pool, hospital construction, zoo, home education, culture development house, churches, schools	Bacău, Timișoara, Năvodari, Cluj Napoca, Medgidia, Mangalia, Lugoj
County roads, local transport, road bridges, traffic lights, tram lines	Hunedoara, Focșani, Arad, Lugoj
Tourism	Predeal, Mangalia, Deva

*Source: Data processed from the bonds' primary public offering prospectuses*

In taking a decision about applying to external flows of public resources is very essential a restriction, namely, the cost of getting them. For an effective public activity the size of this cost must be minimized, the cost of financing should be expected. We believe that the authorities should build a proper strategy and tactical procedures for carrying it out. It is desirable to publish a national strategy in this area, focusing on relationship-destination cost of financing. Cost of financing is the rate of return required by lenders, namely the effort that the state must make to "supply" of money.

Financing costs by issuing municipal bonds differ according to supply primary intermediary, the issuer and the bond loan, consisting of:

**1. Brokerage cost** includes, in most cases, a fixed fee, expressed in lei, and a variable commission, as percentage applied either broadcast or subscription value or to the amounts paid by the issuer as interest and principal repaid. For example, for municipal bonds AIU05 (Aiud) intermediation cost was 1.6% of the issue value, for ALB25A (Alba) the cost of intermediation was of 5,000 lei and 0.3582% of the emission value, for PRD03 (Predeal) it was 2.5% of the amount subscribed and 0.3% of the

issue value, for Teiuș bonds was 12.750 lei. If there are more than one intermediaries, these fees are split between syndicate members. For example for Giurgiu municipal bonds the brokerage fee was 1.5% of the total amount obtained by selling bonds, but not more than 50 million, each divided in proportion to participation in mediation supply, ie 90% was for Rombell Securities SA, acting as syndicate manager, and 10% was for BCR Securities SA.

**2. Sales group commission** are expressed as percentage applied when the authorities are cashing the value of bonds from investors and as a commission when the authorities pay the interest to investors. Another way of calculating this fee was applied by Deva municipality for its issues, namely BCR Securities intermediate, namely 0.6% for every transaction for collection but not less than 1 RON lei per transaction and a fee of 0.5% for every cash transaction lifting.

**3. National Securities Commission authorization fee**

**4. Tax filing service** to issuers within the Department of NSC.

**5. Advertising expenses** in accordance with the law on capital market in two national publications.

**6. Multiplication and distribution expenses of the offer for public.**

**7. Bucharest Stock Exchange expenditure:** processing fees, listing and maintaining to the exchange stock. In 2009 issuers were exempt from processing fees and stock exchange listing fee. Processing fee is a fee charged by BSE for documentation analysis to trading admission. (1200 RON). Charge admission to trading is a charge payable in advance by issuer corresponding to a period of 12 months, a period which runs from the start of trading. It is also called the listing fee (0.001 % of the nominal value of bonds). Keeping the transaction fee is a yearly fee, payable in advance by issuer to maintain the bond on the market corresponding to a period of 12 months (0.05% of the nominal value remaining to be repaid). For listing municipal bonds a public authority should issue municipal bonds exceeding the nominal value of EUR 200,000.

However to all costs from above it adds the cost of interest due and paid by local authorities. Deciding to issue or not municipal bonds depends on the low cost of variable coupon rate and on a maturity longer than those offered by commercial banks on loans. In terms of investor, the most important competitor of municipal bonds are governmental bonds. The main feature that makes government securities attractive to investors is the fixed interest which they provide to maturity. This means that while the initial rate offered by municipal bonds will be higher than bonds issued by government during the same period, after some interest adjustments 1-2 (3-6 months). It will fall below the sovereign interest rate (the zero one). Using the average between ROBOR and ROBID as reference rate is questionable, it has a limited relevance for borrowing market. First, these rates refer to a period much shorter than the bond maturity. Secondly, the rates charged by commercial banks for loans are based on their financing costs, they are similar but not identical with ROBOR. ROBID has limited relevance for deposits and no relevance to investors, their alternative investments are government securities and no bank deposits.

In conclusion, the approach now used for calculating the interest for municipal bonds is that an investor receives a lower interest rate than investment in government securities. In other words, the municipalities are financed with lower cost than the central state budget where investment risk is considered to be zero. The third important reason that makes investors becoming less interested in municipal bonds is the lack of credibility in the secondary market. Although they are listed, because small amounts are traded and the investor base is limited, we have to wait months to see a secondary market transaction. Secondary market price is another factor having a negative impact on liquidity. Most of these bonds not only have a variable rate, but the principal is amortized over the maturity period. This explain the detention of investors to participate in transactions.

For Romanian economy the main problem in calculating cost of debt greater than one year is linked to a real anticipation of interest. Cost depends on interest rate, on maturity and on the volume of issued bonds. The selection of sources for fundsof funding is quite complex because besides the cost criterion there are some restrictions on local budgetary deficit and indebtedness.

Loans of local public administratioms may be secured by them through their own income. Any guarantee by revenues is valid. Income that is under warranty and which are received to the local budget will be subject to guarantee agreement. This guarantee agreement will apply with priority over any claims of third parties to the local authority, whether such third parties are aware or not knowing the guarantee agreement.

The approval of a loan by a local government is not a form of guarantee of that loan. Local governments ensure interest payments and repayment at maturity in terms of law and in accordance with a "guarantee agreement" signed by the authorized administrative-territorial unit. Local authorities ensure the full payment of debendure loan and interest by all their fiscal power, by all tax revenues, by their own income. Guarantee Agreement shall apply with priority over any claims of third parties, whether such third parties are aware or not aware of the guarantee agreement. The execution of guarantee agreement will be continued by the successors officer of the mayor that have contracted the bond loan and it is enforceable.

Municipalities are forced to repay the loan and to pay interest and fees for this debt without the government to have any liability and its credibility or ability can not be used to repay local debt. IMF recommended to Romania that prior approval procedure of loans by the government should be inhabited, gradually, with a control procedure made in local budget monitoring process.

Local public administrations are banned from lending or guaranteeing any loan, if the total debt (outstanding loans or guaranteed ones, interest and related charges, including the loan to be contracted and / or guaranteed in that year) exceeds 30% of their total income, consisting in taxes, contributions and other payments, other income and allowances deducted from income tax from the state budget (Article 63 para. 4 of Law no. 273/2006 on local public finances). Local government debt is a general obligation to be reimbursed under some agreements from own revenues of

local authorities. Local debt instruments are securities, loans from commercial banks or other credit institutions, credit provider, financial leasing, local warranty. Securities issueing may be made directly by local government authorities or through agents or other specialized institutions.

In 2009 two of the municipalities that have ongoing municipal bond issues (Baile Herculane and Oravita) were recorded delays in debenture interest payments on loans contracted - the first incident of this type on capital market in Romania. City of Baile Herculane was in delay with payment of interest on bonds issued because the new mayor of the town do not accept one of the investment projects of the former mayor (Adrian Mosoianu, How safe are municipal bonds?, Financial Newspaper, 20/11/2009). They were launched in 2006 in a total volume of 3.15 million lei with maturity in 2020 and variable yield, representing the average of six-month interbank interest rate plus a premium of 1.5% ([www.kmarket.ro/emisiuni/afisare\\_obligatiune.php?nume=Baile Herculane&id=243](http://www.kmarket.ro/emisiuni/afisare_obligatiune.php?nume=Baile+Herculane&id=243)).

A similar case occurred in octomber 2009, when Oravita local authorities have delayed interest payments for municipal bonds issues. The accounts of mayor hall have been blocked due to an unpaid debt of 170,000 lei to Enel company. Oravita bonds worth 6 million lei, were issued in 2008, for 20 years, with interest equal to the arithmetic average of interbank deposits and credits interest on six months plus 1.3% ([http://www.kmarket.ro/emisiuni/prospecte/Pr\\_Of\\_Pub\\_oravita1.pdf](http://www.kmarket.ro/emisiuni/prospecte/Pr_Of_Pub_oravita1.pdf)) . The two cases of late payments of interest related to municipal bonds are first of this kind in the history of Romanian capital market after 1990.

Therefore can not ask a local authority insolvency eventually detect it, but may be required under Art. 123 of Law 215/2001, enforcement of the debt, by tracking which is public property of that authority, by blocking current accounts, by selling movable property, and if it do not cover the debt by selling the unmovable property. The degree of transparency of municipal bond issuers listed on the Bucharest Stock Exchange on important events that can have a very lower impact on their financial status. Mostly bonds issuing municipalities report information to the stock exchange on calculation and payments of interest and nothing else. Regulation no. 1 / 2006 of the National Securities Commission (NSC) require for municipalities only limited transparency obligations regarding the issueing prospects, not for further stock market listining.

Regarding the negative aspects on municipal bonds issues, primarily it is need to emphasize that there is not a history of determinating the risk of late payments considering the loans or interests. Municipal bonds ranking is quite speculative, there is not a reliable benchmark for assessing the spreads. Secondly, an issue of municipal bonds increase the indebtedness rate and the local debt. It also notes the lack of a secondary market for government securities and municipal ones. The liquidity for these issues is almost nil due to a merger in subscribed package. There is no obligation to publish budget execution accounts of municipalities in the Official Gazette. Most times investors are seeking a reference for risk assessment. The municipal bonds risk

sometimes is correlated to the insolvency risk of local employers and of local public companies.

## **Conclusions**

The main premises of the municipal bond market development were the increasing financing needs of local authorities. But the financial crisis that had expensived and limited the access to bank credit, it gave additional support to develop this type of fixed income instruments. Commercial banks are not willing to provide financing as loans to local authorities, prompting the local public administrations to issue bonds. Local market bonds have a low liquidity because banks with the largest bond packages are controlling the market. The main effects of government funding by debenture loans should be weighed against the following approaches. On long term it generates an increase in tax pressure, influencing the behavior of financial market investors too. This leads to changes in interest rates on financial markets. Public resources borrowed fulfill a positive role if they are used for industrial development, agricultural modernization, construction of roads, environmental protection, increase the effectiveness of education and healthcare etc. If borrowed resources are not used for productive purposes, but for consume, loans bonds are not able to produce added value. Issuance of government bonds have strong implicats in the economy. They may influence financial markets by the amount of securities issued.

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# **INTERNATIONALIZATION OF THE RETAILER ON EMERGING MARKETS: BETWEEN STRATEGIC CHOICES AND CULTURAL CHOICES, THE ROMANIAN EXAMPLE**

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**CASSIÈRE François**

**Abstract:**

*When a distributor chooses to become international, he has to face at once strategic, economic but also cultural problems. The cultural variable has become a parameter to be taken into account by the retailer from the very beginning of the strategic reflection if it wants to have the best chances of success. National culture and organizational culture are extremely close one of the other one. They interact and make the strategic vision difficult to manage. International distributors thus have to enter on the market by opting for a strategy with a dominant universalist approach or, on the contrary, a culturalist one. A qualitative study semi directive interviews was led among 33 actors of the French distribution Carrefour. An analysis of the discursive thanks to the software Tropes 7.0 allowed us to show the interweaving of a double filtration phenomenon (between national and organizational cultures) and to build a managerial model.*

**Keywords:** *internationalization of retailing, French retailers, culturalism, universalism, double cultural filtration, Romania, eastern countries, emerging markets.*

## **Introduction**

Today the competition in the modern retail industry becomes wilder and wilder. Distributors have widen their activity to other territories, either to take positions there and to benefit from the advantage of the first entrant, or to find drivers of growth and an increase of market shares in order to rebalance a failing situation on the domestic market. If the choice of the entry mode has been neglected for a long time, it is today crucial and the center of all attentions, because it contributes to determine the chances of success on this new territory. It is vital for the distributor to mobilize its best chances of success for a sustainable development on its new markets abroad. It has to develop, both its strategy and its capacity of capitalizing on its key factors of success. Mayrhofer (2009) explains the internationalization of the retail industry according to a four-time cycle: **saturation** of the national market, **opening** of markets, **homogenization** of

markets and increase of **competition**. The speed of the change of economic structures and behavioral attitudes of the consumers, in particular in Eastern-European countries, make fragile the balance and the perpetuity of the distributor on these markets. Number of them knew difficulties. Thus, every distributor has left one day at least one of the countries in which it had settled. Some of them because of **underestimated strategic variables**, the others because of the insufficiency of **financial** or unsuitable products to the local final **consumers need**, the last ones because of a badly taken into account of the **cultural variable**.

We are going to analyze the phenomenon of the internationalization of the distributor (1) to discuss it in a cultural dimension within the internationalization process (2).

## **1. Internationalization of the distributor, possible strategies and the emergent context**

The internationalization is a risky choice, because the company makes not only an approach of economic opening, it also ventures to meet organizational and managerial problems (1.1), what engenders questionings in emergent economic context (1.2).

### **1.1. The choices of internationalization**

What can first appear to be only actor's coalition or a kind of institutional arrangement (Powell and DiMaggio on 1991) is, in reality, more complex. For the distributor it is a question of finding the best managerial model to export. Ghemawat (2007) proposes three usable formulas (named the three A's triangle): **Adaptation** (taken into account of local particularism, decentralization, flexibility, partnerships), **Aggregation** (realization of economies of scale by standardization and homogeneity of the strategy), and **Arbitrage** (save money by an international specialization).

They allow thinking about the configuration, the coordination, the control, the factors of blocking and the strategy of the company according to what is looked for by the leaders: **financial control levers** (Dawson 2001), a better **profitability of assets** (Doherty 2000) or **value creation** for shareholder (Filser 2004). So, the distributor has various motivations in his strategy of internationalization and it passes by not neutral organizational choices for the future managerial approach (Ghemawat 2007). However there is no perfect model of internationalization. The winning strategy is the one which allows capitalizing on the key factors of success of the company developed on its domestic market (Mayrhofer 2004).

Such distributor will thus choose to settle by exporting a **strong concept**, as a **store format**, **multi-formats retail network** (Salmon & Tordjman 1989, Dioux & Dupuis 2005) perfectly mastered on the domestic market, or the **fame** of a worldwide sign (IKEA, Carrefour, Wal-Mart, Metro) in a **universalist approach**. Others, on the other hand, will choose to adapt to local characteristics to develop formulas of retailing

closer to characteristics of the market (Prime 2001) in a **culturalist approach**. These forms of internationalization are not only conditioned by strategic choices, but also by the degree of control the distributor wants to have on his future structure (Macquin 1998). So the **cultural, administrative, geographical and economic nearness** take a not insignificant importance (Ghemawat 2001). This internationalization puts the relevance of the choice of a mode of growth in foreign countries (Lehmann-Ortega & Schoettl 2004).

Time-to-market plays an important role in the success of a process of setting-up abroad. The distributor thus has to find a mean **to replicate** as quickly as possible a **performing economic model**. Emergent economies leave not enough time to react and opportunities must be seized as fast as possible, otherwise the access to the market risks to be forbidden to the distributor. The choice of a fast development strategy means, either using **contracts** with partners, like **franchising** or **joint-venture** (Quinn & Alexander 2002; Picot-Coupey & Cliquet 2004; Meschi & Riccio 2008), or the perspective of **opening a sufficient number of outlets** to reach an efficient territory cover (Burt 1993; Picot-Coupey & Cliquet 2004) *via* a strategy of internal or external growth (Pederzoli 2004).

Some authors recommend to think about one's internationalization by having a market-orientation approach to have better chances of success (Rochette 2010; Rochette & Cassière 2010), because if the leaders try to spread a strategic spirit among human resources abroad, expatriate managers have to face mostly only the operational aspects (Cassière 2010). It means that they are directly struggling against every day obstacles, and it seems to be bigger problems to solve, especially when you are far from your bases. Then the dilemma between globalization and regionalization takes all its sense (Ghemawat 2005).

## **1.2. Dilemmas and opportunities in an emergent context: the Romanian example**

East-European emergent economies (especially Romania) are mainly industrial economies, in which survive ageing technologies, high labor costs (because of the lack of know-how) as well as weak productivity. During the opening of these former planned economies to a competing economy, a seizing contrast is noticeable between the private sector and the owned-state companies (Boruz 2009).

Considered as "shock therapy economies" (Belascu 2003), the first years of economic opening see coexisting a two-speed economic models with very different growths. Any emerging market is potentially attractive both for local and foreign firms but their different level of development allow only the strongest to succeed. Modern foreign distributors saw important fields of growth in these countries; it was evident that the opening in the capitalism was inevitably going to come along with accelerated economic growth (Cassière 2008). In the years 1985-1990, considered as a "state politics tool" based on scientific forecasts, marketing in Eastern countries was prior used by the government to develop direct selling from the producer to the final consumer (Naor & Cavusgil 1986). Bound to the socialist factors, the price is not a

commercial problem in this "socialist yoke ". The flow of goods can be qualified of chaotic and under state control. The opening of markets allows a modernization of the distribution channels because the priority in the 2000s' was the development of sales. The western store formats (superstores, supermarkets) matches very well these new environmental and economic requirements.

These constraints are to seize quickly opportunities because the speed of transformation of markets often makes retailers to act without having taken a detailed strategic reflection. Indeed, the main missions of the managers are to find the material and financial resources to survive in the short term, not enough time is dedicated on strategic reflection and in the assimilation of marketing and cultural variables. There is on these markets a strong corruption (Meschi 2008; Venard 2009) under diverse forms (presents, money).

For the ex-Eastern European countries their centralized and collectivist past make them develop an feel of inferiority as regards to the West, in particular in the felt of a lack of knowledge, experience and capacities towards West-European partners (Mole 2003). The temptation for the distributor is to adopt a reassuring approach by reproducing efficient managerial plans from the national market. The temptation of domination by the costs is strong (Porter 1985), but this strategy quickly shows its limits on emerging market (Ghemawat & Hout 2008), that forces the retailer to develop a more relational approach by integrating cultural values.

### **The most Latin of the Eastern European countries: Romania**

Romania is a puzzle of various influences: European, Byzantine, Caucasian, Latin, catholic orthodox, Christian and Muslim. Sometimes considered as a true Eastern European country with a Balkan base (Mole 2003), sometimes considered as an incongruity in the ex-Eastern bloc due to its Latin constituents, it is in reality about a real cross-cultural melting-pot. It is one of Eastern European countries which knew one of the strongest growths during these last 10 years and which faces its first capitalist crisis today.

Romania is the second biggest market of Central Europe after Poland. This country was classified at the 70<sup>th</sup> position worldwide in 2007-2008 according to the competitiveness index published by the French newspaper Les Echos on the 31/10/2007. Romania is in constant progress (+3 places in one year according to the same index). According to the European expectations, its G.N.P. doubled over the period 2004-2007. The development of the Romanian distribution really began in 2001 with the arrival of Carrefour in Bucharest. In almost ten years, the western, mainly French distributors (Carrefour, Auchan, Cora, Intermarché), Dutch (Spar), German (Metro, Rewe, Tengelmann), Austrian (Billa) and Belgian (Louis Delhaize-Mega Image) have developed with a more and more increasing rhythm. In July, 2009, the Romanian food retail sector was structured in the following way (Piața n°56):

- 134 networks of stores;
- 187 locations and places;

- 1170 outlets.

Table 1: number of stores by nationality on July 30<sup>th</sup> 2009

Nationality	Type of stores	Number of stores	Total (stores)	Surface m <sup>2</sup>	Total surface (m <sup>2</sup> )
Germany	Superstores	100	276	703 578	895 464
	Supermarkets	40		66 900	
	Discount	136		124 986	
France	Superstores	30	68	243 734	299 806
	Supermarkets	38		56 072	
Belgium	Superstores	3	91	39 000	103 735
	Supermarkets	36		25 020	
	Discount	52		39 715	
Romania	Superstores	5	24	63 500	82 500
	Discount	19		19 000	
The Netherlands	Supermarkets	16	16	17 744	17 744
Turkey	Supermarkets	6	6	12 600	12 600
		<b>TOTAL</b>	<b>481</b>		<b>1 411 849</b>

Source: personal data base 2009 and distributors' web sites

This mosaic of nationalities forces the retailers to integrate the cultural variable as early as possible.

## 2. The importance of the cultural variable in the internationalization of the distributor

The cultural variable is more often a bone of contention than a total consensus. This is due to its protean aspect. First we are going to remind the main perceptions of culture existing (2.1.). In a second point, we will debate of the confrontation of cultural strategies available, then a double filtration model will be explained (2.3.).

### 2.1. From the anthropological approach to the managerial approach

It seems, indeed, that cultural obstacles are more difficult to manage than technical obstacles (Alexander 1990). Today, the different perceptions which exists around the term "culture" does not, allow to gather scientific and manager communities around a unique approach. Indeed, a blur effect exists between the culture considered in the national sense and culture defined in organizational culture meaning. As an example, about 200 different definitions of culture were listed (Kroeber & Kluckhohn 1952; Barsoux & Schneider 2003).

Taken under an **anthropological angle**, culture is acquired, not innate. It is a system, and it is shared. Culture is acquired by inter and intra generational transmission on facts, customs, rites. It is thus a social construct for groups of individuals defined and inserted in a given context and environment. Hall (1969; 1990) sees it as an iceberg in which culture is at implicit or explicit levels, conscious or unconscious. So, for some, culture is constituted by a set of values allowing to survive in a hostile environment (Trompenaars & Wooliams 2003) or a social construct built under an environmental influence (Dupriez & Simon 2002).

If we don't consider culture as a social construct, but as a tool of management, Hofstede (1984, 1991) made a major contribution to the cross-cultural domain. Seen as successive coats of onion, Hofstede says that culture results, from a mechanism recovering from the experience, a collective programming of the thought which distinguishes those who belong to a human group of those of another group. He enriches it thanks to 5 indexes to measure the cultural differences. In a more qualitative research, Cameron and Quinn (1999) distinguished four families showing diverse degrees of cultural formalization: **the clan** (undertaken as a nice place where people share between them, management with loyalty, with tradition), **the adhocratie** (dynamic place where to work with an enterprise spirit. People take risks, innovate), **the hierarchical culture** (formalism and procedures have a place of choice codifying the tasks. It needs formal and long-term rules, one put on the stability and the performance there), and **the culture "market"** (directed on the results. The main concern is that the work is made. People are directed on the objectives). In the heart of the organization culture thus becomes a mechanism privileging an attitude, an interpretation, and an imperative solution to manage situations (Prime 2001).

This allows believing that the culture can be, just like a routine, a set of learnt rules and which stand out at instigation of a stimulus, in a given context. This mechanistic aspect of culture opens a discussion about the opposition between innate and learnt capacities. It opens the door to organizational culture, which is also mechanistic, leading to a division of knowledge between individuals, and/or with their organization, in a subordination environment. The organizational culture is described as a "*series of rules and methods that an organization set up to face the regular problems which it faces*" (Trompenaars & Wooliams 2003). It constitutes the ground on which is registered the "genetic and managerial" heritage of the organization. However, even there, this notion of culture is debatable.

## **2.2. The confrontation of the cultural strategies**

We can see the cultural prism as an integrator, a moderator or a catalyst of the performance in particular in its capacity to avoid conflicting relations between partners and to establish successful and sustainable relations (Dupriez & Simon 2002). If the company is an organization, it is also a complex system of diverse cultural prints, connected in a more or less formalized and complex way between national culture and organizational culture, which remains not enough clarified today. Internationalization of

the distributor raises the problem of the confrontation of the cultures between the country of origin and the target country. In such contexts, the dilemmas to be resolved for the organization are simple: do we have to import one's own culture or to adapt to the culture of the target country?

To export its own culture means organizing the company on an identical managerial process than in the country of origin and to risk that no actors of the target country get involved in this way of functioning. Indeed, local mentalities are often strong and difficult to change despite the efforts made by going in companies. The strategic reflection concerns the articulation between a purely universalist approach and a determinedly culturalist approach. It has a strong importance in considering the human resources aspects and the diffusion of knowledge among the organization. It seems to be easier to manage a universalist logic instead of a culturalist one, in which you have to hire foreign people and to form them to your management process. It is also maybe easier to manage an external cross-cultural environment than an internal one because national culture is apparently more visible than the organizational culture. Perlmutter & Heenan (1979) suggested four manners approaching an overseas market: **ethnocentrism** (which aims at imposing the culture of origin, at unifying management systems), **polycentrism** (decisions are adapted for legitimacy in every country by management of local subsidiaries), **regiocentrism** (try to rock the viability and the legitimacy of multinationals at the regional level) and the **geocentrism** (integration of subsidiaries in a global system of decision-making). It shows that the dynamics of internationalization is two-tier and necessitate using one of the two generic strategies: universalism or culturalism.

**Frame 1: Methodology and Tropes 7.0 software**

A study following a qualitative protocol was led in 2009, thanks to a case study set with the distributor Carrefour both in Romania and in France, as well as with its partners (experts, consultants, logisticians, outlets and mall promoter, managers, buyers). A semi-directive interview guide was created. 33 individuals were interviewed (8 women and 25 men) among which 11 French and 22 Romanians. Interviews were led face-to-face and by telephone during the 2<sup>nd</sup> quarter 2009. 341 pages of speech were retranscribed and analyzed with the software Tropes 7.0, specially dedicated to a study of discursive contents. An aggregated analysis and a separate analysis were made.

### **2.3. The choice of the entry mode and the cultural filtration: main results**

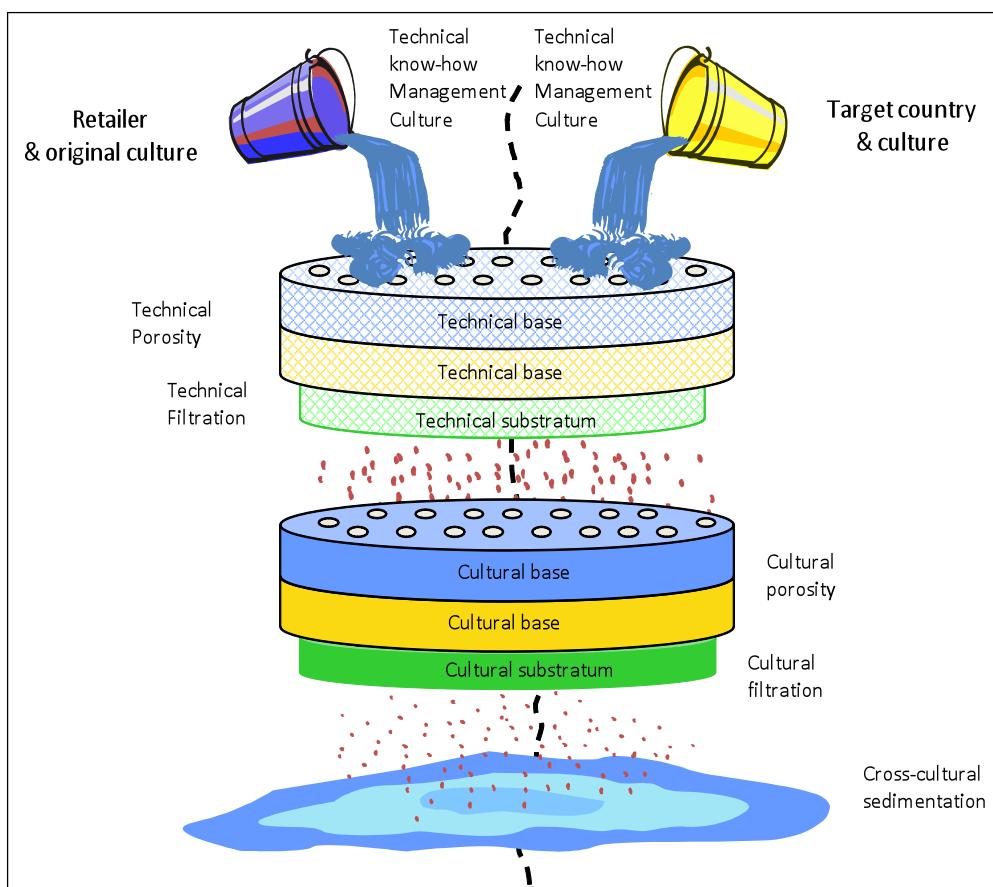
The cultural performance is connected to a common will on behalf of the protagonists to surpass the obstacles which are so many sources of conflicts and that are barriers in the genesis of positive relations. It passes by the revision of the cultural perceptions the actors have of the culture of the other one. This means sharing skills

and cultural knowledges, on the basis of which the partners are going to extract a common cultural substratum (a kind of third culture) appropriate for their common history and which makes them more effective in the use of their respective cross-cultural skills.

