

University of Bucharest

The word "Manager" is written in a bold, cursive script. A thick, black horizontal line, resembling a pen stroke, is drawn across the top of the letters, starting from the 'M' and ending at the 'r'.

No. 21 ~ 2015

---

Faculty of Business and Administration

- new series -

## EDITORS

**VIOREL CORNESCU**, *University of Bucharest, Romania*

**PAUL MARINESCU**, *University of Bucharest, Romania*

## ASSOCIATE EDITORS

**CĂTĂLINA BONCIU**

*University of Bucharest, Romania*

**ION BUCUR**

*University of Bucharest, Romania*

**MARIN BŪRCEA**

*University of Bucharest, Romania*

**ELENA DRUICĂ**

*University of Bucharest, Romania*

**ROMIȚA IUCU**

*University of Bucharest, Romania*

**RĂZVAN PAPUC**

*University of Bucharest, Romania*

**MAGDALENA PLATIS**

*University of Bucharest, Romania*

**DIANA POCIOVĂLIȘTEANU**

*Constantin Brâncuși University, Târgu-Jiu, Romania*

**GHEORGHE POPESCU**

*Academy of Economic Studies, Bucharest, Romania*

**ION POPA**

*Academy of Economic Studies, Bucharest, Romania*

**MIHAI ROMAN**

*Academy of Economic Studies, Bucharest, Romania*

**STELIAN STANCU**

*Academy of Economic Studies, Bucharest, Romania*

**SORIN-GEORGE TOMA**

*University of Bucharest, Romania*

**DINU VASILE**

*Academy of Economic Studies, Bucharest, Romania*

**MARIAN ZULEAN**

*University of Bucharest, Romania*

**VLADIMIR-CODRIN IONESCU**

*University of Bucharest, Romania*

**OANA SIMONA HUDEA**

*University of Bucharest, Romania*

**ANCA MONICA ARDELEANU**

*University of Bucharest, Romania*

## EDITORIAL ADVISORY BOARD

**RUTH ALAS**

*Estonian Business School, Estonia*

**LUCIAN - LIVIU ALBU**

*Institute for Economic Forecasting, Romanian Academy*

**AMOS AVNY**

*Omnidev International, Israel*

**MARIUSZ BEDNAREU**

*Akademia Podlaska w Siedlcach, Poland*

**JOHN BRINKMAN**

*Liverpool Hope University, United Kingdom*

**AMNON CASPI**

*Bar Ilan University, Israel*

**MĂRIOARA IORDAN**

*Institute for Economic Forecasting, Romanian Academy*

**KATSUTOSHI KUOKAWA**

*Okayama University Japan, Japan*

**VIDOSAV MAJSTOROVICH**

*University of Belgrade, Serbia*

**SHINJI NARUO**

*Japan International Cooperation Agency, Japan*

**MYRVETE PANTINA**

*University of Prishtina, Kosovo*

**MASAHITO TAGUCHI**

*Okayama University Japan, Japan*

**BOGUSTAWA TERESA STANCZESKA**

*Akademia Podlaska w Siedlcach, Poland*

**ANGEL TEJADA PONCE**

*Universidad de Castilla-La Mancha, Spain*

**DANIEL TEODORESCU**

*Emory University, Atlanta, USA*

## EDITORIAL OFFICE

**IONUȚ CONSTANTIN**, *University of Bucharest*

**MICHAEL-GEORGE CONSTANTIN**, *University of Bucharest*

**COSMIN-CĂTĂLIN OLTEANU**, *University of Bucharest*

The next issue topic:

**Manager no. 22** - Education, leadership, management and anteprenorial spirit

Faculty of Business and Administration

**MANAGER JOURNAL**

May 2015

© **Manager**

<http://manager.faa.ro>

[manager@faa.ro](mailto:manager@faa.ro)