This cultural variable seems to be issued from several domains. Introduced indirectly by the strategy of internationalization, it is based in reality on very fragile foundations because it is subject to a lot of instability due to the human variable. Expatriate staff plays a fundamental role in the success of the cross-cultural skills to be developed.

We can draw two cultural models according to the comments of the interviewed actors: the one showing a double cultural filtration in a universalist strategy (figure 1), the other one in culturalist logic (figure 2).

**Figure 1: Model of double cultural filtration in a universalist logic**



Source: Cassière (2010)

The values of each actors pass at first through a "technical filtration" (synonym of organizational culture). It means confronting each other values in reference to the base which constitute its own values. It is a form of awareness of its own culture by confrontation to the other one. During the arrival of the distributor, the relations between partners are firstly of technical nature. The weight of the organizational culture and the standards emanating from the distributor impose at first the respect of these values by partners because of management reasons. The distributor tries to introduce practices corresponding to its specifications and establishes a certain uniformity of the procedures, identical to what the employees knew in the retailer's country of origin or in the other already conquered countries, if these same procedures of management were already operated.

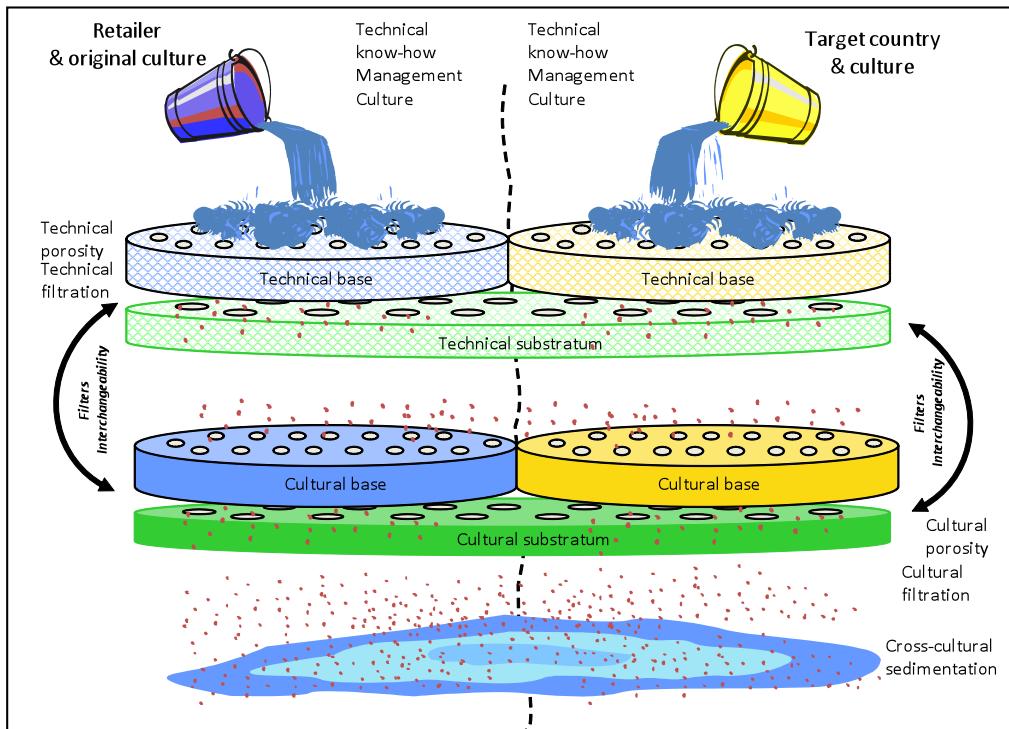
This technical filtration ensues from a phenomenon of "porosity" coming from individuals, their capacities to be accepted and to understand the others culture but also on their faculty to learn and to re-use the common cultural experiences.

Following this first filtration, there is a substratum (bases on which agree the actors by a harmonization of a part of their national cultural variables, either by a phenomenon of adaptation or by a common creation of new references). The implementation of common methods or the existence of cross-cultural common "agreements" is mentioned. This substratum is thus comparable to foundations and it is going to carry the germs of the second level of filtration which concerns the national culture. This second filtration mobilizes the same requirements as the technical filtration. It leans on the control of methods of work on behalf of the partners and on their membership in an admitted organizational culture.

It passes at first by the cultural filter of the distributor which is imposed to the others, due to the links of "subordination". This culture is conveyed more easily because of the weight of the retailer, who makes its culture pass via standards to be respected. A second substratum is put in evidence, showing or the cultural dominion of one of the actors or the creation of a third culture when it arises. Following this double filtration, it is also possible to verify if the organizational culture (named "technical") is stronger than the national culture (Liu & al. 2009). It is the result of a crossed cultural sedimentation.

This result is used in the daily management of relations between the distributor and its partners. It turns out to be a set of knowledges and/or of behaviors as organizational as cultural and contagious to the other members of the organization, to the current or future partners.

Figure 2: Model of double cultural filtration in a culturalist logic



Source: Cassière (2010)

The basic premise is that the distributor decides to establish in countries where the cultural nearness is strong (Salmon & Tordjman 1989; Dupuis 1991; Ghemawat 2001). Two parallel cultural systems are then going to coexist and to meet to give birth to a cultural substratum in which the values of both cultures are present. At this stage, either the substratum consists mainly of one of both cultures, or it contains ferment to introduce the creation of a dedicated culture, in which protagonists draw what is necessary for the preservation of good and sustainable relations between them. The interchangeability of filters allows an adequacy to the characteristics of the target countries or to the partners who will be selected.

This allows a round trip between the actors' cultures in search of a better homogeneity, to generate positive effects on the relation and perpetuate it. It is a marketing approach of type "market-based" adapted to cross-cultural factors. So, culturalist logic can be thus validated even if this one contains essentially a marketing content. It is used to develop nearness with the final customer and a consideration of the satisfaction of his specific wishes. This strategy has for objective to reassure the customers by proposing them products with which they are confidents. It also gives the distributor more local image, which contributes to generate a positive feeling in direction to the final customer and with its partners.

However, this will imposes forces the distributor to develop narrow relationships with partners and local producers to secure its supply and guarantee a sufficient referencing in local products. In a B-to-B context this cultural adaptation risks to be different; the cultural filtration is imperative. It results from an interchangeability of filters, which can occur several times. Every new substratum becomes the base of the following filtration but it also means that each actor's culture is at the same level before every pooling of new cultural dimensions.

## **Conclusion**

International competition in the retail industry imposes the respect for some basic principles at the risk of seeing the internationalization becoming the Way of the Cross. Rarely integrated at the origin of the strategic reflection, the cross-cultural variable becomes today a key factor of success. A distributor must be effective at two levels: he has to satisfy the needs of the final consumers in a "classic" marketing approach while guaranteeing a managerial efficiency which has to assure the perpetuity of the structure on the target market. Indeed, far from its bases, any cross-cultural clash takes a vital importance, not only for the structure but also for the human resources management, often badly, even little, trained in the cross-cultural dynamics. The managerial efficiency of an internationalization in the retail industry lies maybe in an hybrid model to those proposed in this article, a model integrating the concept of a third culture.

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## **SOME CONSIDERATIONS FOR IMPROVEMENT ROMANIAN TAXATION**

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**COMANICIU Carmen**

**Abstract:**

The two terms, *improvement* and *modernization* are increasingly used to analyze tax issues, because the trend is towards ensuring optimal in terms of taxation and tax settlement to the criteria of normality, so that it becomes a key component of economic and social life of any nation. Through this article, we try to address some aspects to be taken into account when it comes to improving a tax system or tax activity, especially for the situation in Romania.

**Keywords:** improvement, optimal taxation, efficiency, fiscal management, fiscal rules

Optimal approach to taxation can not be achieved unless it is satisfied at the optimum level of each component of the tax system and tax work.

It is difficult to specify in which nation is established an optimal tax system. Whether this would meet, we believe that the model should be taken over by other states.

For romanian fiscal system, we can not yet speak about of optimal taxation, because of the many changes that it has in post-communist period, so we will focus on opportunities for improvement and modernization of its, both in territorial and national level.

A first step in ensuring the improvement of tax system is the action of factors, called the "4E", respectively: Efficiency, Effectiveness, Ethics, Education.

The first question that may come after the establishment of the "4E" is: Why was considered that interdependent action of these factors is that can ensure optimal taxation?

To give answer to this question, must be taken into account:

- the fundamental coordinates of taxation;
- the concepts of efficiency and effectiveness in the fiscal area;
- the factors influencing the effectiveness and efficiency of taxation;
- the place and role of human factor in the increase of tax efficiency;
- meaning participation in fiscal management;
- moral values in tax process.

All activities and processes consumed work, material and financial resources, the aim being to achieve expected results, always be analyzed in terms of performance. Addressing performance in terms of fiscal activity involves identifying the relationship between costs, returns and risks of the proposed action alternative ways to achieve goals.

Most times, the approach of the efficiency and effectiveness was envisaged private sector activity, the emphasis in the public sector is to cover the requests. Efficiency is an essential requirement, a fundamental coordinated fiscal, an expression and an optimal condition for its implementation.

For optimal taxation we must consider following elements: yield (a simple tax is more understandable by the taxpayer and easier to administer the tax authorities); flexibility (a tax with a flexible tax base is more easily adapted to the economic and social terms); stability (tax legislation clear and stable for a longer period of time, causes a higher level in terms of compliance from the taxpayer and making decisions in conditions with low risk). [1]

Identifying opportunities for improvement in the tax area in Romania, requires consideration of the following issues:

- establish a optimal correlation between the structure of taxpayers and changes in tax system;
- tax return analysis;
- strengthening the role of fiscal management to achieve fiscal activity performance;
- increase voluntary compliance;
- improve the image of romanian taxation;
- appropriate use of numerical fiscal rules;
- efficient use of an Integrated Financial Management System.

#### **Establish a optimal correlation between the structure of taxpayers and changes in tax system**

Number, size and major changes of taxes, will always cause taxpayers to choose or to migrate to that legal form, assumed in their point of view, the best option tax. In this respect, requires that any micro or macro decision must to consider the structure of tax payers, because is possible that a measure of fiscal policy that aimed to increase tax revenues, leading to a reduction in their.

In this respect, an example is the introduction in Romania the minimum tax, since 1 may 2009, according to the portion of total income corresponding previous fiscal year.

The reaction of politicians, analysts and business to that tax change came immediately after approving the Emergency Ordinance, particularly on the legal form of organization for taxpayers. Thus, on 16.04.2009, stated that "at least 20% of the total number of 478.173 registered microenterprises in the year 2007 will turn in authorized individuals, to escape the flat tax" [2]. In July 2009, details were as follows: "Following the introduction of the minimum tax, the number of authorized individuals registered at

the first five months was 26.254, up 32.6% over the same period last year ... This increase was due mainly to the introduction of the minimum tax, because many businesses were closed, preferring to become authorized individuals ... Number of firms that entered into insolvency in the first five months of this year increased by 60.5% from 6.035 to 9.687. Meanwhile, the number of registrations during january to may was 54.225, down 12% from 66.124 companies in the same period last year and canceled number rose to 21.345" [3].

Increasing the number of authorized individuals and legal entities decrease from may 2009, is mainly due to introducing flat tax, because, while companies with legal personality required to pay the standard rate, whether done or not income, individuals pay tax depending on income, in real system or by the rule of income.

Underline again, the need for prior approval of an amendment in the tax system, to undertake analysis of the impact of that changes to the structure of taxpayer.

### **Tax return analysis**

In Romania, at the end of 2005, outstanding obligations of the state budget recorded by 413 large taxpayers were 3.189.525.630 lei, decreasing by the end of 2008 with 796.590.094 lei (300 large taxpayers accounting for outstanding obligations budget of 2.392.935.536 lei), but accounting for growth in late 2009, both the large number of taxpayers with outstanding obligations to the state budget (respectively, 448 large taxpayers) and the amount (outstanding obligations 4.274.694.880 lei). [4]

The highest share in the remaining obligations have an interest and default charges, followed by value added tax.

Even if the remaining obligations of the income tax from salaries have decreased in 2005-2009, it is worrying that they are on the list of debts, since the income tax requires withholding.

To remove this unfavorable situation, determines the action of tax authorities through:

- issuing and mass communication the payment notices and injunctions to the debtors;
- issuing and communication the addresses for establishment of attachment the availability of bank accounts to banks;
- enforcement seizures of movable and immovable property owned by debtors, and the onset or continuation of recovery procedure to tender such goods;
- identify all taxpayers who meet the legal requirements for initiating actions to the reorganization and bankruptcy procedures, in accordance with Law no. 64/1995, republished with subsequent amendments;
- increased activity registration of state budget claims, which have been issued writs of execution, to the Electronic Archive for Secured Furnishing.

Following the measures taken, there is a significant increase beginning enforcement procedures. If the year 2005 this measure was applied to 46,73% of all large taxpayers with overdue obligations to the state budget, for the year 2009 to

65,85% of large taxpayers with outstanding obligations began foreclosure proceedings. Is this the best solution to recover obligations? Legal professionals believe that judicial reorganization and mediation are the best solutions for these taxpayers, in the current conjuncture. Enforcement procedure is costly and risky, due to asset impairment resulting from the effects of economic and financial crisis.

According to the principle of taxation aimed at "economy and efficiency" state should be concerned about the reduction, on the one hand of the tax burden, and on the other side of the tax arrears.

Tax arrears is a "disease" difficult for the romanian economy. Agreement with FMI sets as an indicator of performance "target arrears", respectively freezing government arrears for the year 2008 and a further reduction to 150 million lei to the end of 2009 and another 150 million lei to the end of 2010. Ministry of Finance managed to reduce arrears state to the 205 million lei in the period june to september 2009, but the accumulation of other debts in the period january to june 2009 has been impossible to meet the targets contained in the FMI agreement. [5]

For tax revenue collection may not be a burden for tax authorities, and budgetary resources can be formed in accordance with the tax reform is necessary:

- continuing publication on the website of the Ministry of Finance of taxpayers who recorded outstanding obligations to the state budget;
- eliminating, where possible, the practice of providing payment facilities;
- continue enforcement procedures with high efficiency or to find other measures to recover arrears (judicial reorganization);
- severely punish those who willfully evade the tax obligations;
- issuance of new registration procedures for the prevention of outstanding tax liabilities;
- education for taxpayers in order to obtain favorable results, the profit being the primary test for a firm's performance.

If these obligations are not paid, public decision-makers will have to find new ways to cover budget expenditures and tax burden will push as hard on those who understand and respect the rules and principles of taxation. Here's how the tax liability is not keeping that tax burden and the formation of public financial resources can not meet the principles of efficiency, effectiveness and equity.

### **Strengthening the role of fiscal management to achieve fiscal activity performance**

Richard Farmer's assertion that "management explains why a country is rich or poor" [6] is inextricably linked to the fiscal management practices, from the fact that this is based on relationship the taxpayer - the state, for training and efficient use of public financial resources.

Management is present today in all economic and social fields, so implicit in the tax area, improvement of the main factor increasing the efficiency of tax.

Multiple meanings of the concept of management, have led experts to define this concept, to determine the contents and special features. Specificity tax area,

identifies fiscal management as the art and science of applying methods and procedures as a basis for programs, for organize and coordinate the processes of collecting tax revenue and the effective use of public funds.

Existence of fiscal management determines its essential details, namely: [7]

⇒ *primary objective* (understanding and deepening the role that taxation plays in socio-economic life of a nation, to establish a real partnership between the state and taxpayers, for training and use of public financial resources);

⇒ *the scope* (fiscal analysis must be conducted taking into account the local, national and international, for which mutations occurring in fiscal management should provide details of real tax reform, resting on values and principles);

⇒ *main functions* (forecasting, organization, coordination, training, evaluation and control are the main functions of fiscal management, with content, requirements and ways of achieving specific for fiscal activity);

⇒ *fundamental values* (core values are arranged according to the membership - the internal values and external values and degree of generality - the universal and particular values, is widely recognized and accepted values such as ethics, morality and democracy);

⇒ *essential features* (specific tax obligations, the general principles of taxation, fiscal and budgetary specific activity, duties and functions of the fiscal authority, rights and obligations of individual taxpayers and corporations);

⇒ *principles and laws* (definition and application management unit, according to environmental influence, participatory management, legality, motivating all stakeholders involved in tax activity, efficiency).

Essential coordinates for fiscal management should be found in the guidelines for tax administration, from the idea that an effective organization, an changing administration, the shaping of modern strategy, identifying new value at the level of fiscal authority and strategic targets, may lead to increased efficiency and effectiveness of tax administration.

Consistent with the general coordinator of fiscal management, medium strategic objectives for National Tax Administration Agency of Romania are oriented on: [8]

⇒ stimulate voluntary compliance;

⇒ preventing and combating tax evasion and financial indiscipline;

⇒ modernize and improve the functioning of tax administration.

**Table 1. Indicators for Plan performance of tax administration [9]**

<b>Year 2007</b>	<b>Year 2008</b>
<ul style="list-style-type: none"><li>• The implementation of the program budget revenue receipts</li><li>• The recovery of arrears from corporate</li><li>• The collection of arrears from large/medium taxpayers</li></ul>	<ul style="list-style-type: none"><li>• The implementation of the program budget revenue receipts (gross value)</li><li>• The implementation of the program budget revenue receipts (net value)</li><li>• The recovery of arrears from corporate</li></ul>

<ul style="list-style-type: none"> <li>• Rates budgetary revenue collected by the enforcement procedure</li> <li>• The voluntary compliance payment (number)</li> <li>• The voluntary compliance payment (value)</li> <li>• Number of inspections conducted by an inspector</li> <li>• Attracted additional amounts (net) by an inspector</li> <li>• The ratio of the number of appeals filed by taxpayers in the tax number of decisions issued</li> <li>• Number of complaints on failure to support the work of taxpayers</li> <li>• The number of resolved addresses in legally within</li> <li>• Degree in term of tax returns</li> <li>• The voluntary filing of tax returns by type of tax</li> <li>• The resolution within the returns with negative amounts of VAT refund option</li> <li>• Rates amounts allowed by the court for which data were invalidated solutions prior procedure</li> <li>• Share solutions admission and ending in all the solutions given by the bodies responsible for resolving disputes in National Tax Administration Agency of Romania and County General Directorates of Public Finances</li> </ul>	<ul style="list-style-type: none"> <li>• The collection of arrears from large / medium taxpayers</li> <li>• Rates budgetary revenue collected through enforcement procedure</li> <li>• The voluntary compliance payment (number)</li> <li>• The voluntary compliance payment (value)</li> <li>• Number of inspections conducted by an inspector</li> <li>• Attracted additional amounts (net) by an inspector</li> <li>• The ratio of the number of appeals filed by taxpayers in the number of tax decisions issued</li> <li>• Number of complaints on failure to support the work of taxpayers</li> <li>• The number of resolved addresses in legally within</li> <li>• Unresolved complaints within the statutory share in the total processing petitions</li> <li>• Degree in term of tax returns</li> <li>• The voluntary filing of tax returns by type of tax</li> <li>• The resolution within the returns with negative amounts of VAT refund option</li> <li>• The resolution within the returns with negative amounts of VAT refund option, in category tax returns with low or medium risk (resolved after inspection)</li> <li>• Rates of amounts allowed by the court in total amount of court dispute</li> <li>• Share solutions admission and ending in all the solutions given by the bodies responsible for resolving disputes in National Tax Administration Agency of Romania NAFA and County General Directorates of Public Finances</li> </ul>
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Source: Appendix 1 of "Medium term strategy of National Tax Administration Agency",  
[static.anaf.ro/static/10/Anaf/strategie\\_ANAF.pdf](http://static.anaf.ro/static/10/Anaf/strategie_ANAF.pdf)

List of indicators for Plan performance of tax administration for 2008 has changed from that for 2007. So: degree of achievement of budgetary revenue program was established, both gross and the net value; was introduced the indicator unresolved complaints within the statutory share in the total petitions; to resolve returns with negative amounts of VAT refund option was considered, the degree of resolution within all returns and the degree of settling tax returns with low or medium risk, which require further scrutiny; indicator rate for amounts allowed by the court that the procedure was

canceled prior solutions has changed in rate amounts permitted by the court in total amounts disputed by the court.

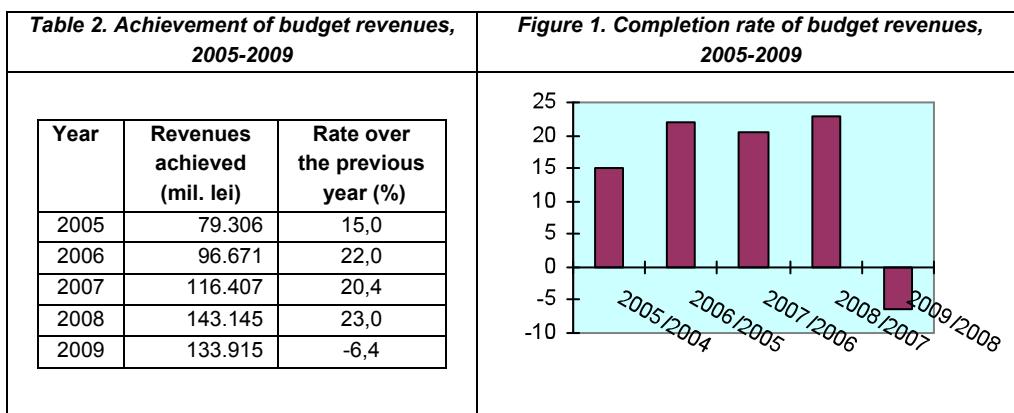
Changes highlight the need to adjust the directions of improvement in tax area, first in the way of tax activity, and second, in the mode of action of taxpayers.

### **Increase voluntary compliance**

National Tax Administration Agency wanted through assessments made by participants in various surveys taxpayers to improve their work, on: [10] increased collection of taxes and contributions; increasing voluntary compliance of taxpayers to pay tax liabilities; improving information and communication activities for taxpayers; conduct a modern activities for assistance the taxpayers.

Analyzing the data presented by the National Agency for Fiscal Administration in late 2009, it is enough negative aspects regarding the degree of budgetary revenue collection and degree of voluntary compliance in paying taxes and contributions.

Achieving budget revenues in the 2005-2009 period is as follows [11]:



Source: Ministry of Public Finance, National Agency for Fiscal Administration, "Performance Report 2009", p.40

Reducing the achievement of budgetary revenues in 2009 primarily due to the effects of economic and financial crisis. Taking into account the structure of budget revenues, to the total planned budget revenues (133.948,3 mil. lei), achievements were 99,97% (respectively 133.914,5 mil. lei). If the State Budget, State Social Insurance Budget and Unemployment Budget there is a degree of achievement over 100%, for Single National Fund for Health Insurance, level of achievement was 95.6%. Also, the tax revenue from direct and indirect taxes is found to achieve a degree less than 100%, respectively 93.7% for income tax and 96.9% for VAT. [12]

In Romania, the budget revenues in GDP is already low, so that an additional reduction of the budget deficit without serious improvement of collection rate will lead to a reduction in expenditures with negative consequences for institutional infrastructure, human capital and the country. This claim is based and high level of outstanding arrears to be recovered, which, in the year 2007 represented 2.9% of GDP

(respectively 11861.9 million lei) and for the year 2009 represented 3.4% of GDP (respectively 17.231 million lei). [13]

Regarding the degree of compliance of taxpayers to declare and pay tax obligations, in the year 2009 have given less encouraging, especially for payment of taxes and contributions, namely:

<b>Table 3. Evolution of the degree of voluntary compliance</b>			<b>Table 4. Voluntary compliance rate of degree, in 2009</b>		
<b>Year</b>	<b>Degree of voluntary compliance for:</b>		<b>Performance Indicators</b>	<b>Level planned 2009</b>	<b>Level achieved 2009</b>
	<b>Declaration</b>	<b>Payment (numbers)</b>			
2004	82	73	Voluntary submission of tax returns	92%	83,86%
2005	84	69	Voluntary compliance to tax obligations (number)	78%	64,30%
2006	84,5	72,8	Voluntary compliance to tax obligations (value)	85%	77,43%
2007	80,7	70,6			
2008	83,2	67,9			
2009	83,9	64,3			

Source: Ministry of Public Finance, National Agency for Fiscal Administration, "Performance Report 2009", p. 45-46

Even with a large number of enforcement actions (9.474.438 shares of enforcement, of which: 7.541.831 injunctions - 79,60%; 1.813.391 sequestered bank accounts - 19,14%; 119.216 forbid others - 1,26%) [14], proceeds by way of enforcement had a negative rate in 2009 compared to 2008 of -0,5%. Highest yield was recorded by using the method of attachment of income from third parties (tax debts collected by 304,5 million lei - a rate of 34,8% since 2008), and the lowest by using the method of attachment of movable (tax claims received by 12,4 million lei - a rate of -64,6% since 2008). [15]

There is a decrease in failures in activity for assistance to taxpayers, because at their planned level for 2009 of 8% of all complaints filed by taxpayers, 3,33% are achieved in all complaints filed by taxpayers. Regarding the degree of resolution of fiscal matters, the issues are as follows: [16]

**Table 5. The level of performance indicators for the resolution of tax issues,**

***in the year 2009***

<b><i>Indicators</i></b>	<b><i>Planned level 2009</i></b>	<b><i>Level achieved in 2009</i></b>
The degree of resolution in terms of address	100 %	99,76 %
Degree of processing of tax returns within	100 %	94,09 %
The degree of resolution within the VAT returns with negative amounts, with repayment option	95%	57,33%
The degree of resolution within the VAT returns with negative amounts, with options for repayment in category finally returns with low or medium risk (resolved after inspection)	100 %	72,65 %

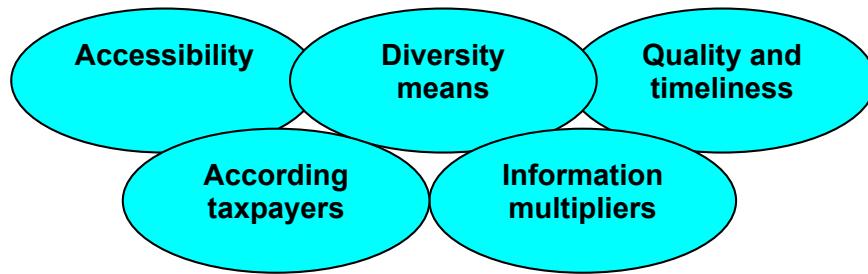
Source: Ministry of Public Finance, National Agency for Fiscal Administration, "Performance Report 2009", p. 46-47

Thanks or discontents of taxpayers led the National Tax Administration Agency (NTAA) to recognize the important role of external communication in tax policy, to establish a coherent framework of institution relations with taxpayers, based on a clear partnership.

In this respect, elements contained in "External Communication Charter for National Tax Administration Agency" should not remain the status of commitments, but they must be implemented by: [17]

- ✓ information free and open to all taxpayers;
- ✓ use transparency in providing information to taxpayers and ensure privacy for personal information;
- ✓ disclosure consideration of the qualities of clarity, accuracy and completeness;
- ✓ establish a relationship between NTAA and contributors based on respect, mutual consideration, courtesy and cooperation;
- ✓ adapt NTAA to the needs of the taxpayer, in order to increase voluntary compliance to tax obligations.

Keywords external communication for the success of NTAA are:



**Figure 2. Means of improving external communication NTAA**

Source: Ministry of Finance, National Tax Administration Agency, "External Communication Charter NTAA"

### **Improve the image of Romanian international taxation**

Elements of fiscal policy in each nation, must take into account the international dimension of taxation, to allow adjustments to the tax system to international requirements.

Indicators that can be considered to have a picture of taxation and said in what state is "easier" or "hard" to bear the tax burden is: the number of payments of tax obligations; the time needed to pay obligations tax; total tax rate.

According to the fourth study conducted by World Bank experts and representatives of PricewaterhouseCoopers, to the taxation of 183 states, in the year 2009, the situation is as follows: [18]

⇒ Total number of payments that a company must perform an annual average fall in values between 1 and 147, the distribution for the 183 jurisdictions were analyzed as follows:

**Table 6. Number of payments for tax liabilities, in the year 2009**

<b>Number of payments</b>	<b>Country</b>
1-10	Afghanistan, Argentina, Brazil, Canada, China, Denmark, Dominica, Ecuador, Estonia, Finland, France, Greece, Hong Kong, Ireland, Kazakhstan, Kiribati, Latvia, Maldives, Mauritius, Mexico, Netherlands, New Zealand, Norway, Peru, Portugal, Qatar, Singapore, South Africa, Spain, Sweden, Timor Leste, United Kingdom, United States
11-30	Amman, Arabic Syria, Australia, Austria, Azerbaijan, Bahamas, Bahrain, Bangladesh, Belgium, Bhutan, Botswana, Brunei, Bulgaria, Colombia, Comoros, Croatia, Cyprus, Egypt, Eritrea, Ethiopia, Gabon,

	Gaza, Georgia, Germany, Grenada, Guatemala, Hungary, Iran, Iraq, Italy, Japan, Jordan, Korea, Kuwait, Lebanon, Lesotho, Lithuania, Luxembourg, Madagascar, Malawi, Malaysia, Marshall Islands, Micronesia, Morocco, Palau, Puerto Rico, Russia, Saudi Arabia, Seychelles, Sierra Leone, Slovenia, St. Kitts and Nevis, Suriname, Switzerland, Taiwan, Thailand, Tonga, Tunisia, Turkey, United Arab Emirates,
31-50	Albania, Algeria, Angola, Armenia, Belize, Bolivia, Burkina, Burundi, Cambodia, Cameroon, Congo, Costa Rica, Djibouti, Dominica, Guinea, Fiji, Gambia, Ghana, Guinea Bissau, Guyana, Haiti, Honduras, Iceland, Israel, Kenya, Kosovo, Lao, Liberia, Macedonia, Mauritania, Moldova, Mongolia, Mozambique, Namibia, Nepal, Niger, Nigeria, Pakistan, Papua, Paraguay, Philippines, Poland, Rwanda, Samoa, Sao Tome, Slovakia, Solomon Islands, St. Lucia, St. Vincent and the Grenadines, Sudan, Swaziland, Tanzania, Trinidad and Tobago, Uganda, Vanuatu, Vietnam, Yemen, Zambia
51-70	Antigua and Barbuda, Benin, Bosnia and Herzegovina, Cape Verde, Central Africa, Chad, Chile, Côte d' Azur, El Salvador, Guinea, India, Indonesia, Mali, Nicaragua, Panama, Senegal, Serbia, Sri Lanka, Tajikistan, Togo, Uruguay, Zimbabwe
71-90	Jamaica, Kyrgyz, Montenegro, Venezuela
91-110	Belarus, Uzbekistan
111-120	<b>Romania</b>
121-150	Ukraine

Source: processing author, according to the site, <http://www.doingbusiness.org/.../2010/Paying-Taxes-2010.pdf>, pp. 80-82

States with the lowest number and highest paying tax obligations that a company must make it during a fiscal year are:

**Table 7. "Top" states made by the number of payments made by a company, in the year 2009**

<b>Country</b>	<b>No. payment</b>	<b>Country</b>	<b>No. payment</b>
Maldives, Qatar	1	Ivory Coast, Serbia	66
Sweden	2	Venezuela	71
Hong Kong, Norway	4	Jamaica	72
Singapore	5	Kyrgyz Republic	75
Mexico, East Timor	6	Montenegro	89
Kiribati, Mauritius, France, Latvia	7	Uzbekistan	106
Ecuador, Finland, New Zealand,	8	Belarus	107

Portugal, Spain, United Kingdom			
Argentina, Canada, Denmark, Rep.. Dominican, Ireland, Kazakhstan, Netherlands, Peru, South Africa	9	<b><u>Romania</u></b>	113
Brazil, Chile, Estonia, Greece, USA	10	Ukraine	147

Source: <http://www.doingbusiness.org/.../2010/Paying-Taxes-2010.pdf>

⇒ Total number of hours required during the year for tax obligations lies with values between 0 and 2600 hours per year, distribution to the 183 jurisdictions were analyzed as follows:

**Table 8. Time spent on tax obligations, for the year 2009**

No. hours / year	Country
0-100	Bahamas, Bahrain, Cape Verde, Comoros, Estonia, Hong Kong, Ireland, Luxembourg, Macedonia, Maldives, New Zealand, Norway, Amman, Qatar, Saudi Arabia, Seychelles, Singapore, Solomon Islands, St. Lucia, Switzerland, United Arab Emirates
101-200	Australia, Austria, Belgium, Belize, Botswana, Brunei, Burundi, Cambodia, Canada, Chad, Croatia, Cyprus, Denmark, Djibouti, Dominica, Ethiopia, Fiji, France, Germany, Grenada, Haiti, Iceland, Jordan, Kiribati, Kosovo Kuwait, Lebanon, Liberia, Lithuania, Malawi, Malaysia, Marshall Island, Mauritius, Micronesia, Mongolia, Netherlands, Palau, Papau New Guinea, Philippines, Rwanda, South Africa, St. Kitts and Nevis, St. Vincent and the Grenadines, Sudan, Suriname, Swaziland, Sweden, Tanzania, Tonga, Trinidad and Tobago, Uganda, UK, USA, Vanuatu, Gaza, Zambia
201-300	Afghanistan, Albania, Angola, Antigua and Barbuda, Benin, Bhutan, Burkina, Colombia, Costa Rica, Côte d'Azur, Equatorial Guinea, Eritrea, Finland, Gabon, Ghana, Greece, Guinea Bissau, Guyana, Honduras, India, Indonesia, Israel, Kazakhstan, Rep. Korea, Kyrgyz, Latvia, Madagascar, Mali, Moldova, Mozambique, Nicaragua, Niger, Puerto Rico, <b><u>Romania</u></b> , Samoa, Serbia, Slovakia, Solvents, Spain, Sri Lanka, Taiwan, Tajikistan, Thailand, Timor Leste, Togo, Tunisia, Turkey, Yemen, Zimbabwe
301-400	Azerbaijan, Bangladesh, Chile, Rep.. Dem. Congo, Rep. Dominica, El Salvador, Gambia, Georgia, Guatemala, Hungary, Iran, Iraq, Italy, Japan, Lao, Lesotho, Montenegro, Morocco, Namibia, Nepal, Paraguay, Peru, Poland, Portugal, Russia, Sierra Leone Rep.. Syrian Arab Uruguay,

	Uzbekistan
401-500	Algeria, Argentina, Bosnia and Herzegovina, Egypt, Guinea, Jamaica, Kenya, Panama, Sao Tome
501-600	Central Africa, China, Ecuador, Mexico, Pakistan
601-700	Bulgaria, Rep.. Congo, Czech Republic, Mauritania, Senegal
701-800	Ukraine
801-900	Belarus, Venezuela
901-1000	Armenia, Nigeria
1001-1100	Bolivia, Vietnam
1301-1400	Cameroon
2501-2600	Brazil

Source: <http://www.doingbusiness.org/.../2010/Paying-Taxes-2010.pdf>, "Paying taxes 2010, pp 83-85

If a taxpayer in Brazil it required 2600 hours per year for tax obligations, the time required for this activity is reduced significantly in other countries, reaching 36 hours per year in Qatar, 12 hours per year in United Arab Emirates and under an hour / year in the Maldives.

⇒ Total tax rate (summing tax rates to income taxes, taxes on employment and other tax obligations) for the 183 countries under review lies with values between 0.2% and 322%, distribution is as follows:

**Table 9. Distribution of states according to total tax rate**

<b>The total tax rate</b>	<b>States</b>
0% - 20%	Bahrain, Botswana, Georgia, Kuwait, Lesotho, Macedonia, Maldives, Namibia, Qatar, Samoa, Saudi Arabia, Timor Leste, United Arab Emirates, Vanuatu, Gaza Zambia
21% - 30%	Belize, Bosnia and Herzegovina, Brunei, Cambodia, Chile, Cyprus, Denmark, Hong Kong, Iceland, Iraq, Ireland, Kosovo, Lebanon, Luxembourg, Malawi, Mauritius, Mongolia, Montenegro, Amman, Singapore, South Africa, Suriname, Switzerland , Tonga
31% - 40%	Afghanistan, Armenia, Bangladesh, Bulgaria, Croatia, Djibouti, Dominica, Rep.. Dominica, Ecuador, El Salvador, Ethiopia, Ghana, Guyana, Haiti, Indonesia, Israel, Jordan, Kazakhstan, Kiribati, Rep. Korean, Lao, Latvia, Madagascar, Malaysia, Moldova, Mozambique, Nepal, Netherlands, New Zealand, Nigeria, Pakistan, Paraguay, Peru, Rwanda, Serbia, Slovenia, Solomin Islands St. Lucia, Sudan, Swaziland, Taiwan, Thailand, Trinidad and Tobago, United

	Kingdom, Vietnam, Zimbabwe
41% - 50%	Albania, Antigua and Barbuda, Australia, Azerbaijan, Bahamas, Bhutan, Burkina, Canada, Cape Verde, Comoros, Côte d'Azur, Czech Republic, Egypt, Estonia, Fiji, Finland, Gabon, Germany, Greece, Grenada, Guatemala, Guinea, Guinea Bissau, Honduras, Iran, Kenya, Liberia, Lithuania, Morocco, Niger, Norway, Panama, Papua New Guinea, Philippines, Poland, Portugal, <b>Romania</b> , Russia, Sao Tome, Senegal, Seychelles, Slovakia, St.. Vincent and the Grenadines, Rep.. Syrian Arab Tanzania, Turkey, USA, Uruguay, Yemen
51% - 60%	Angola, Austria, Belgium, Cameroon, Costa Rica, Equatorial Guinea, Hungary, Jamaica, Japan, Kyrgyz, Mali, Mexico, Micronesia, Spain, St. Kitts and Nevis, Sweden, Togo, Ukraine
61% -70%	Brazil, Chad, China, Rep.. Congo, France, India, Italy, Marshall Islands, Nicaragua, Puerto Rico, Sri Lanka, Tunisia, Venezuela
71% -80%	Algeria, Benin, Bolivia, Colombia, Palau
81% - 90%	Eritrea, Mauritania, Tajikistan
91% - 100%	Belarus, Uzbekistan
101% - 110%	Argentina
201% - 210%	Central Africa
231% - 240%	Sierra Leone
271%- 280%	Burundi
291% - 300%	Gambia
321% - 330%	Rep. Dem. Congo

Source: <http://www.doingbusiness.org/.../2010/Paying-Taxes-2010.pdf>, "Paying taxes 2010, pp 86-88

Highest tax rate across all 183 countries under review can be found in Rep. Dom. Congo (322%) and lowest in Timor-Lester (0.2%).

⇒ To learn how easy or difficult it is in terms of taxation, in addition to the three indicators examined number of payment of duty, time to pay the tax liability and tax rate), taxpayers of the 183 countries were surveyed also for general issues of taxation and tax administration, namely: availability of tax laws; complexity of the tax system; clarity and stability of tax legislation; taxpayer assistance; aspects of centralization and decentralization of the tax system; state fiscal documents; refund of taxes; methodology for selecting taxpayers entering into tax audit procedures; during fiscal control; conduct of fiscal control; positive and negative aspects of the tax system.

Considering all these factors, was conducted among the 183 countries, taking into account the ease or weight they bear the tax obligations. From this perspective, the top ten positions were occupied by the following countries:

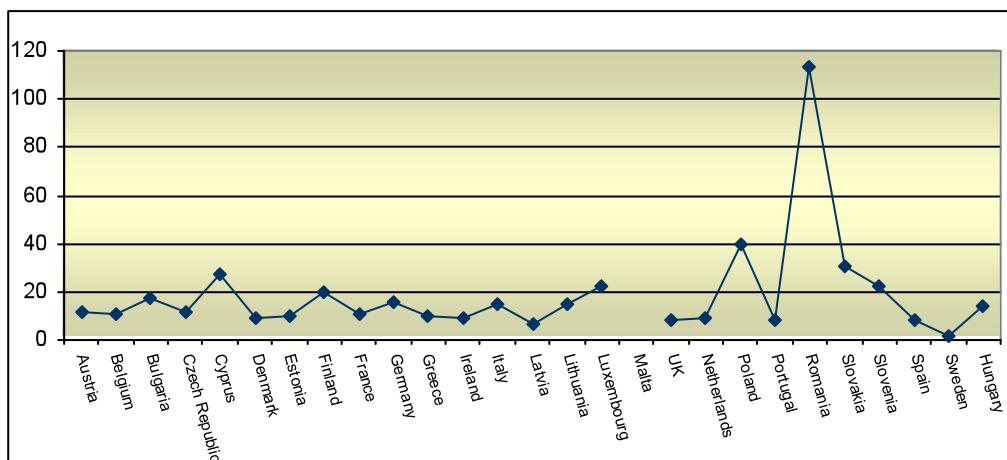
**Table 10. "Top" states according to "ease" or "burden" for tax obligations**

<b>"Easy" for tax obligations</b>		<b>"Burden" on the tax obligations</b>	
<b>Rank</b>	<b>State</b>	<b>Rank</b>	<b>State</b>
1	Maldives	183	Belarus
2	Qatar	182	Venezuela
3	Hong Kong	181	Ukraine
4	United Arab Emirates	180	Rep. Congo
5	Singapore	179	Rep. Central Africa
6	Ireland	178	Uzbekistan
7	Saudi Arabia	177	Bolivia
8	Aman	176	Gambia
9	New Zealand	175	Mauritania
10	Kiribati	174	Jamaica

Source: <http://www.doingbusiness.org/.../2010/Paying-Taxes-2010.pdf>

Of the 183 countries surveyed, except Malta, all EU Member States were analyzed, the situation presented is as follows

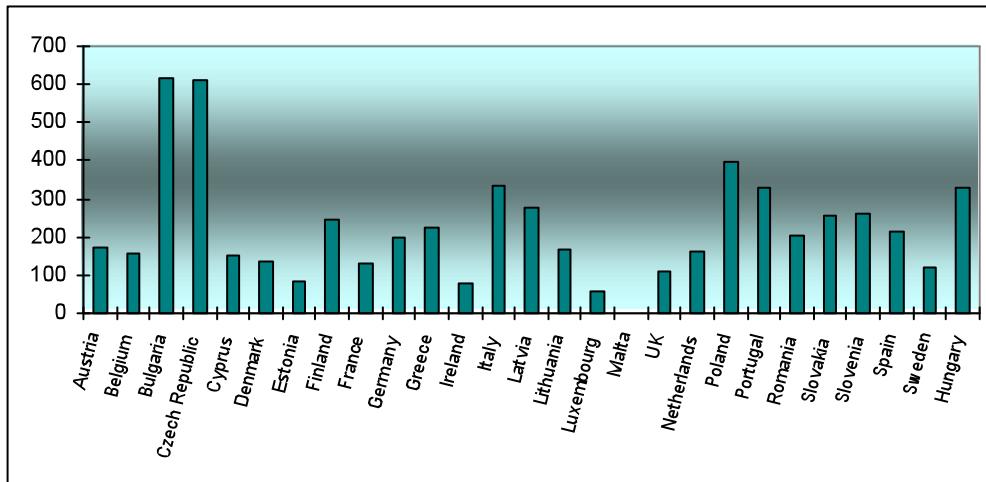
- The lowest number of payments of tax liability is found in Sweden (2) and Latvia (7) and highest in Poland (40) and Romania (113).



**Figure 3. Number of payment of duty, the EU member states in 2009**

Source: Author processing, after data published on the website <http://www.doingbusiness.org/.../2010/Paying-Taxes-2010.pdf>

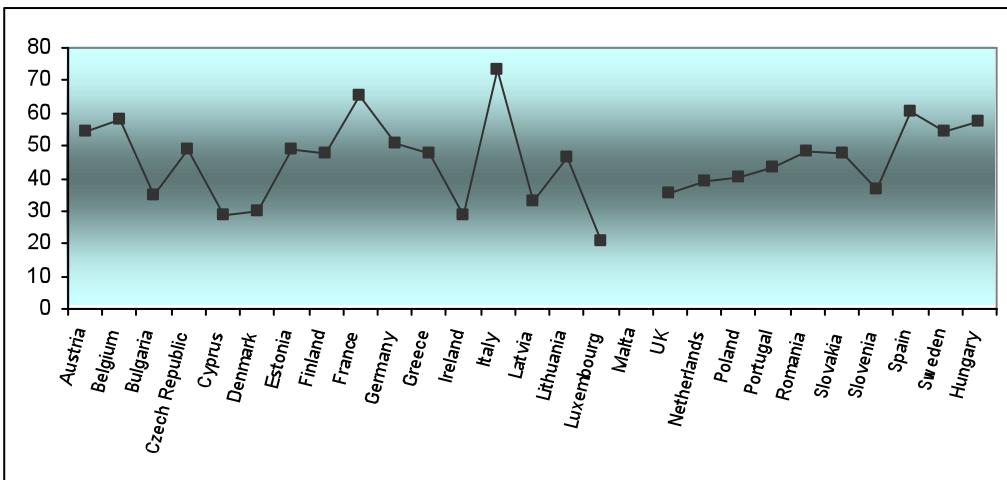
- Biggest deviation from EU average in terms of total payments of tax liabilities recorded in Romania. If the EU average is 18 payments of duty, their number in Romania is 6.28 higher.
- Most time required payment of tax obligations, the EU Member States is found in Bulgaria (616 hours / year) and lowest in Luxembourg (59 hours / year). The average European taxpayers pay taxes and contributions related to a financial year to 231.15 hours. Within the European Union, Romania ranks 14, with an average number of hours per year required for tax obligations of 202 hours.



**Figure 4. Average number of hours per year required for tax obligations in 2009, in the EU Member States**

Source: Author processing, after data published on the website <http://www.doingbusiness.org/.../2010/Paying-Taxes-2010.pdf>

According to the study, in the year 2009, in the European Union, the total tax rate was highest in Italy (73.3%) and lowest in Luxembourg (21.0%). A total of 15 EU Member States in the year 2009 showed a total tax rate above the EU average (of 46.03%), namely: Austria, Belgium, Czech Republic, Estonia, Finland, France, Germany, Greece, Italy, Lithuania, Romania, Slovakia, Spain, Sweden, Hungary.



**Figure 5. Total tax rate, the EU member states, in year 2009**

Source: Author processing, after data published on the website <http://www.doingbusiness.org/.../2010/Paying-Taxes-2010.pdf>

Presentation of these studies (achieved either nationally or internationally) highlights the need to refine the work done at institutions with tasks tax, because, state placement of one of the last positions, in terms of taxation, may entail, decrease trust in unit tax and the existence of escapist behavior from taxpayers.

### **Proper use of numerical fiscal rules**

Theory of optimal taxation designed using models acting on the following lines:

[19]

- Each model identifies a specific set of feasible tax liability, that taxes on consumption and government revenue. Standard models are based on fiscal rules such as part-whole which does not lead to economic imbalances.
- Each model specific differential response of taxpayers to tax liabilities. In this respect, different reactions are identified corporate taxpayers and individual taxpayers.
- Governments should be based on clear objectives to achieve fiscal configurations. Simple models relate to minimizing income tax burden by increasing public, while complex models take into account issues of fairness.

Whatever the model chosen to achieve an optimal tax system, fiscal policy should be based on clearly defined rules and principles and government fiscal strategy must seek how these rules are followed.

A particularly important role to build a tax system to allow proper action functions of public finances is numerical fiscal rules, respectively identification of minimum and maximum limits in respect of the establishment and use of public resources.

Based on research conducted by tax and financial professionals can be identified the following types of numerical fiscal rules: [20] numerical fiscal rules

relating to the budget balance; numerical fiscal rules related to budget revenues; numerical fiscal rules related expenditures; numerical fiscal rules related debt.

If the main objective of numerical fiscal rules is to strengthen budgetary discipline, they can promote policy coordination between different levels of government, thus helping to reduce uncertainty about future fiscal policy developments. Successful application of numerical fiscal rules can be achieved, provided that there is adequate enforcement and monitoring of authorized institutions and strong political commitment [21].

If in 1990 only 16 numerical fiscal rules were applied across the EU Member States, in 2008 their number increased to 66, this proves its importance in reducing budgetary imbalances. Evolution of numerical fiscal rules in the EU Member States in the period 1990-2008 is as follows: [22]

**Table 11. Numerical fiscal rules in EU Member States during 1990-2008**

EU	1990				1995				2000				2005				2008			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Austria									*				*				*			
Belgium		*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Bulgaria																*				*
Czech Republic										*	*			*	*					*
Cyprus																				
Denmark		*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Estonia			*						*	*			*	*			*	*		*
Finland					*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
France		*			*		*	*	*	*	*	*	*	*	*		*	*	*	*
Germany	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Greece																				
Ireland							*					*		*		*			*	
Italy							*					*		*		*		*		*
Latvia			*		*		*		*		*		*		*		*		*	*
Lithuania		*			*				*	*			*	*	*		*	*	*	*
Luxembourg	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Malta																				
Great Britain									*	*			*	*				*	*	*
Netherlands			*	*		*	*				*	*				*	*		*	
Poland										*				*					*	
Portugal													*					*		*
Romania		*				*				*	*			*				*		*
Slovakia											*			*			*			*
Slovenia				*			*				*					*				*
Spain				*			*				*				*			*		*

			*			*			*			*			*			*	*	
Sweden							*		*			*		*	*			*	*	
Hungary									*					*			*	*	*	
Total	2	0	9	5	6	3	13	7	11	3	18	15	15	4	24	18	17	6	25	18
General Total			16			29			47					61				66		

Note: 1 - numerical rules related tax expenditures;

2 - numerical fiscal rules related budget revenues;

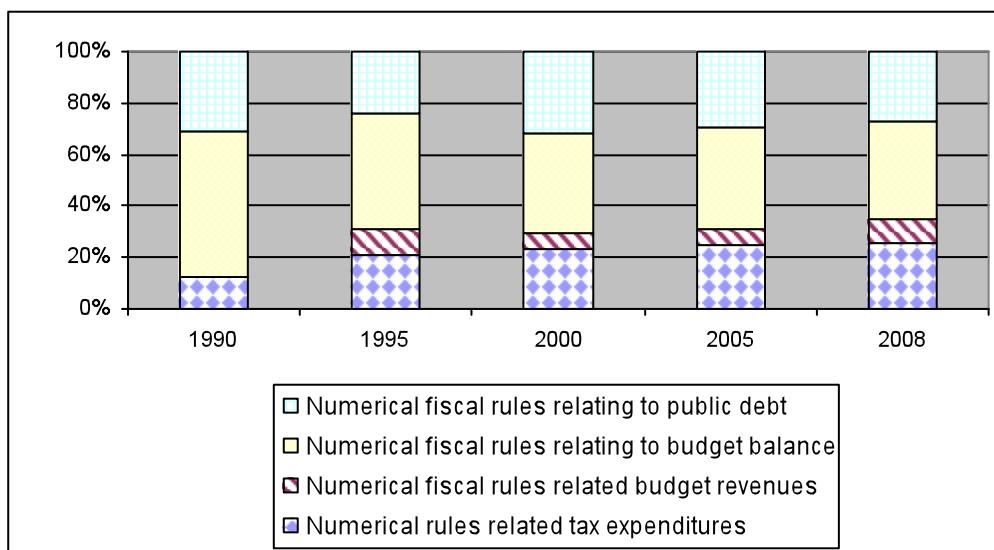
3 - numerical fiscal rules relating to the budget balance;

4 - numerical fiscal rules relating to the budget deficit.

Source: processing author as "Number of numerical fiscal Rules in force in the EU Member States by the nerve of rule, 1990 to 2008", [http://ec.europa.eu/economy\\_finance](http://ec.europa.eu/economy_finance)

The information contained in the above table reveal that most Member States focus on the existence of these numerical fiscal rules. France and Lithuania are the only countries which tax rules apply to all four categories, and in Cyprus, Greece and Malta are not applied numerical fiscal rules.

Most states (16 - Austria, Belgium, Denmark, Estonia, Finland, France, Germany, Ireland, Italy, Lithuania, Luxembourg, Britain, Portugal, Romania, Spain, Sweden) applied numerical related fiscal budget balance rules, while, numerical fiscal rules apply to budget the income received in a smaller number of states (6 - Denmark, Finland, France, Latvia, Lithuania, Netherlands).



**Figure 6. Structure of numerical fiscal rules applied by EU Member States, from 1990 to 2008**

Source: processing author as "Number of numerical fiscal Rules in force in the EU Member States by the nerve of rule, 1990 to 2008", [http://ec.europa.eu/economy\\_finance](http://ec.europa.eu/economy_finance)

To be effective in reducing budgetary imbalances, fiscal rules should be equipped with corresponding characteristics of the institutional framework of fiscal policy.

To capture the influence of these characteristics, The European Commission has developed a resistance index of numerical fiscal rules, using information on: legal basis for the application of numerical fiscal rules; authority responsible for monitoring compliance with rules and tax number; authority responsible for implementation of numerical fiscal rules; mechanisms for implementing the numerical fiscal rules; visibility in the media of numerical fiscal rules.

**Table 12. Criteria and resistance indices of numerical fiscal rules [23]**

<b>Criteria</b>	<b>Resistance indices of numerical fiscal rules</b>	
		<i>Legal basis</i>
1. The legal basis for the application of numerical fiscal rules	4	applying the rule is constitutional basis
	3	rule is based on a legal act
	2	rule is based on a coalition agreement
	1	rule based on political commitment of an authority
	<i>Setting and reviewing targets</i>	
2. Nature of the authority responsible for monitoring fiscal numerical rules	3	no haircut objectives
	2	there are some constraints in the establishment or adaptation goals
	1	there is complete freedom in setting objectives
	3	monitoring is done by an independent authority (Tax Council, other national authority)
	2	monitoring is done by the Ministry of Finance or other public institution
3. Nature of the organism responsible for the implementation of numerical fiscal rules	1	there is not a public institution for monitoring
	3	implementation is done by an independent authority (Tax Council , other national autority)
	2	implementation is done by the Ministry of Finance or other public institution
4. Mechanisms for implementing the numerical fiscal rules	1	no specific enforcement structures
	4	exist automatic correction mechanisms and mechanisms to sanction non-compliance
	3	exist automatic correction mechanisms and the possibility to impose sanctions in case of failure
	2	authority with responsibility is required to submit corrective action
5. Media visibility numerical fiscal rules	1	no pre-defined actions in case of failure
	3	the rules is monitored closely by the media and in case of non-compliance, is able to trigger public

	3	debate
	2	the rules is monitored by the media and in case of failure, is unlikely to trigger public debate
	1	the media is no interest or at a modest level, in respect of rules

Source: European Commission - DG ECFIN (2006), *Public Finances in EMU - 2006, European Economy 3 / 2006*

EU Member States' experience proved that the rules of tax numbers in close correlation with major economic objectives may refer to: budget balance as a percentage of GDP; actual rate of growth of public expenditure; nominal rate of growth of public expenditure; nominal increase in tax revenue in relation to nominal GDP growth; budget balance in nominal terms; nominal income ceiling; debt limit; level of debt in nominal terms; debt limit as a percentage of government revenue; the limit of nominal public expenditure; public debt in nominal terms; real public spending limit; public debt in nominal terms; real public spending limit; limits on tax rates; allocation of surplus public revenue; limits the volume and rate of health spending; threshold proportional to ability to pay debts; automatic allocation of expenses to the National Pension System.

### **Efficient use of an Integrated Financial Management**

In public sector, financial management has dealt more than legal compliance, but the increased role of government and depletion of financial resources, there was a change in the importance of financial management functions.

Importance of management of funds, including the management of debt, noted because: existence of an uncontrolled external economic influences; existence of an lower income fuses traditional resources; existence an application of more and more public services; growing role of government in the economy.

Every government needs a philosophy of proper financial management and a clear definition of financial management functions, to provide leadership to the administration of professionally competent. For this reason it is necessary *integrating the basic functions of financial management in a single coordinated system*, composed of a set of interrelated subsystems that planning, process and report on existing resources, quantifying them in financial terms. Subsystems are usually basic accounting, budgeting, fund management, debt management and related internal costs. [24]

Accounting subsystem is the core of an integrated financial management because: provide information necessary for decisions documented; strengthens confidence in the capacity to make financial transactions on a proper organization of the relevant documentation; is possible to report results in terms of financial and cost reporting; allows control of execution for the budget year as the carrying costs and preparing the draft budget for next year based on costs already incurred; provides

periodic financial reporting and facilitates audit operations, giving credibility and strengthening accountability of government documents.

Budgeting should be integrated with other areas of financial management, even if it is conducted by an independent public institution, outside the Ministry of Finance, because data on budget implementation should be derived from the accounting system and not recorded and processed separately.

Uniform administration of cash (sometimes called "single bank account") is required for a modern and efficient financial management, because it required complex cash-flow prediction and preparation of plans that contain, where necessary, short-term loans, to achieve budget objectives, without jeopardizing their lack of liquidity.

Debt planning is as important as planning cash, reason for these two subsystems must be treated together as interdependent relationships. Public sector loans have become the main financial factor in budgetary stability. Normal action of debt management will lead to: alternative based on a political decision not to raise taxes or reduce expenditure below a certain level; side regular seasonal fluctuations and use of training resources. Rational finance government programs and their goals often depends on the combination of a well defined management of cash and credit.

Internal control, synonymous with management control, is of great importance in each subsystem as: protecting resources; promote accuracy and order of financial and operating information; promote efficiency of operations; foster compliance with legal provisions, policies and standards; achieve program goals and objectives.

The above statements require the use, in order to optimize the Romanian fiscal policy, an integrated Public Financial Management.

### ***Conclusions***

Through this article, we tried to emphasize issues that may lead to an improvement in the fiscal area, being discarded as negative elements.

Construction of the general public budget must consider best practices found at Community level. In this respect, it requires an analysis of the evolution of income and expenditure, deficit and surplus and the tax burden in all Member States and strategies that led to progress and development in each country.

Modeling budgetary and fiscal policies are recommended based models which take into account the three sectors (households, businesses, public domain) without neglecting the international capital market and trade in goods and services.

A particularly important role in optimal functioning of fiscality is to the independent institutions, so, by exploiting appropriate tax information, to ensure economic development and fiscal awareness.

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## **WHAT CAN COMPANIES DO TO MAKE THEIR BRAND STRONGER?**

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DUMITRESCU Luigi**

**Abstract:**

*The development of the information technology and of the Internet has created the perfect environment for the companies to reach their client easier and faster. Until the middle of the '90 there were only several dozens of global brands. Today with the help of this new tool, the Internet, the number of global brands has increased exponentially. This paper presents the importance of having a strong brand, it presents several aspects with regard to what brand represents, it points out what are the main factors for creating brand value. Another important aspect that this paper presents are the four steps that a company must undertake in order to have a powerful brand in the context of the global market and of stronger and stronger competition.*

**Keywords:** *brand, brand management, brand value, marketing*

### **1. Introduction**

In the last decades the markets are changing at a faster and faster pace. The development of the new information technologies and especially the development of the Internet in the last two decades have lead to the strong development of the global market. In the digital age, the organizations should take advantage more and more of the power and the edge offered by the information technology, in order to inform the present or potential clients or consumers in a better and faster way (Gorski and Fuciu, 2009).

The development of the communication technology case created a perfect environment for the companies to reach the clients in faster and easier way but at a global level. Today we can reach a client in a matter of seconds every day at every hour of the day with just a few clicks of the mouse. Marketers have been using electronic tools for many years, but the Internet and other new technologies created a flood of interesting and innovative ways to provide customer value. This new way of reaching the costumers has captured the imagination of marketing scholars and practitioners.

The Internet age has created a way for the companies to present their products and services without the clients to leave their houses or places of work. The brands are omnipresent; they address us directly in public and online and subtly in the most intimate places of our lives. The history of using the brands in the marketing activities marks the efforts of the goods and services producers and of the sellers in order to enrich the arsenal of marketing tools within the market and bring forth new ways of communication with the client (Balaure et. all, 2002).

## **2. What do brands mean for consumers and companies**

A brand is a name or trademark connected of a product / service or producer. Brands have become increasingly important components of culture and the economy, now being described as "cultural accessories and personal philosophies". It was in the 1950s and 1960s that the theory of brands and brand image evolved in the West, accompanying a period of tremendous economic growth. This was based around "the total personality of a brand, rather than any trivial product difference which decides its ultimate position in the marketplace", as David Ogilvy put it at the time (Blair et all, 2003).

In today's informational environment, the brand stimulates the client's desires and using the advantages given by the new technologies no one can escape their influence. The brand are emblems of the global economy, they advance faster than the financial markets and are more visible than every place in the world.

The perception is probably the most important aspect of a brand; it determines the success or the failure of a product or a service. The clients are largely and subconsciously position the products, the services and the other consumers according to they what they wear, or drive etc. Due to perception, the brands save the client time. They help us with the challenges of the global market, were we have thousands upon thousand of products and service, with classifying and with weighing everything up before we make a decision. They are an established, unmistakable mental representation of a product of service in the mind of potential consumers (Meffet and Burmann, 2000).

The companies must understand the need for using the Internet and the new information technologies in order too strengthens their brands. But before that can happen the managers and companies have to have a proper brand orientation. The brand orientation is a deliberate approach to working with brands, both internally and externally. The most important driving force behind this increased interest in strong brands is the accelerating pace of globalization. This has resulted in an ever-tougher competitive situation on many markets. A product's superiority is in itself no longer sufficient to guarantee its success. The fast pace of technological development and the increased speed with which imitations turn up on the market have dramatically shortened product lifecycles. The consequence is that product-related competitive advantages soon risk being transformed into competitive prerequisites. For this reason, increasing numbers of companies are looking for other, more enduring, competitive

tools – such as brands. Brand orientation refers to "the degree to which the organization values brands and its practices are oriented towards building brand capabilities" (Bridson and Evans, 2004)

There are several aspects that the companies have to take into consideration when they want to develop their brands over the Internet (Reisenback and Perrey, 2007):

- *Brands can immunize* – companies that have continually built and promoted their brands in a well founded way can survive a media attack without much damage. The development of on line media, and of the blogs, and social networks can be a powerful tool for those that want to harm a company or a certain product or service. A good example is Coca-Cola that has survived a strong attack within several weeks, when in 1999 a scandal over contaminated cans has surfaced in Belgium;
- *Brands generate strong impressions and powerful feelings*. When consumers see or hear about Marlboro, they immediately associate it with freedom and adventure, the cowboy riding across the plains or the Coca-Cola red bottle makes everybody feel thirsty (Fischer et all. 2002).
- *Brands generate tangible value*. They create price premiums, help to recruit best talent, and save sales costs due to their attraction for the customer.

### **3. Three factors that determine the brand's added value**

The added value of a brand is determined by three important factors that increase the perception for the consumer and thus fore leads to more acquisitions and to value for company (figure 1):

- *Image benefit*. Brands help consumer express who they are, they contribute to the development of self-esteem or develop allegiances to others or to social groups. For example today you have to have an e-mail account or a Facebook, Hi5, MySpace page.
- *Information efficiency*. Brands are information carriers. They say something about the quality of the product or service, they help with recognition and with maybe orientation.
- *Risk reduction*. The brands reduce the risk for the consumer to make the wrong choice in buying a product or a service.

High-powered brands need a powerful content at an emotional level as well as at a rational level and at an image that remains consistent over many years without ever becoming outdated.

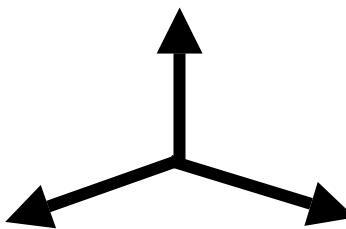
Top brands must maintain and develop their strength by tracking their status permanently in accordance with qualitative criteria, such as their image, and quantitative indicators, such as market share and customer loyalty. Strong brands are also executed in a consistent and effective manner, as reflected in the marketing and through the actions of the entire organization, starting from the top managers down to the shop-floor staff. Only several brands have been able to achieve this balance and

maintain it over the years. Top brands do not usually excel in all three disciplines, as already mentioned. Instead, they tend to have one or two areas where they really shine, and they keep plowing away at the other areas (Reisenback and Perrey, 2007).

**Image benefit**

Brands have an ideational value:

- Self realization;
- Self representation;
- Identification.



**Risk reduction**

Brands reduce the risk of wrong decision

- Safety;
- Continuity;
- Trust.

**Information efficiency**

Brands facilitate information processing:

- Provenance;
- Interpretation;
- Recognition.

**Figure 1. Brands fulfill three basic functions**

(Reisenback and Perrey, 2007)

Strong brands that get the trinity of *art*, *science*, and *craft* (Power brands, 2010) right, have such power over customers that, in extreme cases, they can even function successfully without any research and development, production, logistics, or sales of their own.

- *Art* - is an important element of successful brand management. And surely everybody loves a creative TV commercial or print ad. We remember them and tell our friends about them. But is creative advertising really the universal remedy the gurus say it is? Does it work? Can it make weak brands stronger, or turn shelf warmers into best sellers? The short answer is: yes. Other things being equal, creative advertising creates higher impact than boring advertising. But that's a truism, and it's not the full story.
- *Science* - Brand portfolio management is a game of give and take. Modernizing a brand may help to get the attention of a new customer segment, but shoo away some traditionalists. Emotionalizing a brand may deter the rationalists, but increase the loyalty of its core target group. Ultimately, it's all

about hedging gains and losses: A brand can grow by capturing market share from the competition, but it may also cannibalize the company's own brands.

- *Craft* – Many specialists state that probably half of the company's advertising funds are wasted, and that it's impossible to know which half. But why should the company bother, as long as the budget is big enough? Because in the real world, funds are limited and trade-offs must be made. The good news is that recent analytical advances can help companies to increase efficiency without impairing their brands or sales. Of course, it all starts with the relevant message for your target group. But once the message is defined, creatively executed, and thoroughly presented, how do you select the appropriate touch points and allocate your budget for maximum effectiveness and efficiency?

Branded companies such as Red Bull, Adidas, and Porsche can ignore certain parts of the value chain altogether, outsourcing certain steps to third parties without damaging perception of the brand. Red Bull, for example, has concentrated from the very beginning on the concept of the drink and its communication. The company does not own a single bottling plant, warehouse, or delivery truck (Ulrich, 2003).

It is without a doubt the case that brands such as Adidas, Red Bull or Porsche are extremely priced assets for the company, but for those that are not as successful the question rises: How does one develop a strong brand?

#### **4. Four steps in developing a powerful brand**

Over the years, the development of the market and the development of the communication technologies has created for the client an environment where he has access to a very large quantity of information. If at the beginning of the 21<sup>st</sup> Century, the main way of communication were the newspapers and the radio, and later at the beginning of the '50 the TV appeared, in the late '90 the internet, the mobile phones, cable TV, and other new technologies have emerged.

In this context, in order to develop a powerful brand with a long lasting effect on the market, the managers have to take several steps into consideration (1) Mastering brand management; (2) Measuring the brands; (3) Making the brands and (4) Managing the brands.

**Mastering brand management** – There are many rumors that surround the process of creating and developing a brand than any other area of business management. This is because the art of a brand creates a connection with the consumer; it appeals to the emotions, and develops a resonance, that it is hard to quantify. Nonetheless, despite the undoubted importance of art, powerful brands are rarely developed by art alone, but by a careful mix of art, science, and craft; the role of science and craft in this mix often being underestimated. Managing brands in the modern marketplace, in the new context provided by the globalized economy is very demanding. The company's internal departments often do not have the necessary skills for the analytical side of this task and are sometimes overwhelmed by the demands placed upon them by the market (competitors and clients) and by the

managers. As a result, instead of being presented with analytically well founded concepts, the managers receive very often nothing but a compilation of numbers that do not point to any kind of concrete recommendation.

This lack of clarity states that even where the services of well established market research institutes are used, their work does not capture the attention of senior management, however much it might deserve to do so. Top managers require the integration of art, science, and craft for systematic, fact-based brand management. This requires creating a degree of transparency that has so far been lacking in the branding world. This transparency is essential if management boards are to base their brand management decisions on sound foundations.

**Measuring the brands** – when a company desires to measure the brand, the starting point should always be a thorough market research of the current perception of the brand, from the point of view of both established customers and potential new customers. This provides answers to the often neglected question of whether and to what extent it is worthwhile to develop brands in a certain sector. The *McKinsey brand diamond* is a framework for conducting a complete (image) analysis of all of a brand's emotional and rational factors to reveal what the brand represents to customers and non-customers (Reisenback and Perrey, 2007).

The *brand purchase funnel* assesses the strength of the brand in comparison with competing brands, from the point of the initial awareness of the consumer to that of repeat product purchase by loyal customers. It also helps to identify which brands in a brand portfolio will be the most effective in reaching a target group of customers. Brand loyalty is not just simple repurchasing of a product or of a service. Customers may repurchase a brand due to situational constraints (such as vendor lock-in), a lack of viable alternatives, or out of convenience (Jones et. al., 2002).

Using the *brand potential approach*, brand managers can quantify the brand sales potential embedded in the purchase funnel and reallocate their brand investments in order to tap this potential.

**Making the brand** – considering the results of the brand analysis, the next step is to identify what actions need to be undertaken to in order build a powerful brand. First, the *analysis of brand drivers* will help identify those factors and customer needs that distinguish strong brands from weak ones in the purchase funnel. The next step is to set up a *pathway analysis*. This transforms abstract brand elements into practical and understandable terms, for instance, for the creative brief. *Brand portfolio management*: While the professional management of a single brand requires the right mix of *art, craft, and science*, the task of managing an entire portfolio of brands is substantially more complex (Hirn and Neukirchen, 2001).

**Managing the brands** – once the desired brand has been created using the above-mentioned tools, the new or improved brand content will need to be put in place. This requires identifying the best budget and suitable media outlets. This is the basic concept of *marketing return on investment (ROI)*. The *brand cockpit* then ensures that the main criteria for brand success are continually measured and assessed. Finally, in order for brand management to remain a top management priority, an appropriate

*brand organization* is needed. The brand organization concept explores the range of alternative organizational structures that can develop effective and efficient processes to integrate all business units around the goals of brand management (Reisenback and Perrey, 2007).

## **5. Conclusions**

The brand has become a more and more important player in the field of marketing. The development of advertising techniques has brought the brand on the front row of marketing. Companies and marketers alike must understand that the brand name is along side advertising probably the most important element of the marketing promotion policy. The development of the communication technology has created not just the means but also the environment for the brand to become a vital tool for attracting the clients and turning them into consumers and vivid supporters of the company's product or services.

This paper presents the importance for managers to understand what a brand really is, what it can do and what are the effect of creating and having a powerful brand at your disposal. Consequently the managers must understand that a strong brand is an immunizer, it generates feelings from consumers and creates value for the consumer and for the company. We also must be aware of the fact that a strong brand can be created by mastering brand management, by measuring the brand by making the brand and by managing it. The brand will continue to be the most important visible element of the market and in order to ensure the success of a company; the managers must find ways of maintaining their brand on top, to always improve them and to always offer the client what they want and need.

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## **THE EFFECTS OF OUTDOOR ADVERTISEMENTS ON CONSUMERS: A CASE STUDY**

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KITAPCI Olgun**

**Abstract:**

The purpose of this study was to determine the influence ratio of outdoor advertisements on survey participants (consumers) who are living in Sivas city and to measure the effects on participants' purchasing behavior. The research also attempted to specify the different characteristics of outdoor advertisements in comparison to other advertising instruments. The other research aims are to designate the status of outdoor advertisements among the advertisement instruments which are thought to have an effect on the purchasing behavior of consumers and to determine the effects and dimensions of outdoor advertisements. A face-to-face interview survey is conducted on 400 person who live in Sivas city and who are selected with non-random sampling. Data were analyzed by using T-test, variant analysis and factor analysis. SPSS 15.0 for Windows was employed for the scale measurement. The result of the analysis shows that people generally have positive opinions about outdoor advertisements. They think that outdoor advertisements are more eye-catching and creative when compared to other advertisement types and their physical size lends them an effective visual impact. Respondents also stated that outdoor advertisements contribute to the cityscape in terms of variety and beauty, and they do not pollute the environment. However, awareness of outdoor advertisement amongst some people is relatively low. The results of the study indicate that outdoor advertisements which create different ideas, which are effective in informing and persuading people and which are sensitive to the environment can be viewed positively by consumers. In particular, amongst consumers with higher educational and income levels, outdoor advertisements are becoming striking and their visibility is increasing.

**Keywords:** outdoor advertisement, customer behavior, Turkey

### **1. Introduction**

In today's world, advertising is a commonly discussed type of communication and perhaps the one from which most things are expected. Advertising has become an indispensable phenomenon not only for producers but also, in a sense, for consumers ([www.danismend.com.tr/13.02.2007](http://www.danismend.com.tr/13.02.2007)).

The primary objectives of the institutions and establishments, which endeavor to survive in this information age, are to achieve their goals through the most efficient

utilization of their physical and human resources; to produce and to market their goods and services; and to derive greater profits. Advertising is one of the most effective applications of marketing communication for enterprises which wish to achieve these objectives, to survive within this competitive environment and to establish a competitive advantage (Yaylacı, 1998, p.43). Intense competition exists within all market sectors for attracting the interest of consumers to different or similar goods and for influencing their purchasing decisions. Accordingly, for institutions or enterprises, advertising is of great importance in drawing the attention of the customers and affecting their choices among numerous products (Oluç, 1990, p.3).

On the other hand, advertising, from a consumer viewpoint, is regarded as a guide that helps consumer to choose the most appropriate and rational product for him/herself among the thousands offers on the market so as the best to meet his/her own needs.

Advertising, when used for various purposes, such as the survival of the companies within this competitive atmosphere, promoting the sale of goods or helping consumers in their choice, is of great importance in our lives. Enterprises utilize several types of instruments in their advertising strategies, one of which is outdoor advertisements. The term; "Outdoor Advertising" corresponds to any advertisements located in open air, i.e, outdoor areas. An outdoor advertisement is the only advertisement medium to which we are exposed involuntarily.

While some efforts involved for other kind of advertisements, outdoor advertising is unique in which we experience direct and involuntary exposure to messages.

Outdoor advertising, which began with sign painting and large advertisements painted on buildings in Turkey in 1985, has developed rapidly in the last few years, particularly with partnerships of foreign advertising agencies within the sector (Güven, 1999, p.4).

The purpose of this study is to discuss the effects and dimensions of outdoor advertisements which, by utilizing outdoor areas and social-spaces most commonly used by consumers, occupy an indispensable place with their size and visual impact and to measure the effectiveness of outdoor advertisements in influencing the purchasing behavior of consumers.

For this purpose, face-to-face interviews on the topic of outdoor advertisements were conducted in the city center of Sivas, Turkey. The data obtained from these interviews were statistically interpreted with the SPSS program.

## **2. Literature Review**

Advertising is one the most effective methods of marketing for enterprises wishing to survive in an atmosphere of increasing competition and rapid change resulting from globalization. The success of companies which produce similar goods as a result of rapidly changing market conditions and heightened competition depends largely on the extent to which they are able to use market communication components

professionally and rationally (Kocabas and Elden, 2001, p.13). These factors oblige enterprises to undertake promotional activities in order to achieve their business objectives and to boost their market-share in order to gain a competitive advantage over their business rivals.

If we consider that the distance between the producer and the consumer has widened gradually since the beginning of the century and, accordingly, direct communication between these two groups has become unavailable; it will not be difficult to accept the importance and necessity of advertising, as a model of communication from producer to consumer, for today's enterprises (Backman, 1971, p.20).

Today, everybody is increasingly exposed to advertisements. Advertising shows up in pages of newspapers and magazines; on television and radio via various entertainment programs; on roads via billboards and notices; on buses, trains, tramways and ferry boats; in brief, everywhere at indefinite places and times. Advertising is regarded as a positive effort, which generally contributes to the economy by developing media facilities and enabling the highest standards of life for people, which helps cultural development and which has an immeasurable educational structure (Marketing Magazine, 1979, p.5–6).

Outdoor advertisements, which were first used by advertisers in the United States during the 1850s, were applied in Turkey in 1985 (Civelek, 2003, p.46). The most frequently used instruments of outdoor advertisement are as follows (Assael, 1993, p.606; Marketing Turkey 2004, p.48);

Billboards composed of panels and posters that are immobile and separate, Street furniture such as racquet billboards, stations and cylindrical towers, Transit panels placed in airports, railways, subways, buses and taxis.

Billboards are the most common and widely used forms among the outdoor advertisement media listed above (Berkovitz, et al, 1994, p.541; Lichtenthal, et al., 2006, p.237). When compared to other media tools, the share of outdoor advertisements as a proportion of total advertising expenditure is increasing – albeit slowly.

**Table 1. The Annual Share of Outdoor Advertisement within all Advertisement Expenditures**

Years	Share of Outdoor Advertisement within All Advertisement Expenditures (%)
2000	7.45
2001	7.78
2002	8.00
2003	8.79
2004	8.94

<b>2005</b>	9.24
<b>2006</b>	9.70
<b>2007</b>	9.83
<b>2008</b>	9.93

Source: *Outdoor Advertising Association*, [www.oaa.org.uk](http://www.oaa.org.uk). (10/01/2009).

Table 1 depicts the trend for advertisers to allocate a greater share of annual advertising budgets to outdoor advertising media. The intense use of outdoor advertisements by advertisers is based largely on the fact that people (consumers) spend most of their time in the open-air (Elden, 2003, p.223).

Outdoor media in advertisement and communication are undergoing a very important stage all over the world. Outdoor advertisement media covers the billboards, posters and panels placed on routes which have intensive product and service publicities and traffic density and which are often preferred by the target group; the advertisements in subway stations, bus stops, ports and airports; and floor advertisements designed on these places or on pavements; on outer sides of the buildings etc., with which an outdoor communication with the target group is possible (Avşar and Elden, 2005, p.70).

Outdoor advertisement is the fastest growing mass communication tool in England. In 1998, 83% of 100 advertisers have applied outdoor advertisement, while in 2006 this rate reached 95% ([www.AdAge.org](http://www.AdAge.org). July 12th, 2007).

Turkey, which has approximately 50 years outdoor advertising background, made its main explosion at the beginning of 1950s. At those years, activities about advertisement of wall and frame developed in a short time. Afterwards with the increase of use of posters and billboards began to become a big sector. Not only in Turkey but also all over the world, spending on outdoor advertising began to increase and many companies budgeted for outdoor advertising. According to Advertising Age's "2006 Fact Pack," annual spending on outdoor advertising by the U.S. increased by 6% to \$5.77 billion in 2004 (Osborne and Coleman: 2008: 13).

Sector sorting in outdoor advertising was arranged in the form of telecommunication companies, soft drinks, shopping centers and banks. (Outdoor&Sign 2006: 66.)

In recent years outdoor advertising show precocity in our country just like all over the world. Because if outdoor advertising conduit is used with a good idea and in a right place, it is transformed into more charming conduit in order to influence the consumer (Topçu 2008: 20). It is even transformed into a conduit which create a sense of buying by attracting consumer's interest (Altun 2009: 68).

In analysis which was conducted between January–October, 2007, the communication sector was ranked first in outdoor media, while the food sector ranked second and the finance sector ranked third. In terms of the units used as outdoor media; network, billboards, panels and mega lights are used respectively (Tolon, 2007, p.118).

All types of advertisement tools have both advantages and disadvantages. The advantages of outdoor advertisements can be briefly summarized as follows (Jefkins, 1984, p.213; Book and Schick, 1998, p.201; Prengerdaast, 2001, p.476):

It has wide range of sizes and therefore has a great effect on consumers' perception. Excluding their nature of charm, realism and fascination; outdoor advertisements are striking due to use of colorful and illuminated signboards.

It can be used over the long term and in different season and weather conditions, in accordance with developing technology. It also stands in the same place for days and reminds the existing or potential customers of products or services.

It enables reinforcement on consumers with its sizes, charming colors, interesting fictions and messages. Outdoor advertisements also have some disadvantages which can be summarized as follows (Jefkins, 1984, p.214):

It constrains the opportunity to give detailed messages since it uses large font sizes so as to be visible and readable by moving people or people in traveling cars.

Panels and text might deteriorate, tear, and accordingly become unreadable due to blizzards, rain and hot weather. Inadequate or inappropriate lighting also causes advertising text to be unreadable.

None of communication mediums can be directly replaced by another because television, print media and others which have different effects. However, all types of media are viewed as a result of a cost or effort. In other words, apart from outdoor advertisements, all other forms of advertising are viewed by consumers of their own will. In contrast, people are exposed to outdoor advertisements from the moment that they go outside. In outdoor advertising, a prominent space is chosen and the sphere of influence starts from the moment of consumer sights that location. In brief, consumers are always faced with outdoor advertisements and this has a great influence on purchasing behavior.

### ***Past Research on Outdoor Advertising***

In literature, it is possible to find some researches and studies about outdoor advertising even though it is not so much. One of the researches of those is that of Karmen and Azhari. Azhari and Kamen point out that brands and slogans used in outdoor advertising are more memorable than other advertising medias. While the rate of memorability of products and brands used in outdoor advertising is 79 %, it is 67 % in printed media (1984: 11). In 1975 and 1982, in researches guided by open –air institution, it is concluded that the importance of outdoor advertising on the subject of recognition and recollective of brands is gradually increasing (Whitehall, Tinkham and Tinkham 1990: 50).

In their studies, Shao and Herbig (1995, p.71) stated that tools of outdoor advertising such as billboards (bulletin board-poster panels) are often used in China and that as Chinese use mass communications and bicycles in transport, they are exposed to outdoor advertisements every day. They reported that the reason behind this exposure is that the charges for outdoor advertisements are relatively cheap and these advertisements have a long-term usage when compared to the other advertisement tools.

Woodside claim that in his research outdoor advertising not only increase the rate of buying ,in order to increase sales ,the outdoor advertising should be presented in areas where pedestrian traffic are heavy (Woodside 1990: 229).

In his research of Üsterman, he express that fictional approach and research design in outdoor advertising arouse consumer's interest about brand, initiate and accelerate buying process. (2009: 108).

In a research oriented university students, the rate of ones who buy products by influencing outdoor advertising is increased by 33%. In the same research, the rate of ones who tent towards attitude of buying is increased by 54 % (Sezer 2009: 185).

According to Lopez and Bassell, outdoor advertising will continue to grow and diversify over the next decades, not only because of its cost-effectiveness, but also because it seems to be the only unavoidable realm from which to reach progressively elusive consumers, and the ideal anchor of integrated marketing communication. (2009: 38).

Small companies and local merchants are estimated to purchase almost 80 percent of the media (Belch and Belch, 1998). Products such as entertainment, packaged goods, and media now provide a significant portion of outdoor advertising revenues (Outdoor Advertising Association of America, 1998).

Besides the number of billboards and the duration of the campaign, the location of a billboard will affect the probability and frequency of exposure. The traffic patterns in any city are not random. There are geographic limits to where people tend to travel for work and shopping. For retailing companies, restaurants, and small businesses the total market may not be the effective market from which they draw their customers (Donthu and Rust, 1989).

### **3. Purpose, Scope and Limitations of The Research**

The purpose of this study was to determine the influence degree of outdoor advertisements on survey participants (consumers) who are living in Sivas Province and to measure the effects on participants' purchasing behavior. The research also attempted to specify the different characteristics of outdoor advertisements in comparison to other advertising instruments and its effects on customers' purchase behaviors.

Furthermore, other research aims are as follows;

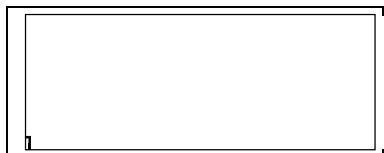
- To designate the status of outdoor advertisements among the advertisement instruments which are thought to have an effect on the purchasing behavior of consumers.
- To determine the effects and dimensions of outdoor advertisements on customers' purchase behaviors and to point out the differences related with those dimensions in respect of some demographics.

The study focused on consumers living in the city center of Sivas. Consequently, counties of Sivas fall outside of scope of this research.

#### **4. Research Method**

The data required for the research was collected via face-to-face surveys (personal interview). A beta-survey was undertaken with a group of 30 individuals before the survey format was finalized. This survey method was preferred since it generates a high response rate and permits a large number of questions to be asked of participants. Furthermore, the face-to-face survey method makes participants aware of the outdoor advertisements, to which they are continuously exposed without noticing them.

The population of the central county of Sivas region is 252,000. The minimum sample size required in the city center of Sivas for this sampling method was determined as 381. The minimum sample size was determined using the following formula (Baş 2001, p.45):



In this formula, N indicates size of the main statistical population, p indicates realization possibility of the event analyzed ( $p=0.5$ ), q indicates realization impossibility of the event analyzed ( $p=0.5$ ), q indicates realization impossibility of the event analyzed ( $p=0.5$ ), t indicates significance level or confidence level (95%), and d indicates error (sampling error; 0.05).

The research took the form of face-to-face interviews, conducted with people (consumers) living in Sivas Province. Interviews took place at different times over the course of several days during May 2007. Among the non-random sampling methodologies, convenience sampling was selected since it is rapid and easy to implement in practical situations.

The questionnaire survey comprised two parts. The first part comprised multiple choice questions with two options that determine demographic characteristics of the participants; the second part comprised open-ended questions and a 5-point Likert scale (1: I completely disagree,....., 5: I completely agree).

#### **Data Analysis**

The SPSS program was used in conducting the analyses. Multivariate statistical analysis and parametric and nonparametric tests have been used. T-test, variant analysis and factor analysis were conducted using the SPSS (Statistical Analysis Program).

#### **Research Findings And Evaluation**

The demographic characteristics of survey participants are shown in Table 2 with regard to age, gender, educational level, income level, and occupation.

**Table 2. Demographic Findings**

Age	Frequen cy	(%)	Income (TL)	Frequen cy	(%)
Younger than 25	140	35	250 YTL and lower	101	25
25–37	153	38	251–500	64	16
38–50	82	21	501–750	67	17
51 and more	25	6	751–1000	62	16
<b>Total</b>	<b>400</b>	<b>100</b>	1001–1250	42	11
			1251–1500	26	6
Gender	Frequen cy	(%)	1501-1750	15	4
Male	217	54	1751-2000	13	3
Female	183	46	Higher than 2000	10	2
<b>Total</b>	<b>400</b>	<b>100</b>	<b>Total</b>	<b>400</b>	<b>100</b>
			Occupational Distribution	Frequen cy	(%)
Educational Level	Frequen cy	(%)	Civil Servant	78	20
Primary School	30	7	Worker	32	8
Secondary School	29	7	Retired	21	5
High School	114	29	Student	110	27
Associate Degree	83	21	Housewife	43	11
University	107	27	Tradesman	47	12
Masters Degree	27	7	Self-employed	17	4
PhD	10	2	Other	52	13
<b>Total</b>	<b>400</b>	<b>100</b>	<b>Total</b>	<b>400</b>	<b>100</b>

54 % of the participants are male and 46 % of the participants are female. The majority of the participants are between the ages of 25 and 37. In terms of educational level, 14 % of the participants graduated from primary school, 29 % of the participants graduated from high school, 48 % of the participants had an associate degree or graduated from university and 9 % of the participants had a Masters Degree or PhD. The great majority (25 %) of 400 participants has an income of 250 TL and less, and the second group (with a rate of 17 %) is the participants with an income of between 501 and 750 TL. In terms of respondent occupations, the student group ranks first with 27%.

**Table 3. Distribution Regarding the Most Striking Instrument or Instruments among the Outdoor Advertisements**

Instruments of Outdoor Ads	%*
Billboards	52
Bus-stop Ads	40
Wall Ads	32
Posters (Panel)	28
Cylinder board	27
Car Ads	26
Racquers	22
Mega Lights	17
Floor Graphics (signs)	13

\*The total response rate exceeds 100% since answers can be given to this question.

According to the results of the survey, billboards more than one rank first among the most striking instruments, bus-stop advertisements rank second and floor (ground) signs are the least striking instruments among the outdoor advertisements. In Sivas province, it is uncommon to see indoor floor graphics -which are among indoor advertising- which are utilizing audiovisual design and presented in markets or shopping malls. This type of advertisement is largely applied to smooth floors such as subways, airports and port sides in large cities.

In Table 4, participants were asked whether they have purchased a good or service as a result of outdoor advertisements.

**Table 4. Distribution Regarding the Purchase of a Good or Service as a Result of Outdoor Advertisements (n=389)**

Have You Purchased a Good/Service Under the Influence of Outdoor Advertisements?	f	%
Yes	170	44
No	219	56
<b>Total</b>	<b>389</b>	<b>100</b>

In accordance with the information gathered from the participants, while the ratio of the participants who have purchased a good/service under the influence of outdoor advertisements is 44 %, the ratio of participants who have not purchased a good/service is 56%.

**Table 5. Most Striking Advertising Sector, Based On Survey Responses (%)**

Advertiser Sectors	%*
Technology Products	47

Furniture/ White Goods	34
Education	30
Communication	26
Cosmetic and Personal Care Products	24
Food	23
Health – Medical	20
Public Agencies and Political Parties	16
Transportation and Carriage	14
Construction and Decoration Supplies	11
Insurance	6

\* The total response rate exceeds 100% since more than one answer can be given to this question.

According to the responses of the participants, the clothing sector rank first among the most prominent sectors with a rate of 59 %; technology products ranked second with 47 % and the insurance sector ranked last with a response rate of 6 %. This situation reveals once again that the majority of people are not aware of the “insurance” sector and of its necessity, thus, they neither like the idea of taking out insurance nor do they find it necessary. For this reason, it is not surprising that the insurance sector rank last.

**Table 6. Awareness of Outdoor Advertisements while Watching Television**

Do the Outdoor Advertisements on TV Attract Your Attention?	f	%
Yes	316	79
No	84	21
<b>Total</b>	<b>400</b>	<b>100</b>

According to the results in Table 6; the great majority of the participants ( $n = 316$ ; 79%) are aware of outdoor advertising featured on television while only 21% of participants ( $n=84$ ) have no awareness of this medium. The number of participants aware of such ads is nearly quadruple the number of participants who were not aware of such ads. Parallel to this result, outdoor advertisements (advertisement signs) at football stadiums attract the attention of 8 out of 10 people, particularly during a football match on TV.

**Table 7. Relative Importance of Advertising Media in Purchasing Decisions**

Advertising Media Instruments	Degree of Significance						Weighted Total*	Weighted %	Rank
	1	2	3	4	5	6			
TV	246	84	27	16	11	5	2079	26	1
Newspaper	24	95	107	80	46	15	1394	18	2
Outdoor	62	69	76	66	57	41	1374	17	3

Internet	46	64	53	39	43	118	1129	14	4
Radio	10	45	53	79	65	108	972	12	5
Magazine	11	26	48	78	131	65	949	11	6
<b>Total</b>							<b>7897</b>	<b>100</b>	

\* Weighted Sum has been calculated as 1 Significance Degree  $x6+2$   
 Significance Degree  $x5+3$  Significance Degree  $x4+4$  Significance Degree  $x3+5$   
 Significance Degree  $x2+6$  Significance Degree  $x1$

According to the participants' responses, television rank first with a weighted percentage score of 26%; newspaper rank second with 18%; outdoor advertisements rank third with 17 %; internet rank fourth with 14 %, while radio and magazine rank last among the instrument influencing purchasing decisions with 12%. The results can be interpreted as follows: television ranks first among the media tools in purchasing a product. TV ratings have increased recently since television appeals to both visual and auditory senses and the number of private television channels has increased. Consequently, such a result is not surprising. The reasons why newspapers rank second can be summarized as; the favorable price of the newspaper is accessible for all income levels and newspaper coverage is an effective tool in following up-to-date developments. Outdoor advertisements rank third and this implies a lack of awareness in seeing and following outdoor advertisements. People regard the outdoor advertisements that they regularly encounter as a part of the cityscape. According to the results of the survey, internet advertising ranked fourth. The internet has recently gained widespread use in Turkey; numerous production and service enterprises have commissioned on-line advertising campaigns and have developed on-line promotional and retail systems. However, we conclude that the internet sector has not yet reached maturity. Mass media such as radio and magazine ranked last. This situation can be explained by the fact that other technological tools have replaced radio and that magazines are relatively expensive and each title appeals to a limited area of specialization.

**Table 8. Most Striking Place for Outdoor Advertisements**

The Most Striking Places For Outdoor Advertisements	%*
Bus-stops	45
Ads along the road	43
Billboards	38
Ads on Buildings	19
Crossroads	18
Others	4

\*The total response rate exceeds 100% since more than one answer can be given to this question.

As depicted in Table 8, the most striking places (areas) for outdoor advertisements was bus-stops with a score of 45 % , followed by roadside advertising with 43 % and the option of “others” (such as handouts in mail boxes, outdoor advertisements on television, posters between two buildings) ranked last with a score of 4%.

## **5. Factor Analysis**

Seventeen statements were defined in order to determine the influence ratio of outdoor advertisements on respondents and to measure the effects of outdoor advertisement on purchasing behavior of these respondents. Factor analysis has been applied to these 17 statements, in order to reduce the number of variables and to identify the most important common dimensions within the data regarding respondents' rating of the attributes of various advertising media.

A Kaiser-Meyer-Olkin value was calculated for the data in order to determine whether or not sampling in the factor analysis is adequate. A KMO value over 0.6 indicates that sampling is adequate (Lamm and Lewis, 1993:316). In other words, in the event that KMO value is less than 0.6, the application of factor analysis is not recommended (Schlegelmich and Robertson 1974:84). The factor analysis produced a KMO value of 0.864 (Table 9). The significance level of 0.000 in the Bartlett Test indicates that significant factors have been reached in the research data (Lamm and Lewis 1993:13). Cronbach Alpha value, indicating the reliability of the distribution -that is, internal consistency- is found to be acceptable (0.75).

Variables with similar properties are collected under specific groups (factors) thanks to factor analysis. Also, in grouping the variables regarding this analysis, 'Varimax Rotation' has been utilized. In the analysis, the values having an eigenvalue greater than 1 have been taken into consideration.

Table 9 shows the eigenvalue as %. The eigenvalue is not a % but a scalar function. It can be positive or negative. It performs a linear transformation that compacts the matrix and ranks the data (highest data value in new matrix position 1; next highest data value in new matrix position 2 etc.) In this case, the eigenvalue represents a linear axis through the data that points in the direction of greatest variance. So the “Cumulative Variance” column IS a percentage of the total variance, but the eigenvalue scalar itself is not really a percentage value. It is more like the geometric “slope” of the data on a scale ranging from “zero variance” to “total variance”.

**Table 9. Factor Analysis Results of the Participants regarding Outdoor Advertisements**

STATEMENTS REGARDING OUTDOOR ADVERTISING	Avg	SD	Factor Loads	Variance (%)	Cumulative Variance (%)
Factor 1: Disparity (Statements On Being Striking, Effective etc) Factor				31.127	31.127

More effective than other advertising tools in promoting product sales	3.45	1.09	0.763			
Having a greater impact than other advertising tools.	3.72	1.10	0.758			
Being easily noticed	3.82	1.00	0.595			
Outdoor advertisements being creative	3.67	1.04	0.510			
Being visually richer than other advertising tools	3.43	1.15	0.593			
Being examined carefully	3.50	1.18	0.519			
Perception as an effective publicity tool in situations of intense competition.	3.70	1.41	0.427			
<b>Factor 2: Informing and Persuading Factor</b>				<b>10.042</b>	<b>41.169</b>	
Playing a role in repeat-purchases of a known brand	2.86	1.23	0.709			
Promoting interest in viewing the product Outdoor advertisements' being intriguing for seeing the product	3.63	1.05	0.681			
Serving as a guide to product identification/ availability.	3.24	1.04	0.669			
Encouraging purchase of a product (s)	3.59	1.03	0.655			
Facilitating a purchase decision	3.18	1.08	0.626			
Convincing consumers to purchase a product or brand	3.27	1.03	0.473			
Damaging the view of the city	2.64	1.23	0.855			
Causing "immediate (sudden) purchases"	2.76	1.15	0.785			
Causing occasional un-necessary purchases.	2.30	1.18	0.772			
<b>KMO: 0.864</b>	<b>Bartlett Test: 1654.441</b>		<b>Eigenvalue: Greater than 1</b>			
<b>Significance : 0.0000</b>			<b>Cronbach Alpha: 0.75</b>			

Following the principle components analysis with varimax rotation, four main factors were identified (as shown in Table 9), which affect the purchase behavior of consumers. All together, these four factors explain 54.85 % of the total variance.

The factors that are defined in this context and the secondary components of these factors are as follows;

#### **1- Difference Factor (Statements on Being Striking, Effective etc):**

Different aspects of outdoor advertisements are specified by comparing outdoor adverts with other advertising instruments. Thus, the variables such as outdoor advertisements' being more effective, more creative, easier to notice and having enriched visual characteristics when compared to other forms of advertising constitute the first factor.

**2- Informing and Persuading Factor:** The variables such as outdoor adverts' informing about the goods and services, prompting people to see and purchase the products constitute the second factor.

**3- Environmental Factor:** The variables such as outdoor advertisements' are not polluting the environment and not damaging the view of the city constitute this factor.

**4- Purchase Factor:** This factor is formed by variables such as outdoor advertisements' which are triggering immediate purchase and encouraging the purchase of goods that are not needed.

Table 10 shows the results of a t test conducted to establish whether there are significant differences between the responses of survey participants, based on gender.

**Table 10. Respondent Perceptions of Outdoor Advertisements: Gender Differentiation**

Factors	t	p
<b>Factor 1:</b> Difference	0.627	0.176
<b>Factor 2:</b> Informing and Persuading	0.133	0.425
<b>Factor 3:</b> Environmental Factor	0.806	0.151
<b>Factor 4:</b> Purchase	0.979	0.553

The analysis found no statistically significant difference in perceptions of outdoor advertising based on the gender of respondents.

Table 11 shows the results of ANOVA analysis, which is applied in order to determine whether age, education or income status of respondents made a significant difference to factors concerning outdoor advertisements.

**Table 11. Differences between the Age, Education, Income Status of the Respondents and Factors Regarding Outdoor Advertisements (ANOVA)**

Factors	Age		Education		Income	
	F	p	F	p	F	p
<b>Factor 1:</b> Difference	1.841	0.176	1.864	0.086*	2.481	<b>0.012**</b>
<b>Factor 2:</b> Informing and Persuading	0.638	0.425	0.321	0.926	1.779	<b>0.080*</b>
<b>Factor 3:</b> Environmental Factor	2.067	0.151	0.599	0.731	0.716	0.677
<b>Factor 4:</b> Purchase	0.352	0.553	1.073	0.378	1.276	0.254

**\*\*P<0.05 ; \*P<0.10**

No difference were found between the ages of the respondents and the main behavioral factors. Similarly, no difference were found for the other factors except between the educational level of the respondents and the "*Difference Factor*". A Scheffé multiple-comparison test was applied with the aim of identifying the reason for this significant difference or finding out the origin of this difference. In accordance with the results of the Scheffé test, generally the respondents with a high educational level find outdoor advertisements are more striking than the other advertisement instruments

when they are compared to the respondents with low educational level. In other words, it can be stated that outdoor advertisements are not very persuasive for people with a low educational level. Was there a statistically-significant difference in the means between the various educational groups that explained their differing attitudes to outdoor advertising?

According to the result of the one-way ANOVA analysis regarding income levels and outdoor advertisements, it is clear that there are significant differences between the “*Difference Factor*” and the “*Informing and Persuading*” factor. The results of analysis related to the reasons for the differences indicate that the respondents with low incomes do not notice the outdoor advertisements very much and that they find outdoor advertisements ineffective when they are compared to respondents with higher incomes.

## **6. Conclusion and recommendations**

Advertisement is an instrument of announcement and presentation, which is designed in order to persuade people voluntarily to display a certain behavior; to lead people to a certain thought; to draw their attention to a certain product, service, opinion or enterprise; to inform them about these in order to change their opinion and attitude towards these products, services, opinions and enterprises; or to make them to adopt a certain opinion or attitude toward them. Advertisements are exhibited in various communication tools via purchase of time or space and created against some amount of money. Advertising is feature of various communication media through the purchase of time or space and advertising campaigns are created within an overall marketing budget.

Advertisement probably occupies the largest place in the marketing network. It has an important role in the process from production to introduction of product to the market. Its main purpose is to introduce products or services and make people use them. Advertisement can also be used to generate perceived value and position the brand, to create brand awareness and to contribute to its corporate image and prestige.

Since advertisement is a communication phenomenon, enterprises or institutions use tools such as television, radio, outdoor advertisements, magazines, newspapers and internet to convey their message to the target group. Among these instruments, outdoor advertisement is one of the communication tools by which we are continuously exposed to messages and information. The importance of outdoor advertisements, which are liable to charges and which convey the brand and image of the company to consumers, has not yet been adequately comprehended by advertisers. The proportion of advertising budgets allocated for outdoor advertisements confirm this situation. Nonetheless, the attractiveness of outdoor advertisements increases through the implementation of technological tools and, in this way; they attract the attention of a great many people. In time, enterprises will allocate larger budgets for outdoor advertisements.

The purpose of outdoor advertisement as a mass communication tool is to convey the desired message to the target group in an effective and lasting way. Outdoor advertisements have important roles within the main media and have various relative advantages. For instance, when compared to television advertisements, it is impossible to remove outdoor advertisements using remote control, or to put them aside as with published material. Furthermore, another important factor of this type of medium is that it is not time-limited to a brief television time-slot of a few or daily copies. The lack of any mediator at the point where media and consumer meet indicates the chance of leaving the message and target group alone. In other words, in order to receive the message of an advertisement via television or radio, it is necessary to have that device and to turn it on. However, that is not the case with outdoor advertisements. In brief, these differences serve to gradually increase the demand for outdoor advertisement.

According to the research results, the most effective outdoor advertisement tool is billboards and the most high profile sector is the clothing sector. According to the respondents, we can see that television ranks first among the most effective tools in purchasing a good or service.

According to the results of the research, people generally have positive opinions about outdoor advertisements. They think that outdoor advertisements are more eye-catching and creative when compared to other advertisement types and, their physical size lends them an effective visual impact. Respondents also stated that outdoor advertisements contribute to the cityscape in terms of variety and beauty, and they do not pollute the environment. However, awareness of outdoor advertisement amongst some people is relatively low. People regard the outdoor advertisements, which they regularly encounter, as a part of the city and they do not notice that these advertisements are outdoor advertisements. This situation has been changing as people become more conscious of outdoor advertisements.

Outdoor medium in terms of advertisement and communication are coming to a very important stage all over the world. Outdoor advertisements are the only advertisement tools to which the consumers are exposed without paying any charge and which have an important influence on purchasing behavior thanks to their capacity to inform consumers and their visual size and effectiveness.

Considering their direct contact with the consumer and their large scale, it is necessary for outdoor advertisements to utilize novel and modern implementations and to be supported with good marketing ideas. Accordingly, we can state that outdoor advertisement have greater effects on consumers than they are thought to have. The important thing is that enterprises should direct their abilities towards innovations and product differentiation. The results of the study indicate that outdoor advertisements which create different ideas, which are effective in informing and persuading people and which are sensitive to the environment can be viewed positively by consumers. In particular, among consumers with higher educational and income levels, outdoor advertisements are becoming striking and their visibility is increasing.

According to the results of the t-test, no significant gender difference was found between respondents' perceptions and factors regarding outdoor advertisements.

Since this study was limited to Sivas province only, future studies would derive significant benefit from applying the research methodology within locations such as Istanbul, Ankara and Izmir, where more intense displays of outdoor advertisements exist, and which may prove to be significant in terms of obtaining different or similar data to the Sivas study.

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## **GDP DILEMMA ANALYZED IN TERMS OF CORRELATION BETWEEN LISBON INDEX AND GDP PER CAPITA**

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**Abstract:**

The objective of this paper is to analyze the correlation between the index of Lisbon in 2010 and GDP per capita in 43 countries, in order to determine whether exist or not a direct and close correlation between the two indicators. The reason behind the initiation of this review is related to the current dilemma, namely whether the level of GDP reflects or not the degree of welfare of a country or region. If this is true, ie GDP provides an accurate picture of a country's welfare level, there must be direct and strong correlation between two indicators: GDP per capita and Lisbon index. Otherwise, if the GDP is not a representative indicator of the level of welfare, the correlation should be reduced. Further analysis will show the result of that reasoning. Pearson coefficient was calculated, and it was obtained a value of 0.828 which means a strong and direct correlation between the two indicators, in a first phase. After analysis of the two clusters created can be concluded that in developing countries is a direct and strong correlation (Pearson coefficient is 0.703), while in developed countries there is direct correlation but unrepresentative (Pearson coefficient is 0.477).

**Keywords:** *GDP, Lisbon Index, welfare, correlation*

### **1. Introduction**

The objective of this paper is to analyze the correlation between the index of Lisbon in 2010 and GDP per capita in 43 countries, in order to determine whether exist or not a direct and close correlation between the two indicators. The reason behind the initiation of this review is related to the current dilemma, namely whether the level of GDP reflects or not the degree of welfare of a country or region. If this is true, ie GDP provides an accurate picture of a country's welfare level, there must be direct and strong correlation between two indicators: GDP per capita and Lisbon index. Otherwise, if the GDP is not a representative indicator of the level of welfare, the correlation should be reduced. Further analysis will show the result of that reasoning.

## **2. Literature review**

**GDP is the most widely used macroeconomic indicators** in all countries and by all international economic organizations. At EU level, the implementation of cohesion policy and structural funds allocation is still based on GDP per capita (Uniunea Europeana, Comitetul Regiunilor, 2010, page 1). Per capita GDP is frequently used to compare quality of life in different countries. Governments often use changes in GDP as an indicator of the success of economic and fiscal policies (Robert Costanza, Maureen Hart, Stephen Posner, and John Talberth, 2009, page 6).

**Opponents of the idea that GDP is a relevant indicator of a nation's welfare** analysis is based on the fact that this indicator does not take into account the production that is not related to market, such as underground economy, barter, subsistence production, volunteering. Some of these increases welfare of the population, others have a negative impact on it. Also, GDP growth does not necessarily imply an increase in welfare; increased drug consumption increases GDP, but indicates a worsening state of health of the population. GDP does not measure sustainable economic growth, irrational investment lead to GDP growth for the moment, but may have adverse effects on welfare and economic development (Selaru Dan, 2009).

Oskar Morgenstern argues that GDP is the most stupid indicator invented by economists which has no relation to welfare, but the best it can offer is a level of the value of traded goods and services.

Another concern that has been raised about GDP as a measure of progress and welfare is the 'threshold effect.' **As GDP increases, overall quality of life often increases up to a point.** Beyond this point, increases in GDP are offset by the costs associated with increasing income inequality, loss of leisure time, and natural capital depletion. Beyond a certain threshold, further increases in material well-being have the negative side effects of lowering community cohesion, healthy relationships, knowledge, wisdom, a sense of purpose, connection with nature, and other dimensions of human happiness (Robert Costanza, Maureen Hart, Stephen Posner, and John Talberth, 2009, page 9).

To determine whether or not GDP is an indicator representative of a nation's wealth, it must be defined precisely what is meant by wealth. **Welfare of a nation is not only about financial, but also involves social and environmental issues.** The dimensions of welfare are: material living standards (income, consumption and wealth); health; education; the quality of governance; social relationships; environment; personal and economic security. Considering valid the idea, then we can conclude that GDP provides a snapshot of the financial wealth of a nation, but even this picture is not 100% realistic. Related to social and environmental issues, GDP has no power to shape them; so GDP is in the best case a partial indicator of wealth. GDP is a measure of economic quantity, not economic quality or welfare, let alone social or environmental well-being. The same opinion shares the renowned economist, Nobel laureate, J. Stiglitz, „it has long been clear that GDP is an inadequate metric to gauge well-being

*over time particularly in its economic, environmental, and social dimensions, some aspects of which are often referred to as sustainability. Measures of wealth are central to measuring sustainability. Some more direct non-monetary indicators may be preferable when the monetary valuation is very uncertain or difficult to derive (Joseph E. STIGLITZ, Amartya SEN, Jean-Paul FITOUSSI, 2008, page 8)."*

To complete the picture, other indicators are needed to describe the development and welfare of other angles, especially as social and environmental issues. Identified measures to remedy these deficiencies of GDP in measuring national wealth can be centralized as follows (Yanne Goossens , Arttu Mäkipää , Philipp Schepelmann, Isabel van de Sand, Michael Kuhndtand, Martin Herrndorf , 2007, page 6):

- ⌚ developing a range of other indicators **to adjust GDP** on welfare issues and to have the same importance in policymaking. In this approach, traditional economic performance measures like GDP or national saving rates have been adjusted by including monetised environmental and social factors. Such indicators can serve as a valuable communication tool whereby the end result sends out a positive or negative signal to the audience. However, difficulties arise when trying to monetise environmental and social factors.
- ⌚ Developing a range of indicators **to supplement GDP**. The category supplementing GDP seems to be the most realistic and acceptable option for going beyond GDP. Within this approach, GDP is being complemented with additional environmental and/or social information. A first group are the 'satellite account systems' which complement the conventional statistical national accounts with environmental and/or social information. A second group sets social and environmental information in relation to GDP.
- ⌚ **the replacement of GDP** by a new global index that includes all elements of welfare. This new indicator should become a key indicator of socio-economic policy.

Rising levels of GDP can mask a considerable loss of welfare and well-being. For example, if a country chopped down all its forests, sold the wood and put its children to work instead of sending them to school, it would be very good for its GDP because the economic growth figures would show increasing material prosperity, but this is not welfare. Natural and political disasters can be good for GDP; hurricane Katrina was a boom to Louisiana's GDP because of the enormous efforts and economic activity that had to be invested in reconstruction; the same applies to the GDP of virtually all European economies after the Second World War, but these disasters can hardly be said to have contributed to human or nation welfare (Official Journal of the European Union, 2009 ).

Based on these deficiencies of GDP, some indicators have been proposed to provide a more accurate picture of social welfare. In this respect the Human Development Index was created and adopted by the United Nations, and also the Global Competitiveness Index too, and many others. There were also proposals to the European Union to build a more realistic index based on the Lisbon objectives. To

meet this proposal, **WEF built the Lisbon Index**, which is composed of eight indicators, **and GDP is not included in the composition of this new index**.

Lisbon index was constructed by the World Economic Forum and give a global dimension to how the country managed to achieve the targets proposed by the Lisbon strategy at the time of 2010, gives a dimension of a country's welfare, development and competitiveness level. The Lisbon process has been a decade-long effort. At the March 2000 European Council in Lisbon, Portugal, Europe's heads of state and government set a 10-year timeline to make the European Union "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion". The objective of the Lisbon Strategy was to improve Europe's productivity and competitiveness through various goals: the creation of an information society for all; establishing a European area of research and development; developing a business-friendly start-up environment, completing the single market; establishing efficient and integrated financial markets; building a knowledge society; ensuring more and better jobs for Europe; modernizing social protection; promoting social inclusion and enhancing sustainable development (Blanke Jennifer and Stephen Kinnock, 2010, WEF).

In order to built the Lisbon Index, the WEF's specialists broke the Lisbon Strategy into eight distinct dimensions that capture the areas highlighted by Europe's leaders as critical for reaching the goal of becoming the world's most competitive economy. The eight dimensions are (Blanke Jennifer and Stephen Kinnock, 2010, WEF):

1. ***Creating an Information Society for All.*** This indicator takes into account the folowing variables such as: the prioritization of ICT by the government; ICT penetration rates (Internet, mobile phones); Internet usage by business and the extent to which students have Internet access in schools.
2. ***Developing a European Area for Innovation, Research and Development.*** This second Lisbon dimension is captured in the index using measures such as: business investment in research and development; the quality of scientific research institutions; the extent of collaboration in research between universities and industry; patenting per capita; and the protection of intellectual property and innovation stimulation through government procurement.
3. ***Liberalization: Completing the Single Market/State Aid and Competition Policy.*** This indicator takes into account: the intensity of competition in the local market; how numerous are local suppliers; how stringent are standards on product/service quality, safety and other regulations; how prevalent is foreign ownership of companies; the level of government subsidies and tax breaks.
4. ***Building Network Industries: In Telecommunications, Utilities and Transportation.*** The contruction of this indicator is based on the following variables: mobile telephone subscribers per 100 population; main telephone lines per 100 population; the quality of general infrastructure.
5. ***Creating Efficient and Integrated Financial Services.*** The variables used in order to define this indicator are: the protection rate of property rights, including

over financial assets; the level of sophistication of financial markets; the soundness of banks; how easy is it to raise money by issuing shares on the stock market.

6. ***Improving the Enterprise Environment: Business Start-ups.*** The construction of the sixth indicator out of Lisbon Index is based on these variables: how easy or difficult is it to start a new business; how easy is it to obtain a bank loan with only a good business plan and no collateral; how easy is it for entrepreneurs with innovative but risky projects to find venture capital; number of procedures required to start a business; number of days required to start a business; the impact of taxes on incentives to work or invest; number of procedures required to resolve a contract dispute; number of days required to resolve a contract dispute.
7. ***Increasing Social Inclusion: Bringing People to the Workforce, Upgrading Skills and Modernizing Social Protection.*** Statistical information collected from reports or from the WEF survey, and which help building this indicator are: female participation in the labour force as a percentage of male participation; unemployment rate; how well does the educational system meets the needs of a competitive economy; if the country retain and attract talented people; to what extent do companies invest in training and employee development; how effective are the government's efforts to reduce poverty and address income inequality.
8. ***Enhancing Sustainable Development.*** Statistical information collected from reports or from the WEF survey, and which help building this indicator are: the quality of the natural environment; the enforcement of environmental regulations; the stringency of country's environmental regulation.

The overall Lisbon scores for each country are calculated as an unweighted average of the individual scores in the eight dimensions. Variables considered in the construction of the eight indicators were collected from official statistical reports, and some were determined based on the results of a survey conducted by WEF, and then all were standardized to be aggregated in index construction. It may be noted that this index covers all three dimensions of welfare: economic, social and environmental, unlike GDP, which reflects only the purely economic side.

Central conclusion of the Conference „Beyond GDP” organized by the European Commission in Brussels in 2007 is that GDP is an important indicator of economic growth, but should not be used as a tool for targeting different policies. GDP provides a snapshot of the financial wealth of a nation, but even this picture is not 100% realistic. Related to social and environmental issues, GDP has no power to shape them; so GDP is in the best case a partial indicator of welfare. To complete the picture, other indicators are needed to describe the development and welfare of other angles, especially as social and environmental issues. Despite criticisms of GDP it will stand still long from now because it is easy to calculate, easy to read, and seemingly objective. Other indicators, although more ambitious, not enjoy these benefits.

### **3. Research methodology**

In our effort to analyze the possible correlation between the index of Lisbon 2010 developed by World Economic Forum (<http://www.weforum.org/pdf/Gcr/LisbonReview/TheLisbonReview2010.pdf>) and the GDP per capita (<http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>) secondary data was used. The collected data for the index of Lisbon 2010 is measured through a score with two decimals on a 7 point scale with 6 intervals and for the GDP per capita is measured in USD with two decimals. The data was centralized and analyzed with PASW Statistics 18.

Due to the different scales upon which the variables (Index of Lisbon 2010 and GDP per capita) are measured, standardization of the two scales was used. Through the process of standardization, data is reduced to the same scale by subtracting the sample mean and dividing by the standard deviation. Thus, the standardized scale will have a mean of 0 and a standard deviation of 1 (Malhotra N., Birks D. 2007).

In the first step of our analysis, all 43 countries were included in the calculation of the Pearson coefficient which value denotes the linear correlation between the two variables. The value of the Pearson coefficient (Table 1) is 0.828 which explains – in this first step – a strong positive correlation between the standardized values of the two considered variables. This correlation is statistic significant at the 0.01 level, which means that such a result is obtained due to 1% by chance.

**Table 1. Correlations between the standardized values of the Index of Lisbon 2010 and GDP per capita**

		Zscore: Lisbon Index	Zscore: GDP per capita
Zscore: Lisbon Index	Pearson Correlation	1	.828**
	Sig. (2-tailed)		.000
	N	43	43
Zscore: GDP per capita	Pearson Correlation	.828**	1
	Sig. (2-tailed)	.000	
	N	43	43

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

After analyzing the bidimensional graphic representation (ordinate – index of Lisbon 2010, abscise – GDP per capita) of the 43 countries we decided to exclude Luxembourg from the data set.

**Figure 1. Graphic representation of the 43 countries by the values of the index of Lisbon and of the GDP per capita**

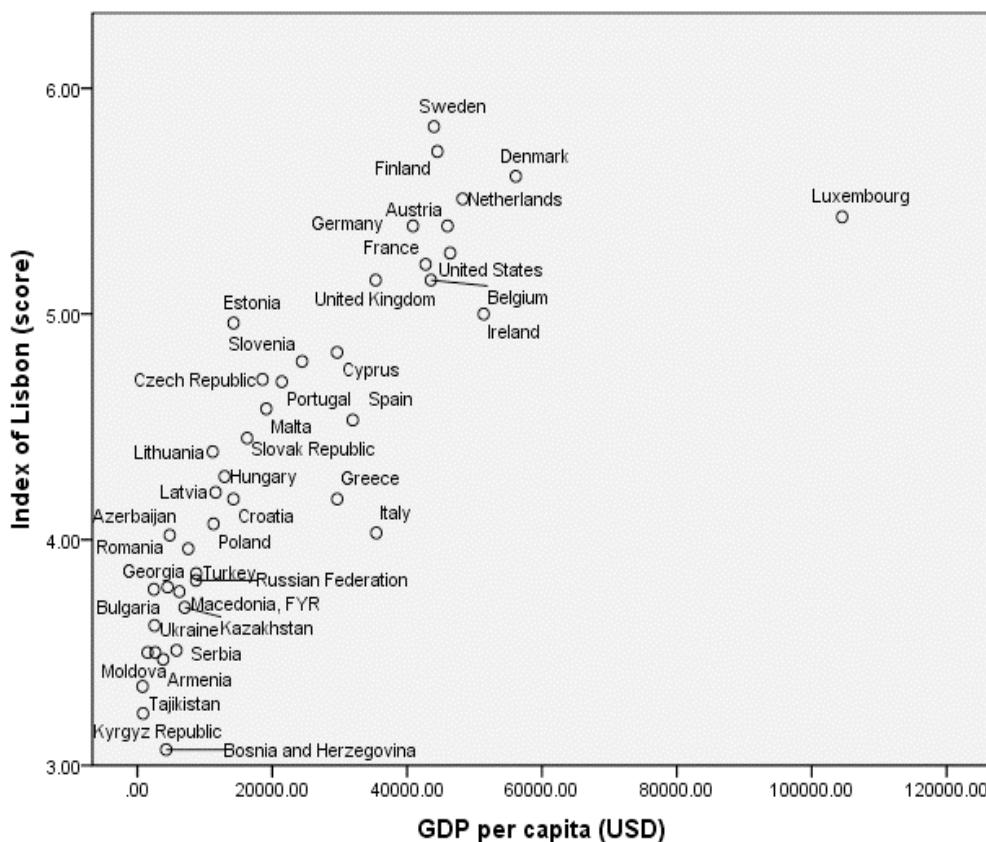


Table 2 denotes again a strong positive correlation between the two considered variables, but with a higher value of the Pearson coefficient (0.898)

**Table 2. Correlations between the standardized values of the Index of Lisbon 2010 and GDP per capita after eliminating Luxembourg from the analysis**

		Zscore: Index of Lisbon	Zscore: GDP per capita
Zscore: Index of Lisbon	Pearson Correlation	1	.898**
	Sig. (2-tailed)		.000
	N	42	42
Zscore: GDP per capita	Pearson Correlation	.898**	1
	Sig. (2-tailed)	.000	
	N	42	42

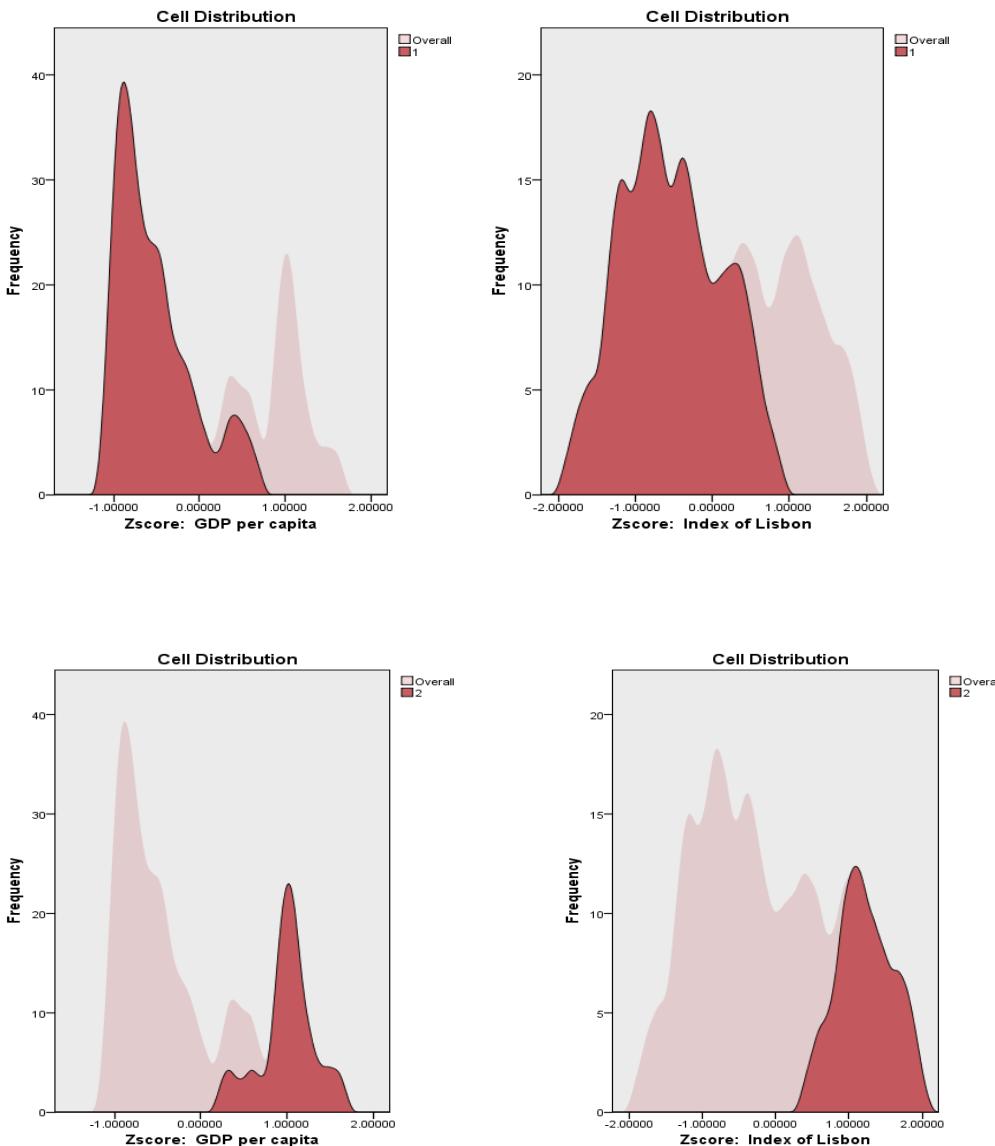
\*\*. Correlation is significant at the 0.01 level (2-tailed).

The second step of our analysis presumes a clustering method (TwoStep Cluster) which groups the analyzed countries (without Luxembourg) by the value frequencies of the two considered variables. The purpose of this step is to split the countries in clusters and to detect the possible correlation between the two variables within the created groups.

**Figure 2. Summary of the created clusters**

Clusters		
	Feature Importance	
	1.00	0.95
Cluster	1	2
Label		
Description		
Size	71.4% (30)	28.6% (12)
Features	Zscore: GDP per capita -0.53	Zscore: GDP per capita 1.00
	Zscore: Index of Lisbon -0.53	Zscore: Index of Lisbon 1.22

Two clusters were created. Cluster 1 contains 30 countries (Estonia, Slovak Republic, Lithuania, Hungary, Latvia, Croatia, Poland, Slovenia, Czech Republic, Portugal, Malta, Spain, Greece, Italy, Azerbaijan, Romania, Turkey, Russian Federation, Macedonia FYR, Georgia, Bulgaria, Kazakhstan, Ukraine, Serbia, Moldova, Armenia, Albania, Tajikistan, Kyrgyz Republic, Bosnia and Herzegovina), with mean values of the GDP per capita (z score) and Index of Lisbon 2010 distribution of -0.53 as seen in the following CFD (cumulative function distribution). Cluster 2 contains 12 countries (United Kingdom, Sweden, Finland, Denmark, Netherlands, Austria, Germany, United States, France, Belgium, Ireland, Cyprus), with mean value of the GDP per capita distribution (z score) of 1.00 and Index of Lisbon 2010 distribution of 1.22 as seen in the following CFD (cumulative function distribution).



Based on the two created clusters, the Pearson coefficient was calculated (Table 3). The value of 0.703 of the Pearson coefficient within the first cluster denotes a strong positive correlation between the two variables, result which sustains the validity of GDP per capita as a welfare indicator. The value of 0.477 of the Person coefficient explains a positive correlation within the second cluster, result which is not statistical significant, thus GDP per capita cannot be considered an indicator of welfare measure.

**Table 3. Correlations between the standardized values of the Index of Lisbon 2010 and GDP per capita within the created clusters**

TwoStep Cluster		Zscore: Index of Lisbon	Zscore: GDP per capita
Zscore: Index of Lisbon	Pearson Correlation	1	.703**
	Sig. (2-tailed)		.000
	N	30	30
Zscore: GDP per capita	Pearson Correlation	.703**	1
	Sig. (2-tailed)	.000	
	N	30	30
Zscore: Index of Lisbon	Pearson Correlation	1	.477
	Sig. (2-tailed)		.117
	N	12	12
Zscore: GDP per capita	Pearson Correlation	.477	1
	Sig. (2-tailed)	.117	
	N	12	12

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

A possible explanation for the correlation of the two clusters may be due the fact that the first cluster contained mainly developing countries, where welfare dimension is based more on material appearance synthesized by GDP per capita indicator, hence the representative correlation.

The second cluster includes mostly developed countries where welfare is beyond the material dimension, including social and environmental issues, hard to be monetary quantifiable and implicitly not included in GDP, hence the low correlation and its statistically unrepresentative.

Based on these two results, a possible conclusion can be formulated: countries within the second cluster should include in their welfare measure other indicators or indices along with the GDP per capita.

#### **4. Limitation and future research**

The conducted research has several *limitations*. Thus, the small number of the analyzed countries is due to inexistence of data regarding the values of the index of Lisbon for other countries. Another limitation exists in the used clustering method – TwoStep Cluster. To confirm the obtained results for the created clusters, other clustering method should be used (Hierarchical Cluster, K-means cluster).

**The authors' purpose for future research** is to study the possible partial correlation between the eight indicators (components) of the index of Lisbon and the GDP per capita. In this line of thought the authors build up the hypotheses that there may exist a strong positive correlation between the GDP per capita and the indicators

which measure the material wealth and a weak positive or even negative correlation between the GDP per capita and indicators like Innovation and Research and Development, Social Inclusion or Sustainable Development.

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# **CHANGING THE PATTERNS OF THE GLOBAL ECONOMY – THE EMERGENCE AND EVOLUTION OF THE BRIC COUNTRIES-**

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**OGREAN Claudia  
HERCIU Mihaela**

**Abstract:**

*The world is (permanently) changing – and from time to time major shifts occur and redefine its patterns of evolution. The global economy within it gets new leading actors and defining features, new power balance and architecture. This is inevitable in order to develop. Sometime of these shifts seem to be the result of a scientifically grounded, well defined and consciously applied strategy, and sometime it seems to be the result of some kind of a Brownian movement (something like: “it just happened”).*

*In this paper we analyze the fascinating “case” of the BRIC countries (Brazil, Russia, India and China). Having some (a few) common features, but actually being very different (in most of the aspects), and in an absence of a unique mission, vision and development strategy, the four countries have started to be seen as an entity (given their previous evolution and based on forecasting studies) – not only able to change the patterns of the global economy, but, more than that, able to lead it in the (almost near) future (the year 2050).*

*This very optimistic projection of Goldman Sachs obviously has (and still have) its critics, but the governments of the BRICs took it very seriously – by assuming the theory and organizing annual common meetings – the best of the validation! The impact of the global crisis (and recession) on the BRICs is a major challenge for them and the opinions also vary a lot in this aspect – from “BRICs didn’t experience the crisis yet” to “BRIC will offer the best models of recovery”; we just have to “wait and see”.*

**Keywords:** BRIC countries, development, EU, crisis, models of development

***BRIC countries – general characteristics and particular features***

There is almost a decade since Jim O’Neill has first introduced to us the *BRIC countries* – Brazil, Russia, India and China – through a Global Economics Paper of the Goldman Sachs named *Building Better Global Economic BRICs* (see O’Neill, 2001).

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\*\* Documentary / research – paper preparing the article for The 15<sup>th</sup> Cambridge Symposium on International Manufacturing “*Innovation in global manufacturing: new models for sustainable value capture*”, 23-24 September 2010, Cambridge, UK.

\*\*\* We mostly used Goldman Sachs references and approaches in order to ensure the comparability of data

Starting with the emphasizing of the 20 leading economies in the world relative to the year 2000 (see Table 1), he realizes that a *new approach* has to emerge when we talk about the world economy, based on some major shifts which has took place lately and will also occur into the near future, changing radically the whole economic picture (the comparison has been made between the economic development within G7 especially and that that took place into the so called developing world).

**Table 1: 20 leading economies in the world in 2000**

	GDP (PPP Weights <sup>1</sup> ); 2000 US\$bn	Share of World Total (%) (1)	GDP (Current Prices); 2000 US\$bn	Share of World Total (%) (2)	Difference in Share (1-2)	Population (mns)	GDP Per Capita (current prices)
United States	9,963	23.98	9,963	33.13	-9.15	281.42	35,401
China	5,230	12.59	1,080	3.59	9.00	1,266.80	852
Japan	3,319	7.99	4,760	15.83	-7.84	126.87	37,515
India	2,104	5.06	474	1.58	3.49	1,002.14	473
Germany	2,082	5.01	1,878	6.25	-1.23	82.02	22,898
France	1,458	3.51	1,289	4.29	-0.78	58.89	21,890
UK	1,425	3.43	1,417	4.71	-1.28	59.50	23,810
Italy	1,404	3.38	1,077	3.58	-0.20	57.53	18,719
Brazil	1,214	2.92	588	1.96	0.97	167.72	3,507
Russia	1,120	2.70	247	0.82	1.88	145.49	1,696
Canada	903	2.17	699	2.33	-0.15	30.75	22,747
Mexico	890	2.14	574	1.91	0.23	97.36	5,901
Spain	797	1.92	560	1.86	0.05	39.47	14,190
Korea	770	1.85	457	1.52	0.33	47.27	9,678
Indonesia	696	1.68	154	0.51	1.16	210.49	730
Australia	523	1.26	382	1.27	-0.01	19.16	19,933
Taiwan	477	1.15	310	1.03	0.12	22.32	13,899
Turkey	437	1.05	203	0.67	0.38	67.38	3,007
Thailand	430	1.04	122	0.41	0.63	62.32	1,956
Netherlands	416	1.00	370	1.23	-0.23	15.86	23,334
<b>World</b>	<b>41,552</b>	<b>100</b>	<b>30,073</b>	<b>100</b>	—	<b>6,073.00</b>	<b>4,952</b>
of which: G7	20,555	49	21,082	70	-20	692.66	30,437
Euroland	7,231	17	6,027	20	-3	304.07	19,820

<sup>1</sup> US used as benchmark for computing GDP in PPP terms

(Source: O'Neill, *Building Better Global Economic BRICs*, GS, 2001)

Analyzing the evolution of the past and developing, also, four different scenarios for the future trends, O'Neill has made a 10 year projection regarding the BRIC countries versus the G7 – the results suggest significant changes in the global economic architecture (see Table 2 and Table 3).

**Table 2: GDP Weight Comparisons**

	PPP Weight (1)	Current GDP Weight (2)	Ratio (1/2)
China	12.59	3.59	3.51
India	5.06	1.58	3.20
Brazil	2.92	1.96	1.49
Russia	2.70	0.82	3.29
Total	23.27	7.95	

(Source: O'Neill, *Building Better Global Economic BRICs*, GS, 2001)

**Table 3: Nominal GDP, real GDP and CPI inflation assumptions**

%	Nominal GDP (%) Next 10 Years	Real GDP	CPI
US	5.0	3.0	2.0
Euroland	4.5	2.5	2.0
UK	5.0	2.5	2.5
Canada	4.6	3.0	1.6
Japan	1.0	1.0	0.0
China	9.5	7.0	2.5
India	10.0	5.0	5.0
Brazil	7.5	4.0	3.5
Russia	10.0	4.0	6.0

(Source: O'Neill, *Building Better Global Economic BRICs*, GS, 2001)

The term *BRIC* was then rapidly assimilated into the current economic language, and it also has (unpredictable and unexpected) been assumed by the four countries which have even started to organize, on an annually basis, summits at their top political managements levels – the foreign ministers. The term itself (but, more than that, the significance behind it) also has its opponents – the major differences between the four countries being their major arguments, that can not bring them together – not even within an acronym.

But who are these countries and why are they important? Into a study developed just an year ago for the European Commission (which has analyzed BRICs in terms of challenges and opportunities for European competitiveness and cooperation – so, that has been taking seriously the BRICs), it was set that “the BRICs’ *common features* include *large territory and population, low income levels but also fast economic growth* resulting in the emergence of a prosperous local middle class. (...) Beyond their common features the individual BRIC countries are rather *heterogeneous, posing quite different challenges and calling for specific policy responses on the side of their partners*, especially the EU. *Opportunities* for trade and investment in the large and rapidly expanding BRIC markets are obvious and companies from the EU are already well positioned there. Major *challenges* include the cost competition in product markets, changing patterns in global commodity flows (energy, metals and food), non-tariff barriers to trade, regulative deficiencies e.g. concerning intellectual property rights and various institutional impediments to foreign investment” (see Havlik et al., 2009).

In order to look at each one of the BRICs *individually*, we appeal to and use the data and information from the 2009 report *Models of BRICs’ Economic Development and Challenges for EU Competitiveness* (see Ghosh et al., 2009):

#### A. BRIC Countries in figures:

*Brazil* – it is classified as an upper-middle-income country with a GDP of EUR 973 billion and a GDP per capita of approximately EUR 5140 (EUR 7839 measured at PPP) in 2007, being the world’s 8th largest consumption market in 2007. In 2007 the economy ranked 10th worldwide. From 2000 to 2007, the average GDP growth rate has been around 3.4%; in 2008, even with the impact of the financial crisis in the last quarter, the Brazilian GDP grew by 5.2% (see Marcos Ribeiro, in Ghosh et al., 2009).

*Russia* – the Russian economy has been booming during the past decade (...) Russian GDP growth exceeded 8% in 2007; even in 2008, when the global financial turmoil started to bite, GDP growth still reached 5.6%. During the past five years, real GDP increased by more than 40%. At purchasing power parity (PPP), Russia’s GDP amounted to EUR 1900 billion in 2008. In per capita terms, the Russian PPP-based GDP reached EUR 13,500 in 2008 (see Peter Havlik, in Ghosh et al., 2009).

*India* – the country has sustained a high and accelerating rate of growth over the past 25 years (real GDP growth has accelerated from around 3.5% per year in the 1960s and 1970s to around 9% since 2003). GDP was EUR 2339 billion in PPP terms, making India the fourth largest economy in the world, while in terms of nominal exchange rates, the GDP amounted to EUR 759 billion in 2007. Per capita GDP in

2007 was EUR 2108 at PPPs, or EUR 684 in nominal exchange rates (see Jayati Ghosh, in Ghosh et al., 2009).

**China** – the economic growth over the past 30 years has been unprecedentedly high, reaching an average annual rate of 9.8%. But starting from a very low level, China's GDP per capita is still relatively small and amounted to only EUR 1867 in 2007, which classifies China as a 'lower middle income country' according to the World Bank's definition. However, converted at purchasing power parities (PPP), GDP per capita is significantly higher, reaching EUR 4464 (see Waltraut Urban, in Ghosh et al., 2009).

*B. BRICs' models of evolution* (see Ghosh et al., 2009):

**Brazil**

- ✓ it followed the model of a domestically oriented, service-driven economy, with a relative large private sector (>80% of GDP) and foreign direct investment playing an important role.
- ✓ on the negative side there are poor infrastructure, high informality, low productivity and little innovation.
- ✓ the services sector takes the biggest share (66% of GDP), supplying services for the domestic economy mainly.
- ✓ major manufacturing industries include aerospace, bio-ethanol and automotives.
- ✓ since 2004, a more outward looking policy has been propagated by the government, promoting exports and fostering technological development to increase international competitiveness.
- ✓ in 2008, additional tax incentives for investment, R&D and exports were introduced.

**Russia**

- ✓ when transforming from a centrally planned economy to a market economy, has liberalized first and 're-centralized' later.
- ✓ in 2007, the private sector accounted only for 65% of GDP.
- ✓ FDI helped to support growth, but its stock is still relatively low, due to many impediments.
- ✓ on the negative side of high economic growth there are high inflation, strong appreciation of the rouble without increases in productivity, and a declining population and labour force.
- ✓ economic development is highly dependent on the extraction and export (price!) of mineral oil and gas.
- ✓ in 2007, a new long-term development programme and a new industrial policy, respectively, was launched, aiming at the diversification of the production structure towards (high-tech) manufacturing by improving the investment climate, promoting 'public private partnership' and investing more in infrastructure.

**India**

- ✓ its economic development is essentially service-led, supported by exports of services (especially IT-enabled services); manufacturing exports are relatively small and are concentrated on a few sectors only.

- ✓ the share of agriculture in GDP is still very high (16%).
- ✓ after liberalization, starting in 1980, the private sector is currently generating more than 80% of GDP.
- ✓ rules for FDI have been eased as well, yet the FDI stock is still small.
- ✓ wages are very low, but the overall education level, particularly with respect to technical qualifications, is very low as well.
- ✓ a major stumbling bloc to further development is the underdeveloped infrastructure.
- ✓ a new government programme has been launched recently to expand rural infrastructure and to increase funding for education and infrastructure in general.

*China*

- ✓ it refers to its system as a ‘socialist market economy,’ with markets taking a pivotal role, but public ownership, direct government interference and industrial policy measures representing an integral part of the system. Currently, the private sector is estimated to generate about 65% of GDP.
- ✓ China’s economic development is driven by manufacturing exports and by investments (including infrastructure).
- ✓ FDI plays an important role, especially for exports. Recently outward FDI, mainly to secure raw materials, has been increasing.
- ✓ although generating fast growth for over 30 years, the system has come under criticism recently because of rising income inequalities, environmental degradation, rapidly increasing energy demand and external imbalances.
- ✓ a new model of ‘qualitative growth’ is propagated by the Chinese government since 2003, emphasizing domestically oriented growth, industrial restructuring towards higher value added industries, cleaner and more energy-efficient technologies and more balanced regional and sectoral development; FDI should support these goals.

***Projecting the performances of BRICs until 2050; real evolutions and challenges***

Being the first who has mentioned the BRICs (into one of its report in 2001) – and because its first projections were confirmed by the economic reality – Goldman Sachs has also developed a first long-time scenario (in 2003) which has become a referral in this field: *Dreaming With BRICs: The Path to 2050* (see Wilson and Purushothaman, 2003).

<b>Fig. 1: The largest economies in 2050</b>			<b>Table 4:</b> BRICs Real GDP Growth: 5-Year Period Averages			
GDP (2003 US\$bn)	<b>The Largest Economies in 2050</b>					
%	Brazil	China	India	Russia		
2000-2005	2.7	8.0	5.3	5.9		
2005-2010	4.2	7.2	6.1	4.8		
2010-2015	4.1	5.9	5.9	3.8		
2015-2020	3.8	5.0	5.7	3.4		
2020-2025	3.7	4.6	5.7	3.4		
2025-2030	3.8	4.1	5.9	3.5		
2030-2035	3.9	3.9	6.1	3.1		
2035-2040	3.8	3.9	6.0	2.6		
2040-2045	3.6	3.5	5.6	2.2		
2045-2050	3.4	2.9	5.2	1.9		

(Source: Wilson & Purushothaman,  
*Dreaming With BRICs: The Path to 2050*,  
GS, 2003)

(Source: Wilson & Purushothaman,  
*Dreaming With BRICs: The Path to 2050*,  
GS, 2003)

*The largest economies in 2050* (with China on the 1<sup>st</sup> position, India on the 3<sup>rd</sup> position, Brazil on the 5<sup>th</sup> position and Russia on the 6<sup>th</sup> position) and *BRICs real GDP growth: 5-year period average from 2000 until 2050* (meaning an average of: 3.7% for Brazil, 4.9% for China, 5.75% for India and 3.46% for Russia – values calculated as averages of the 5-year period averages mentioned by the authors) as they resulted from the study are presented in Figure 1 and Table 4.

The most important projections and results that the Report of the Goldman Sachs's Summary reveals are (Wilson and Purushothaman, 2003):

*"If things go right, in less than 40 years, the BRICs economies together could be larger than the G6 in US dollar terms. By 2025 they could account for over half the size of the G6. Currently they are worth less than 15%. Of the current G6, only the US and Japan may be among the six largest economies in US dollar terms in 2050" – see Table 5.*

**Table 5:**

2003 \$USbn	BRICs				Projected US\$GDP							
	Brazil	China	India	Russia	France	Germany	Italy	Japan	UK	US	BRICs	G6
2000	782	1078	469	391	1,311	1,875	1,078	4,176	1,437	9,825	2,700	19,702
2005	468	1724	604	534	1,489	2,011	1,236	4,427	1,888	11,697	3,330	22,548
2010	688	2998	929	847	1,622	2,212	1,337	4,601	1,876	13,271	5,441	24,919
2015	962	4754	1411	1232	1,767	2,386	1,447	4,858	2,089	14,786	8,349	27,332
2020	1333	7070	2104	1741	1,930	2,524	1,553	5,221	2,285	16,415	12,248	29,928
2025	1695	10213	3174	2284	2,095	2,604	1,625	5,567	2,466	18,340	17,345	32,687
2030	2189	14312	4906	2980	2,267	2,697	1,671	5,810	2,649	20,833	24,415	35,927
2035	2871	19605	7854	3734	2,445	2,903	1,708	5,882	2,901	23,828	34,064	39,668
2040	3740	26439	12367	4467	2,668	3,147	1,788	6,039	3,201	27,229	47,013	44,072
2045	4794	34799	18847	5156	2,898	3,381	1,912	6,297	3,496	30,966	63,596	48,940
2050	6074	44453	27803	5870	3,148	3,603	2,061	6,673	3,782	35,165	84,201	54,433

(Source: Wilson & Purushothaman, *Dreaming With BRICs: The Path to 2050*, GS, 2003)

*“Individuals in the BRICs are still likely to be poorer on average than individuals in the G6 economies, with the exception of Russia. China’s per capita income could be roughly what the developed economies are now (about US\$30,000 per capita)” – see Table 6.*

**Table 6:**  
**Projected US\$GDP Per Capita**

2003 US\$	BRICs				G6					
	Brazil	China	India	Russia	France	Germany	Italy	Japan	UK	US
2000	4,338	854	468	2,675	22,078	22,814	18,677	32,960	24,142	34,797
2005	2,512	1,324	559	3,718	24,547	24,402	21,277	34,744	27,920	39,552
2010	3,417	2,233	804	5,948	26,314	26,877	23,018	36,172	30,611	42,926
2015	4,664	3,428	1,149	8,736	28,338	29,111	25,086	38,626	33,594	45,835
2020	6,302	4,965	1,622	12,527	30,723	31,000	27,239	42,359	36,234	48,849
2025	7,781	7,051	2,331	16,652	33,203	32,299	28,894	46,391	38,479	52,450
2030	9,823	9,809	3,473	22,427	35,876	33,898	30,177	49,944	41,194	57,263
2035	12,682	13,434	5,327	28,749	38,779	37,087	31,402	52,313	44,985	63,017
2040	16,370	18,209	8,124	35,314	42,601	40,966	33,583	55,721	49,658	69,431
2045	20,926	24,192	12,046	42,081	46,795	44,940	36,859	60,454	54,386	76,228
2050	26,592	31,357	17,366	49,646	51,594	48,952	40,901	66,805	59,122	83,710

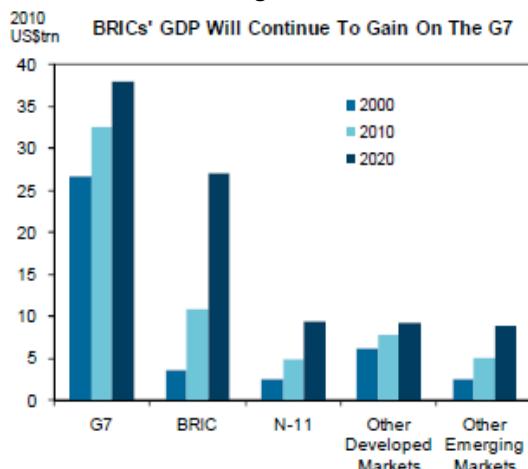
(Source: Wilson & Purushothaman, *Dreaming With BRICs: The Path to 2050*, GS, 2003)

*“The key assumption underlying our projections is that the BRICs maintain policies and develop institutions that are supportive of growth. Each of the BRICs faces significant challenges in keeping development on track. This means that there is a good chance that our projections are not met, either through bad policy or bad luck. But if the BRICs come anywhere close to meeting the projections set out here, the implications for the pattern of growth and economic activity could be large. The relative importance of the BRICs as an engine of new demand growth and spending power may shift more dramatically and quickly than expected. Higher growth in these economies could offset the impact of greying populations and slower growth in the advanced economies.”*

In order to be able to see if there is a pattern for this kind of development which could be applied to some other countries, we have to mention here that into the report is considered that *“the main ingredients” in order to ensure “the conditions for growth”* are: sound macroeconomic policies and a stable macroeconomic background; strong and stable political institutions; openness; high levels of education (see Wilson and Purushothaman, 2003).

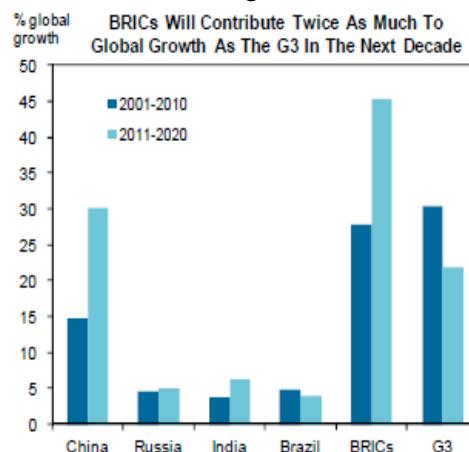
Talking in terms of real evolution (in order to see if it is according or not to the projections which have been made by Goldman Sachs, confirming or not its theory), *“the last decade saw the BRICs make their mark on the global economic landscape. Over the past 10 years they have contributed over a third of world GDP growth and grown from one-sixth of the world economy to almost a quarter (in PPP terms). Looking forward to the coming decade, we expect this trend to continue and become even more pronounced”* (Wilson et al., 2010) – see Fig. 2 and Fig. 3.

Fig. 2:



(Source: Wilson, Kelston, and Ahmed, *Is this the “BRICs Decade”?*, GS, 2010)

Fig. 3:



(Source: Wilson, Kelston, and Ahmed, *Is this the “BRICs Decade”?*, GS, 2010)

But, despite these positive evolutions and confirmations, the global crisis has occurred. Although, when Goldman Sachs made its regular report (December 2, 2009), the main economic forecasts have lead to the resolution of *The Outlook for 2010/2011: Exciting, with Risks!* – see Table 7 (O'Neill et al., 2009).

Table 7:

	2008	2009	2010	2011
<b>Real GDP, % chg, yoy</b>				
China	9.0	8.7	11.4	10.0
India	6.7	6.6	8.2	8.7
Hong Kong	2.5	-3.0	5.8	5.3
Indonesia	6.1	4.5	5.8	6.0
Malaysia	4.6	-2.5	5.0	5.2
Philippines	3.8	1.6	4.2	5.0
Singapore	1.1	-1.8	6.2	5.2
South Korea	2.2	0.3	4.8	4.6
Taiwan	0.7	-2.5	5.5	4.8
Thailand	2.5	-3.2	4.2	4.5
Brazil	5.1	0.5	5.8	5.0
Argentina	6.8	0.1	4.0	3.6
Mexico	1.3	-6.9	4.2	3.5
Venezuela	4.8	-1.5	2.6	2.4
Russia	5.6	-9.0	4.5	5.5
Turkey	0.9	-5.5	5.5	4.5
South Africa	3.1	-1.9	2.6	3.5
Central and Eastern Europe	3.6	-1.1	2.3	3.9
Asia ex Japan	6.8	5.8	9.0	8.4
Latin America	4.2	-1.7	4.7	4.2
BRICs	7.5	5.0	9.2	8.6
Emerging Markets	6.2	2.7	7.7	7.3

(Source: O'Neill et al., *The Outlook for 2010/11: Exciting, with Risks!*, GS, 2009)

Table 8:

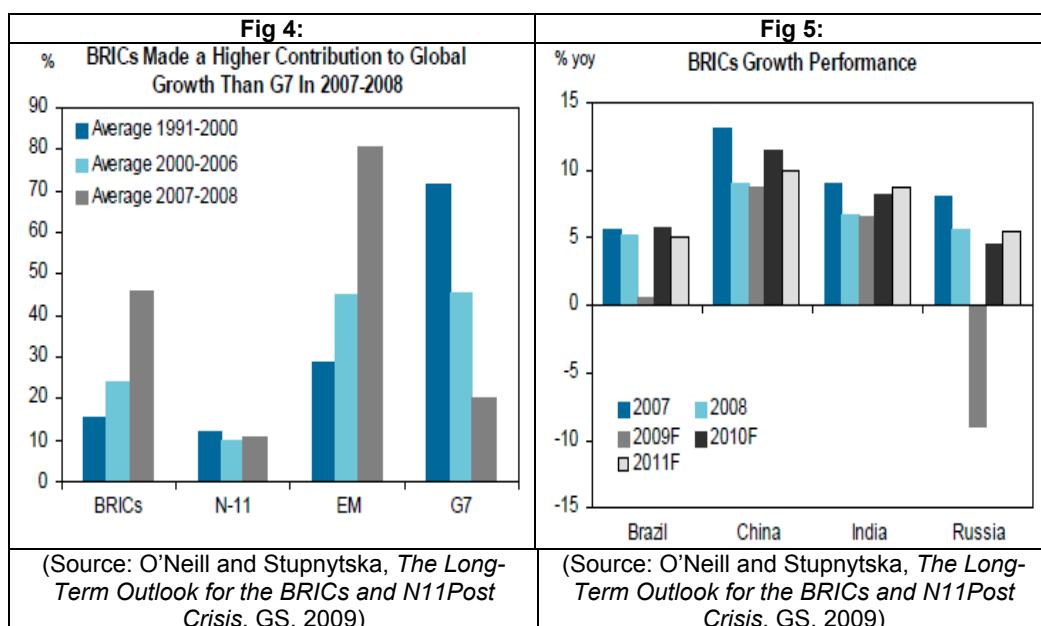
%yoy	2008	Real GDP Growth Forecasts				2011 (GS)	
		2009		2010			
		GS	Consensus*	GS	Consensus*		
USA	0.4	-2.5	-2.4	2.1	2.7	2.4	
Japan	-0.7	-5.2	-5.7	1.5	1.4	1.6	
Euroland	0.6	-3.9	-3.8	1.5	1.2	1.9	
UK	0.6	-4.6	-4.5	1.9	1.2	3.4	
Europe	0.8	-3.7	-3.6	1.7	1.3	2.3	
China	9.0	8.7	8.5	11.4	9.6	10.0	
India	6.7	6.6	6.1	8.2	7.6	8.7	
Brazil	5.1	0.5	-0.4	5.8	4.6	5.0	
Russia	5.6	-9.0	-7.7	4.5	3.5	5.5	
BRICs	7.6	5.0	4.7	9.2	7.6	8.6	
Advanced Economies	0.6	-3.1	-3.1	2.1	2.1	2.5	
World	2.7	-0.8	-0.9	4.4	3.8	4.5	

\* Consensus Economics November 2009. Source: GS Global ECS Research

(Source: O'Neill et al., *The Outlook for 2010/11: Exciting, with Risks!*, GS, 2009)

The main observations at that point were: "With respect to GDP growth, according to our forecasts both 2010 and 2011 are going to be rather strong years. We now forecast 4.4% for 2010, and a higher 4.5% for 2011 (see Table 8). We are above consensus for next year and, while there is no consensus as such for 2011, we suspect we are significantly higher than consensus for 2011 also. Compared with this time last year, it is rather pleasing to write about our GDP outlook" (O'Neill et al., 2009).

These entire emphasized aspects are based on the real figures (which sometimes have overcome expectations – regarding Brazil, India and China especially, and also Russia before the crisis), telling us that "*the relative importance of the BRICs and G7 for the global economic landscape has changed at a rapid and dramatic pace, particularly in terms of growth. Between 2000 and 2008, the BRICs contributed almost 30% to global growth in US Dollar terms, compared with around 16% in the previous decade. At the same time, the G7's contribution has fallen from over 70% in the 1990s to just 40% on average during the current decade.* And although the advanced economies together still contribute more than the BRICs on this 2000-2008 average measure, since 2007 alone China has contributed more than any of them, including Euroland (see Fig. 4 and Fig. 5).



*Since the start of the crisis in 2007, the BRICs' contribution has risen even more: some 45% of global growth has come from the BRICs, up from 24% in the first six years of the decade. The N-11 (the so called "next 11 emerging economies": Indonesia, Philippines, Bangladesh, Egypt, Korea, Turkey, Nigeria, Vietnam, Iran, Pakistan and Mexico) contribution has risen by a modest 1% in the last two years, to 11%. The contribution from all emerging markets as a whole was over 80% (vs. the*

2000-2006 average of 45%). The G7 has only contributed 20% in the past two years. *While the 2000-2006 contribution to global growth was almost equally split between the developing and developed world, the last two years saw the trend change sharply, with the divergence mainly driven by the BRICs*” (O’Neill and Stupnytska, 2009).

In conclusion, comparative to the initial estimation and projects which has been made in 2003, Goldman Sachs updated the trajectories of evolution, optimistically confirming the models of the BRICs’ success story and emphasizing on the same time: “we now think it is more likely, rather than less, that China will become as big as the US by 2027 and the BRICs will become as big as the G7 by 2032. China, Brazil and India have all performed particularly well, and although Russia has not done so recently, as long as it recovers quickly, it deserves its position as a BRIC” (O’Neill and Stupnytska, 2009).

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# **STRATEGIES AND TACTICS REGARDING CHANGE COMMUNICATION WITHIN ORGANISATIONS. REAL EXAMPLE REGARDING COMMUNICATION CHANGE IN AN ORGANISATION<sup>1</sup>**

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**TODĂRIȚĂ Elida-Tomița**

**Abstract:**

*Organizations are, on one hand, a social reality, and, on the other hand human relations centres. Organizational processes, such as, for example communication, decision taking and conflict management rely on how the people involved build meanings starting from their interactions and relying less on skill application techniques. Attempts to identify or develop a suitable formula and to be efficient for the successful changes often mislead, hence can not result but one thing which is the lack of an effective and efficient communication to be carried out within the organization. The present paper outlines the basic strategies of the entire change communication process within the organization, strategies which are the pattern that can be employed regardless of their field of activity and implicitly regardless of the changes that occur.*

*The paper has two parts: the first part is a theoretical periplus as far as change communication within the organization is concerned, change classification, change components, the exemplification of the six vectors of change determined by Shell company's group of researchers. The second part of the paper includes the practical side of the above mentioned. More exactly, based on a concrete example we shall show how managers are doing in case of change communication within the organization where they carry out their activity.*

**Keywords:** communication change, performance management, behavior change, organizational, change management, results of communication change, communication difficulties

In any organization, whether it is about the replacement of one person from its job, the renewal of an equipment, the release of a new product, the opening of a new headquarter in another town or country, the change of the organizational structure which no longer meets the organization's goals or the direct investments or the

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<sup>1</sup> Researches carried out within the framework of the project POSDRU/6/1.5/S/26, co-financed from the Social European Fund by means of the Sectorial Operational Fund Programme "The Development of Human Resources" 2007-2013.

majority package, in all these cases we are definitely talking about the procedure called change.

### ***Change as a continuous process***

Change is a specific and continuous process which can be planned or unplanned and which can determine another change or a chain of changes, which, in their turn, can generate momentary disturbances or even radical turns of situation.

In this change process, people hold an important place, because they are directly and indirectly affected by change and as a consequence they react differently since change causes emotional reactions and always has consequences that can be accepted, rejected or even ignored.

Perceived as an opportunity, change is characterized by dynamism, flexibility, activity, motivation, stimulation, threat (having as precedent the stress, money and time consumption, irritation, uncertainty, failure).

Change can be defined as the result of the action which modifies, varies, moves, changes, penalizes or makes a difference in one thing's state or replaces one state with another.

### ***Changes within the organization. The classification of change situations:***

1. *Changes in „hard” situations*: these are well-defined situations, with a single solution and they represent the technical and material changes. They are quantifiable and they have one solution. For example, we can mention the opening of a chain of shops, the analysis and research of a product or project in its prototype stage, the modernization of equipment [1].

2. *Changes in “soft” situations*: these are unquantifiable, emotional, they have various solutions and they interfere with the human emotional structure. For example: the reorganization of the supply system, the employment of a new general manager (CEO), the launching of a new product on the market [2].

According to the clarity of the change issue we determine:

1. *Delimited*: designated and restricted changes: are the ones that can solve obvious problems. They are called like this because solutions are known since the design stage of change. The characteristics of delimited changes are limited in time, the solution is known, the problem is known, what needs to be known is known, it can be approached differently, it has limited implications.

2. *Undefined changes*: the ones that solve the unclear issues, and they are called like this because there are not well-defined solutions in the change process. Complex troubles and issues raise undefined changes, what needs to be known is not exactly known, researched, analyzed and solutions are not known, many people are involved.

Among the factors which lead to organizational changes, we mention [3]: technology development, knowledge explosion, products' life cycle decrease, working conditions, changes regarding the labour force. Moreover, the causes of change in an organization are: the adjustment to the environment's complexity, the improvement of

some situations, processes, systems, activities, the organization's or activities' development, the obtaining and maintenance of the competitive advantage.

Changes within organizations are divided into:

1. *Changes in the external environment*: are usually outside the organization's management control and thus they have to be permanently scanned, analysed, evaluated, understood, anticipated in order for the management to take the decisions that would make the organization properly face these problems. Changes within organizations might appear at the national, international and local environments.

2. *Changes in the internal environment*: controlled by the organization's management. They might appear either to create the competitive advantage or to improve certain aspects from the current activity, or for the future development of the organization. These changes may vary according to the purpose and complexity, therefore, some of them might be minor or insignificant, others have a major effect on the organization. Among the changes generated by the internal environment, there can be exemplified: the introduction of a new personnel evaluation system, the implementation of a new software, the introduction of digital advertising, the employment of new top managers, downsizing, the restructuring of departments and the introduction of new organizational structures, the change of organizational culture as a result of internationalizing or of employer's change.

Pettigrew and Wipp (1993) have identified five factors that would lead to the success of change: coherence, environmental evaluation, leadership, human resources as assets and liabilities and the correlation of strategic change to the operational one.

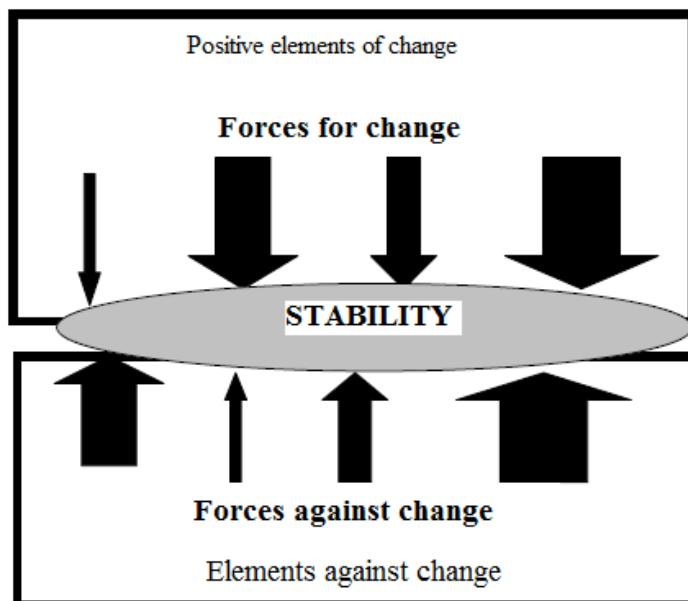
The management of organizational change under international context is the managerial process of taking the decisions to create and increase the competitive advantage within a complex environment, volatile and risky, where people from countries other than the native one are involved [4]. A management of change shall be accompanied by a change of priorities [5].

Marris suggests three principles of the management of change [6]:

1. The reform process has to foresee and even encourage conflict, because people feel the need to react, to show their ambivalent feelings;
2. The change process has to respect the autonomy of different experiences, so that each group can organize itself without getting other foreign concepts' involvement;
3. In the reform process time and patience is required, because conflict does not only involve the accommodation of some different interests, but also the ability to make an essential continuity in the structure of stress. In practice, these principles are, according to Marris, rarely recognized.

Forces for and against change acts to maintain balance within the organization. If the forces for change are weak or defeated by the forces against change the current state is maintained and if, instead, forces defeat the forces that oppose change, change occurs. Identifying and evaluating the forces that resist change management organization to help choose the best strategy for action to reduce

or eliminate resistance to change (*Figure 1 [7]*). Elements and forces positioned in the diagram shows the intensity of their action is read by thick arrows.



**Figure 1.** Force field analysis (after Lewin)

As a paradox of the organizational life, the situations and problems that require the most urgent change are often the ones that show the most inflexible resistance to change. Pugh also defines the three coordinates of the resistance to change [8]:

1. Logically, relevant or irrelevant objections turn out, because no one is able to think of all the implications of a change when it is designed;
2. Psychologically, people regard change as threats and dangers and believe they can convince by working better or more what they know;
3. Organizationally, because organizations are coalitions between various tensioned groups of interests and which are in a special balance of some forces polished over time.

For the organization to be first understood, Pugh mentions four principles for understanding the organizational change: the organization is a rational organism and not a mechanism; the organization is an occupational system and a political system; all members of the organization operate simultaneously in all three systems – rational, occupational, political; change stands better chances at people with good results.

Going further in exploring the change process, Pugh suggests six other rules, this time for the management, with the purpose of facilitating change:

1. The necessity of change should be established;
2. Change should include everything that needs to be changed;
3. Change should be initiated through informal communication and feed-back to ensure peoples' participation;

4. The ones that are affected by change should be encouraged to express their complaints
5. The change manager should be ready to change himself;
6. Change should be monitored and consolidated, by informing everyone.

Kanter identified ten reasons why people resist change and ways defeat the resistance to change that managers are at hand. These reasons are presented in *Table 1* [9].

	<b>Reasons</b>	<b>Managers actions</b>
1.	Fear of losing control	Involving people in decision making
2.	Excessive personal insecurity	Providing information to explain
3.	Desire to avoid surprises	Information and communication meetings
4.	Effect of difference	Maintaining symbols and change those things absolutely necessary
5.	Fear of loss of prestige	Recognition of human competence
6.	Concern about competence	Training, professional education
7.	Effect of shock wave	Planning, taking into account the impossible
8.	Fear of more work	Additional efforts will be rewarded
9.	Past resentments	Discovering and removing their resentment
10.	Real threats	Offering alternatives

**Table 1. Reasons why people resist change**

In the famous book *The new corporate strategy* (1988), which is one of the most important and influential books ever written on corporate strategies, H. Igor Ansoff and Edward J. McDonnell emphasized the fact that change within organizations is not unique at its level, being regarded by the two researchers rather as a portfolio of changes. The two scientists grouped changes into incremental and continuous. Incremental changes [10] refer to logical and relative changes within organizations, being a continuation of history. On the other hand, interrupted changes do not take into account the history of the organization's logical development and it is a starting step towards a new dimension. Regardless of their kind, changes are determined by the organizations' resources, the characteristics of the environment, the magnitude of the necessary strategy. The change process itself is complex and difficult to be accomplishment because managers must also deal with the current management problems, the strategic ones, but also with the change situations.

The elements of change:

1. *The opportunity of change*: it represents the main element of change and it results from the indifference between the current activity and strategy;

2. *The power of the change's forces:* the forces of change are internal and external, most of them coming from the outside. The power of these forces on the organization deeply influences the decision for change.
3. *The management of change:* in order to be accomplished, change needs the management, but its initiator is not always the manager and its manager does not necessarily correspond to the organization's management. The success of change depends on the involvement of the organization's management into the change management.

### **Change vectors**

The group of scientists from Shell Company has identified 6 change vectors [11]:

1. *The cultural values of the organization:* an organization's system of values depends on its members' strategic mission. If the strategic mission is not well-understood and accepted by all members of the organization, then any change will attract opponents which do not share the same cultural values.
2. *Property over change:* it refers to an untouchable value, to initiative, to control, with the sense of "intellectual property";
3. *The clients/beneficiaries of change/stakeholders:* the ones that would benefit from the proposed change;
4. *The actors of change:* individual or legal persons involved in the change process, but also the ones upon which change has an implication;
5. *The modification of change as a process itself:* it represents the modification process itself, the modification of a current situation into a future one;
6. *The environment of change:* the context where change takes place is the environment of change. The evaluation of the environment, of the factors that influence change within the organization is necessary and compulsory for managers.

### **The groups within the organization**

The need to belong to a group is a natural human need. A group is formed of individuals who have a common interest, who interact between them and know each other. Groups within the organization are formal (according to the organizational structure) and informal (which are led or dominated by people with less formal authority within the organizational structure). These groups can form a significant force against change. Knowing the roles fulfilled by the members of a group is essential for eliminating resistance to change. The group is formed, according to Tuckman [12] by covering four stages: training, outbreak, standardization and functioning. At the level of the group or the department, communication and consultation before the change is essential, especially during the planning stage.

### **Individual level within the organization**

Communication and consulting are essential in personally convincing the one who sees in change an undermining of his position within the organization, of his own

values and interests. Sometimes, the individual's resistance to change is very well documented and grounded, so that it might lead to reconsidering or reexamining the nature of change. The members of the organization have a different behavior as far as change is concerned, some cooperate, others put up resistance. The individual resistance to change depends on the mental ability and intelligence of each, on self and collective motivation, on knowledge and experience, on personal interest, generally, on the way of thinking.

### ***Action strategies against the resistance to change***

Changes within organizations are perceived differently by its members depending on the level of understanding and control that people feel they have because they are involved. The basic answers, perceptions and attitudes of the members of the organization towards change are: the optimistic attitude (change is good, enthusiasm, opportunities, challenges, stimulation), pessimistic attitude (change is bad, fear of unknown, chaos, hostility, irritation, uncertainty), indifferent attitude (skepticism, uncertainty, confusion, stress, creative tension). However, the management has to take into account the position of the organization's members towards change.

### ***Real communication example of change within an organization***

Periodically, any company goes through certain changes; these can be changes of bosses or employees, technological changes, headquarter changes. Most of the times, managers do not know the best methods to communicate change.

The following example is taken from the journalistic field, more exactly, we shall exemplify a newspaper which has faced a technological change period. We relate to the moment when the institution will offer each journalist, but especially the reporters, the possibility to facilitate their work on the field by equipping them with recorders. Thus, they shall no longer have to use the pen and paper or the stenographic writing to write down all details on the respective piece of news within a "record" time. The newspaper is going through a confusing moment. This technological change is vital; most of the newspapers that want to remain competitive go through it. The newspaper's employees have ages between 21-50 years. Among those with ages between 21-25 there are also students, which are during the practical stage.

This is how the manager who communicates the change usually acts: after he discusses with the administrative department concerning the supply with recorders, he thinks he'll make his employees a pleasant surprise. He waits for the right time, namely the return of all journalists from the field so that, later on, he can call them in for a meeting.

The first messages formulated by the manager:

1. Starting today, something will change in the editorial office.
2. We have changed the laborious writing on the field with recorders.
3. I consider it a necessary change, a technological change that will increase working speed.

4. Forget about the often incomplete notes and take a look at these incredible recorders...
5. We begin a new era, nothing will be the same.

**The employees' reaction:**

The journalists are speechless; unfortunately, however, their faces do not show the joy the manager was hoping for. They just get the news and that's all. Although change is necessary, the employees tell the manager they got the idea and take over their "equipments". At first, they start testing them and they are a little shy.

After a while, some of the employees resign. It seems like journalism is no longer what they knew. The ones left kind of changed their behavior as well. For some of them, the quality of the written materials became somehow lower. Therefore, there is a discussion with the manager, who asks them to explain the situation. Obviously, they cannot give any explanation, the only plausible one being the fact that they are no longer as inspired as they used to be since they have stopped taking notes. After a while, the newspaper sets back on track, with half of the team new, and the quality of the materials apparently was not mediocre. The inevitable question comes now: what was wrong? Most definitely the change was necessary. It is probably very clear for each of us that the change was necessary. What was wrong? How could it have been made for people not to quit and for the change to have a positive impact?

From this we can conclude that the way change is communicated is more important than the change itself, regardless of its size or importance. Over time, after various researches on this issue, it has been reached the conclusion that, initially changes, regardless of their nature, are not accepted and each of us expresses a certain resistance to change. Most of the times change causes discomfort.

Although some of us like changes and permanently search them, they change the rhythm of the life we had been used to.

In order to efficiently communicate a change, the message of the change should first of all be correctly reformulated. It is common knowledge that in the communication process, language is the first thing we should turn to; undoubtedly, language in this case should be moderate. It is supposed to be easy to be used and at the same time the most efficient. Normally, people accept change if they are being explained that this change is a continuation of what we are doing until the moment of the change. Efficient would be to find as many relations as possible between what it is now and what will be so that change can be perceived as a continuation of what used to be. Expressions such as "the new technological era" are not messages that convince, on the contrary, it looks like these are messages that claim that change will bring nothing but misfortunes. As a conclusion, when change is communicated, the things that stay the same should be first outlined, and the things that change have to be explained as a continuation of what used to be. The more the things which remain are emphasized, the better the chance for people to perceive change as a positive thing increases. Moreover, the five messages formulated by the manager have to be

reformulated and thus the changes will be perceived as improvements. Then, the way of using the new equipment needs to be explained.

The way change is communicated is decisive for the future of the organization.

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## **TRUST – A LEADERSHIP SKILL**

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**TUTULEA Anca**

**Abstract:**

*In these difficult, dramatic days, everyone is looking for something to hold on. Some are looking for family support, others are looking for colleague's assistance and others can even seek confidence on their job leaders. All these searching are based on trust gained. People are running where they find trust, honesty and solutions to their problems.*

**Keywords:** leader, trust, motivation

Every employee expect from leader honestly about the real facts of the situation, of the problem, vision about how to get out the crisis, focusing on the company's strategy and wisdom about how to determine those employees to work together to overcome the situation. It is necessary in tough times that the leader listens to his employees' concerns, shows empathy and reminds them of the previous successes, and to obtain another success in this problem they are facing with and the only way to obtain it is to work together as a team. Essential is the unity of the group he is leading and above all, gaining their trust. Many studies have shown the importance of great leaders in facing every situation.

According to Marian Năstase and other researchers (Năstase M., 2007), skills that a leader should have are given below:

- **Visionary:** Leader should see and sense the future changes that can take place in the business or external environment and welcome change accordingly. He should motivate and encourage his subordinates to work along with him, to face that change, and also he should benchmark and be an example for his subordinates.
- **Courage:** Leaders should develop their own capacity on taking the risks of the business.
- **Self-Awareness:** It means to realize that indeed he is a leader, by understanding and recognizing his own values, needs and biases.
- **Credibility:** Believability is achieved through both honesty and consistency between both the leader's statements and actions. Credible leaders are straightforward with their subordinates and behave in such a manner that earns the subordinates' respect and trust.

- **Problem-solver:** Leader should possess the skill to solve the problems arising on daily basis and should have divergent and convergent skill to tackle the opposition.
- **A team-builder:** A good team-builder has the ability to divide the task efficiently and reward those who perform well but also, keeping in mind not to discourage other members of the team.
- **Respect for employees:** This includes the belief that individuals are responsible for their own actions and ideas. It includes an awareness of a person's individuality by recognizing their unique values, attributes and skills.
- **Empathy:** Empathetic leaders will be better able to help subordinates identify the situation and then develop a plan to improve it.
- **A manager:** He should know how to manage people, time, energy, emotions.
- **A communicator:** He should communicate with his subordinates, speaking to them, addressing their problems, see that they may trust him. He also should know how to communicate both verbally and in writing so that he could motivate the employees.
- **A planner:** He should possess the planning skills and should use the planning tools to achieve short and medium term goals, which plays a vital role in the achievement of long-term goals. Also he should make different strategies for the accomplishment of settled goals.

All these rolls are not easy to perform, that is why a leader's role is such a complex one, expecting special skills and traits and above all trust.

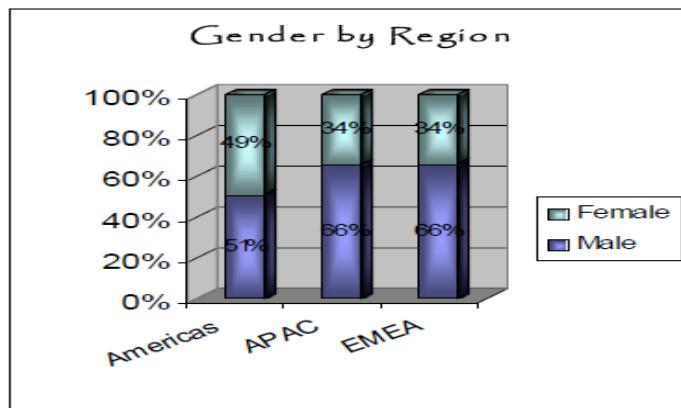
The **Center for Creative Leadership** (CCL®) as they declare is a top-ranked, global provider of executive education that develops better leaders through its exclusive focus on leadership education and research. Founded in 1970 as a nonprofit, educational institution, CCL helps clients worldwide cultivate creative leadership - the capacity to achieve more than imagined by thinking and acting beyond boundaries - through an array of programs, products and other services. Ranked among the world's top providers of executive education by *BusinessWeek* and the *Financial Times*, CCL is headquartered in Greensboro, NC, with campuses in Colorado Springs, CO; San Diego, CA; Brussels, Belgium; and Singapore. Its work is supported by more than 500 faculty members and staff.

The World Leadership Survey (CCL, 2009) helps organizations gain a better understanding of employees' perceptions of organizational leadership and employees' commitment to their organizations. From the report were extracted the results useful to the subject approached. The survey included respondents from three regions: the Americas, Asia Pacific (APAC), and Europe, the Middle East & Africa (EMEA). Extracting some of their results I would like to focus on leader, seen as model by their followers.

Here is some information about respondents, helping this to understand the results and so to conclude.

The average age of respondents is 46. According to the three regions, the percent of respondents by regions are: 11% APAC, 14% EMEA and 75 % Americas. The gender of respondents according to the three regions is represented in figure below, Figure 1: Gender by Region.

**Figure 1. Gender by Region**

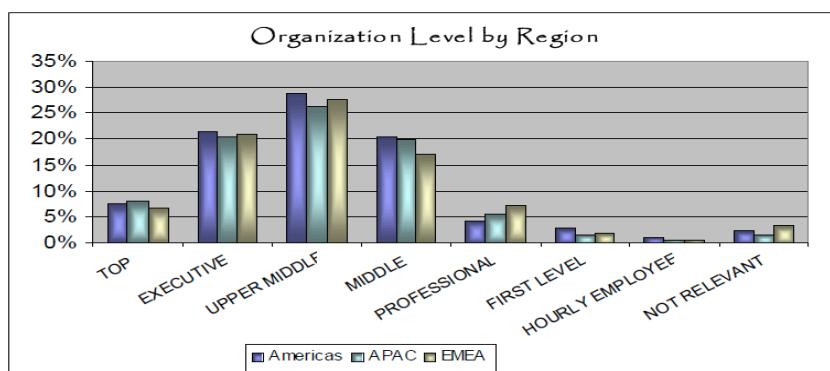


Source: *The World Leadership Survey, January, 2009*

The survey included 49% female respondents from Americas, the rest of them in percent of 51% were men. In the other two regions, APAC and EMEA, percentages of respondents were the same, 34% female respondents and 66% male respondents.

The organizational level of the surveys respondents, according to the three regions is represented in the Figure 2: Organizational Level by Region. The survey included all workers, from top management to bottom line workers.

**Figure 2. Organizational Level by Region**



Source: *The World Leadership Survey, January, 2009*

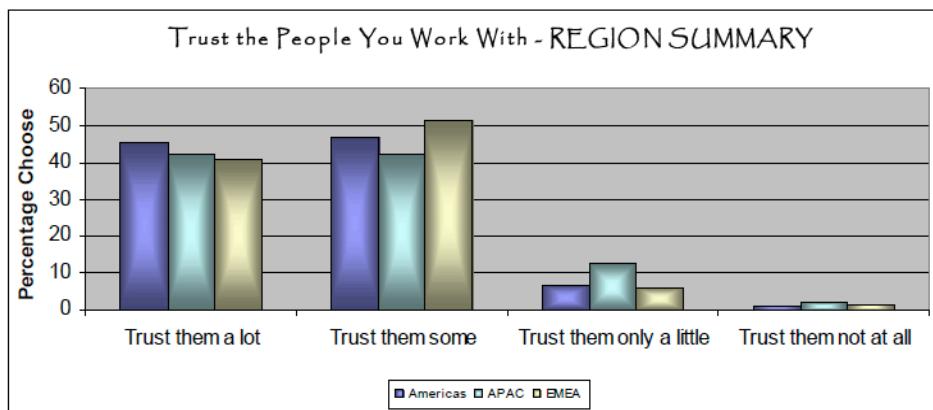
It can be seen that upper middle representatives were in majority through respondents, followed by executives and then middle representatives. The majority of respondents occupied leading positions, fact that is relevant to this survey.

From the World Leadership Survey were extracted some charts results that reveal respondents point of view and in fact their beliefs about trust.

"Trust is a critical element of organizational life, the lack of which can result in less efficiency and commitment at work. One important element of trust at work is employees trusting the people they work with on a day-to-day basis. Fundamentally, the ability of an organization to function efficiently enough to survive—and perhaps thrive rests almost entirely on the willingness of co-workers to work effectively together—to trust both that the work will get done and that the motives for the decisions are fair. The interdependence necessary for successful peer interaction and teamwork requires trust. If this willingness to trust is absent, an organization is fraught with conflict, much slower, less efficient, and definitely less viable, especially in this current economic crisis"(CCL, 2009).

From the same questions about respondents trusting the people they work with, were made three charts according to different point of view of the same issue: region summary (Figure 3), organizational level summary (Figure 4) and age summary (Figure 5).

**Figure 3. Trust the people you work with – Region summary**



Source: The World Leadership Survey, January, 2009

According to region differences, the results showed that there are no differences by region. More than 80% of people from all regions trust the people they work with some or a lot.

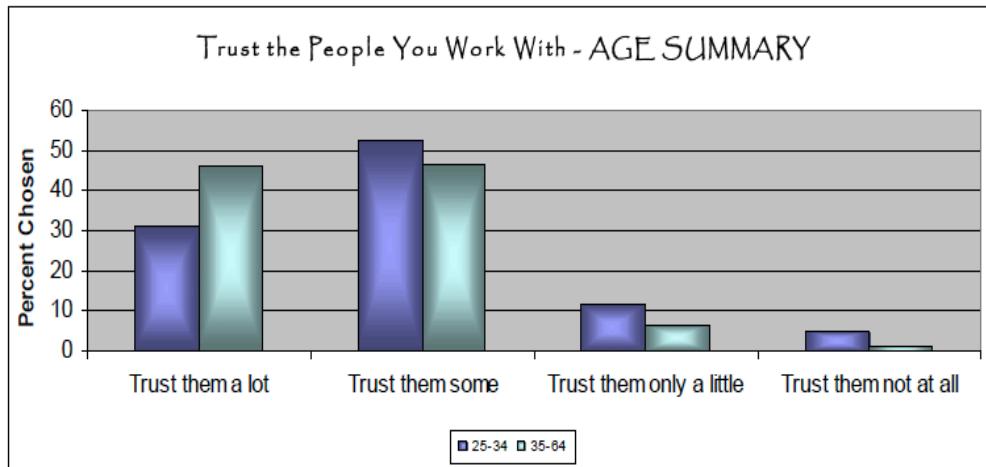
**Figure 4. Trust the people you work with – Organizational level summary**



Source: The World Leadership Survey, January, 2009

According to this, people higher in the organization are significantly more likely to say they trust the people they work with. What this means is that executives are likely to not perceive a trust issue because they trust the people they work with, while people lower down (who there are more of) are likely to have large trust issues.

**Figure 5. Trust the people you work with – Age summary**



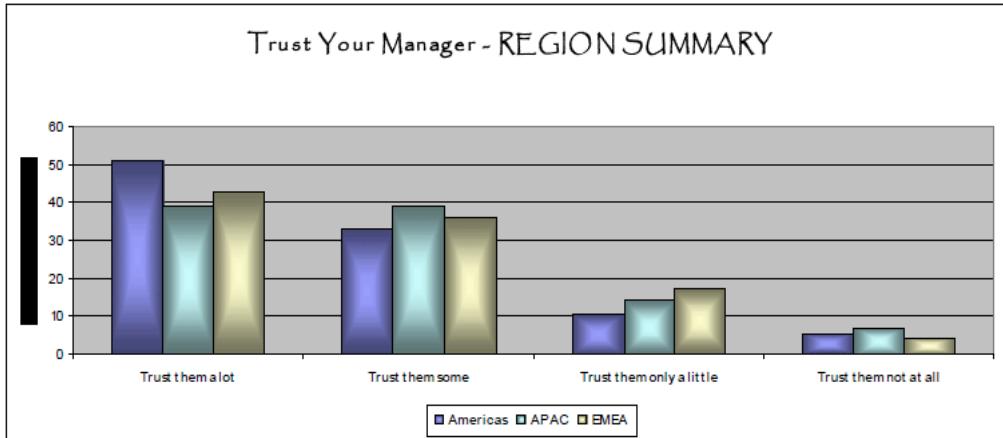
Source: The World Leadership Survey, January, 2009

The last point of view of this issue is age summary. Older workers trust the people they work with more than younger respondents do. What this means is that older people are likely to not perceive as significant a trust issue as younger people are.

In any organization it is important to trust your colleagues, but also it is important to trust the manager of the organization. With three different point of view of

the issue “Trust your manager” were presented the results: region summary (Figure 6), organizational level summary (Figure 7) and age summary (Figure 8).

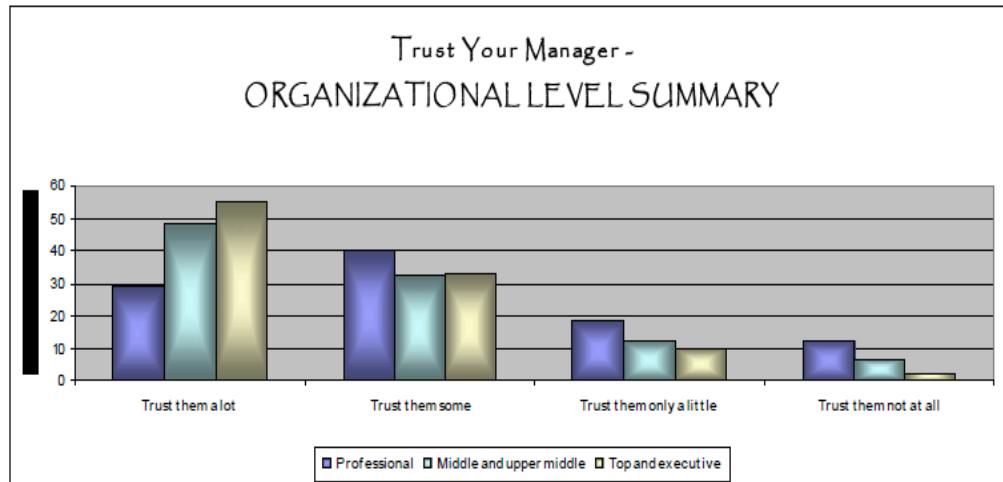
**Figure 6. Trust your manager – Region summary**



Source: *The World Leadership Survey, January, 2009*

It can be seen that there are differences by region. Respondents from the Americas report having more trust in their manager than do respondents from EMEA or APAC.

**Figure 7. Trust your manager – Organizational level summary**

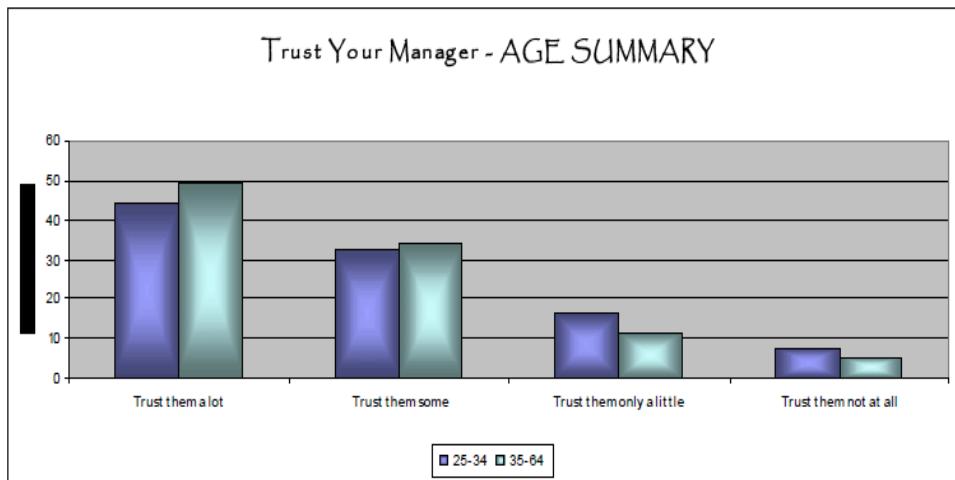


Source: *The World Leadership Survey, January, 2009*

It is interesting to notice that people higher in the organization are significantly more likely to say they trust their manager than are people lower in the organization. This difference in perceptions of trust can cause problems for leaders because they

can be seen as being disconnected from the reality within the organization which is that there is a substantial trust issue. Trust is in the eye of the beholder and just because executives trust doesn't mean most of the employees do.

**Figure 8. Trust your manager – Age summary**



Source: *The World Leadership Survey, January, 2009*

The results showed that older workers trust their manager more than younger respondents do. One explanation for this result is that older people tend to be at higher levels in the organization, and people at higher levels have more trust for reasons mentioned earlier.

After identifying respondents perceptions about trusting the people they work with and their managers, it is very important to determine the relation between this trust gained or lost and employee's motivation perception. If employees are well motivated the leader is responsible for that, if not the leader must do something in order not to lose those people. Motivation can be divided in financial or non-financial.

Here are some payment systems that organizations can use to motivate its employees:

- Wages and salaries – It is known that wages are normally paid per hour worked and workers receive money at the end of the week, especially in America used. But salaries it is known that are paid at the end of each month and are based on a previous contract between parts;
- Piece-rate – It means paying a worker by his productivity, calculating the rate per item he produces in a certain period of time. As an advantage, this may increase workers speed and by that productivity, but there may be also disadvantages like reducing the quality of work;
- Fringe Benefits – This refers to items an employee receives in addition to their normal wage or salary, like company car or phone, free meals, private health

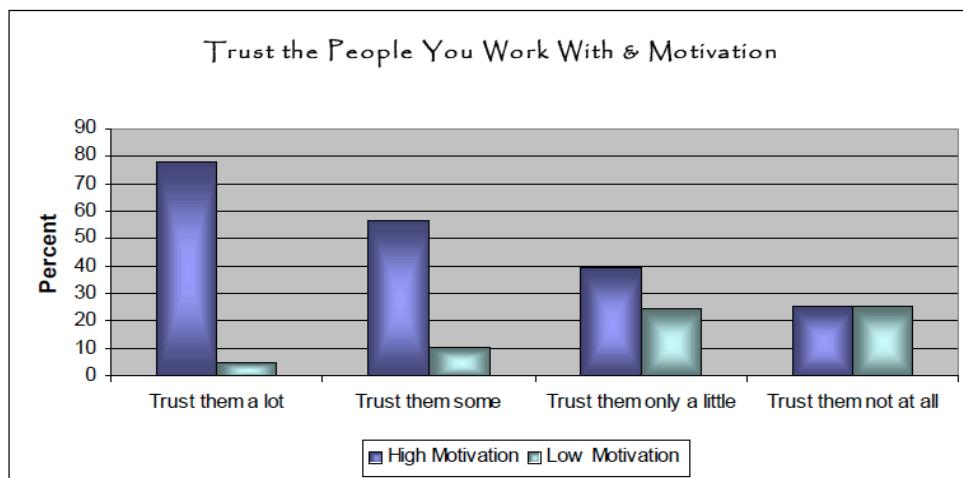
insurance, free tickets to gym, concerts and vacations, etc. All these can increase employees commitment and loyalty to organization;

- Performance-related pay – It rewards great employees that reach established targets, but it can be a harmfully to the organization by increasing competition that will destroy team working projects;
- Profit sharing – It means that employees receive a percentage of the organization's profit. This should improve loyalty to the company between employees, but often this part of the profit is too small to encourage employees increasing productivity;
- Share ownership – Up to their possibilities, employees may buy shares from the organization and so to become shareholders to it. This is indeed an effective financial motivation for employees that will determine them to work harder, but often this opportunity is available only for senior managers, so this can cause resentment among other staff.

But also non-financial motivation can increase productivity like: job enrichment, job enlargement or delegating routine and simple tasks, congratulations in public and team working.

"An individual's motivation is important because greater motivation leads to increased productivity, while diminished motivation leads to less productivity. Increased motivation on the part of employees can also lead to better alignment with the vision within the organization, which can result in organization-wide improvements in efficiency and effectiveness" (CCL, 2009). Here were determined trust in people respondents work with (Figure 9) and in their manager (Figure 10) and according to these their motivation.

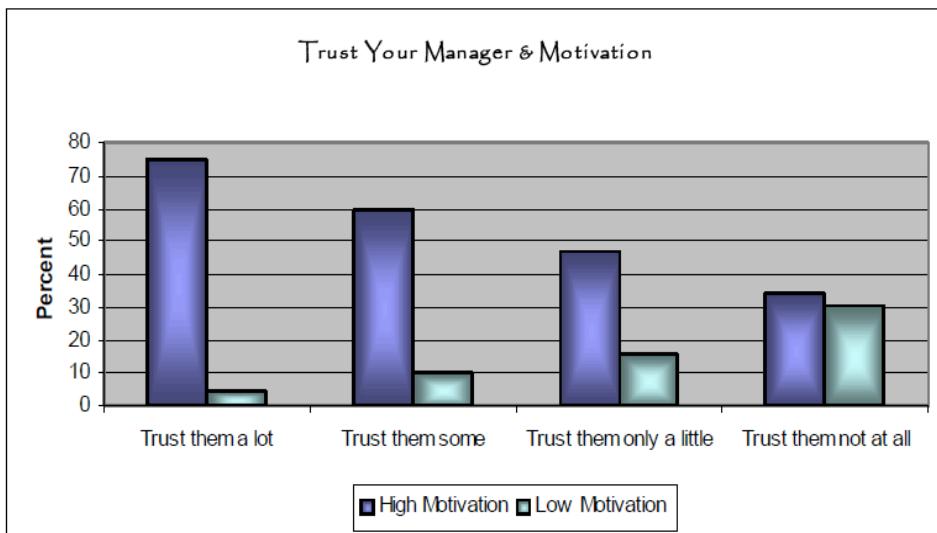
**Figure 9. Trust the people you work with & Motivation**



Source: *The World Leadership Survey, January, 2009*

Results revealed that those who trust the people they work with are more likely to say they are motivated than are those with lower levels of trust. This is true for all regions, all levels, and all ages.

**Figure 10. Trust your manager & Motivation**



Source: *The World Leadership Survey, January, 2009*

The results show that those who trust their manager are more likely to say they are motivated than are those with lower levels of trust. This is true for all regions, all levels and all ages.

Trust is one of those things that is earned and not given freely. Gaining someone's trust is something that comes with time and proven loyalty. To earn trust, a leader must prove his level of honesty. Respect goes hand in hand with trust. Without it, there can be no trust.

Here are some advices for leaders in gaining and maintaining trust (Heller, R., 1999):

- If promises are made, they should always be kept.
- Going behind people's backs is not permissible.
- People should be kept fully informed of anything that might directly affect them.
- Performance should be judged and rewarded fairly.

The first job of any leader is to inspire trust, said Steven Covey and recognized as one of Time Magazine's 25 most influential Americans, an internationally respected leadership authority, family expert, teacher, organizational consultant and author, his advice has given insight to millions. "Trust is confidence born of two dimensions: character and competence. Character includes your integrity, motive, and intent with people. Competence includes your capabilities, skills, results, and track record. Both dimensions are vital", said Steven Covey. He has identified 13 common

behaviors of trusted leaders around the world that build and allow maintaining trust ([www.leadershipnow.com](http://www.leadershipnow.com)). These are:

- **Character behaviors:**

1. Talk Straight
2. Demonstrate Respect
3. Create Transparency
4. Right Wrongs
5. Show Loyalty

- **Competence behaviors:**

6. Deliver Results
7. Get Better
8. Confront Reality
9. Clarify Expectation
10. Practice Accountability

- **Character and competence behaviors:**

11. Listen First
12. Keep Commitments
13. Extend Trust

Gaining organizational trust is a key leadership skill, because trust is difficult to build, but it is easy to lose. Every leader must work hard for gaining his followers trust and then in finding ways of showing people that he trust them to act effectively.

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