## TABLE OF CONTENTS

### *~ Leadership and Strategy in the context of Changing Power Poles ~*

<i>Editorial</i> .....	5
<b>ANCA MITU, CONSTANTIN-ADRIAN BLANARU</b>	
~ Crediting analysis in Romania after accession.....	7
<b>CRISTINA RALUCA POPESCU, VERONICA ADRIANA POPESCU</b>	
~ Phases and Actions of the Evolution of the Concept of Quality in Canada and Australia – A Theoretical Modelling of the Development of Knowledge in Business Performance in the XXI Century - The Approach to Excellence.....	18
<b>CRISTINA RALUCA POPESCU, GHEORGHE N. POPESCU</b>	
~ The Assessment Methodology RADAR – A Theoretical Approach of a Methodology for Coordinating the Efforts to Improve the Organizational Processes to Achieve Excellence.....	27
<b>CRISTINA CĂLUGĂRU</b>	
~ The virtuous circle and the vicious circle in managerial training investment.....	34
<b>ELISEI CRĂCIUN</b>	
~ Human Capital - A Quality Factor For The Competitiveness Of IT Companies.....	44
<b>CRISTIAN GHEORGHE IACOB</b>	
~ Toxic economy - interferences with recent Romanian experience.....	52
<b>CRISTIAN GHEORGHE IACOB</b>	
~ The difference between lending interest rate and funds interest rate. Link with sustainable banking. Particularities of Romanian Market.....	60
<b>VLADIMIR-CODRIN IONESCU, VIOREL CORNESCU</b>	
~ The Dynamics of Romanian SMEs within the European Context.....	68
<b>VLADIMIR-CODRIN IONESCU, VIOREL CORNESCU</b>	
~ Innovation in Organizations.....	78

<b>IONUȚ MIRCEA</b>	
~ Macroprudential policies on banking system.....	86
<b>CAMELIA COJOCARU, SILVIU COJOCARU</b>	
~ Leadership in technology. SMURD: a telemedicine case study.....	106
<b>IONUȚ MARIUS CROITORU</b>	
~ Union banking a step towards achieving fiscal Union in the European Union.....	114
<b>ANDREEA DANA TUDOSE</b>	
~ Analysis of the growth poles in esthetic dentistry.....	125
<b>PAUL MARINESCU, SORIN-GEORGE TOMA</b>	
~ Unconventional Leadership.....	135
<b>SORIN-GEORGE TOMA, PAUL MARINESCU</b>	
~ Strategy and change.....	145
<b>MIHAI CONSTANDEL MIRCEA, ZEININGER LUISE</b>	
~ An organisational approach to simultaneously prove high autonomy and high alignment.....	151
<b>ADRIAN MAJURU, ANA MARIA GRIGORE</b>	
How To Build a Leader?.....	161
<b>CĂTĂLIN GRĂDINARU</b>	
~ Tangible and Intangible Within The Organization's Potential.....	170
<b>CĂTĂLIN GRĂDINARU</b>	
~ Cognitive Evolution and Revolution.....	175
<b>VALERIU IVAN</b>	
~ Leadership vs. Management From Competitive Intelligence Perspective.....	180
<b>COSMIN OLTEANU</b>	
~ Leadership and New Technologies. New Security Issues for Management of Internet Connectivity and Remote Control in Automotive Industry.....	194
<b>COSMIN OLTEANU</b>	
~ Mobile Connectivity and Security Issues for Cloud Informatic Systems.....	199

## *The cause and effect relationship between certainties and uncertainties*

*We are witnessing a wave of mergers and acquisitions both in terms of business value and alliances concluded globally. The increasing number of mergers and acquisitions is a result of globalization that creates market opportunities, contributes to the reduction in barriers to entry into markets, facilitates networking technologies, and expedites communications restructuring. From this perspective, mergers and acquisitions are now considered corporate strategies causing global changes, influenced therewith by these changes. The combination of these factors and the global trend towards privatization have fostered and sustained the greatest economic expansion and the stock market boom. Companies recur to strategic alliances in order to secure a strategic balance in the market. Merger decisions are often influenced by the potential that is offered by synergies when a variety of skills converge to ensure: the generation of new sets of activities and that of financial economies of scale, an increase in operational efficiency through economies of scale, lower costs of capital by leveling cash flow, and a better link between investment opportunities and internal cash flows.*

*Unfortunately, global companies oftentimes provide standardized products that do not suit local or regional markets from a global marketing strategy.*

*The adaptation of these products to local markets would contribute to the rise in costs due to lower production. Clearly there is the urge to standardize production, abandoning product customization in favor of the customer. If the main concern is to increase profit, with no regard for the uniqueness of each individual, there is a risk of giving up the potential represented by human diversity.*

*Strategies at the local level will be replaced by strategies at the global level. The leaders will embrace them and this will either have favorable effects on society or not. The leadership, the type of strategy adopted, as well as the ability of each leader to showcase this strategy, in agreement or disagreement with the national strategies for development or security, could lead to consequences hard to predict, and even worse... they might bring about unmanageable consequences.*

*Prof. Ph.D. Paul Marinescu*



## Crediting analysis in Romania after accession

~ Ph. D. **Anca Mitu** (Romanian Academy, Bucharest, Romania)

E-mail: [anca\\_mitu@yahoo.com](mailto:anca_mitu@yahoo.com)

~ Ph. D. Associate Professor **Constantin-Adrian Blanaru** (Faculty of Economics, University "Petre Andrei" Iasi)

E-mail: [blanaruadrian@yahoo.com](mailto:blanaruadrian@yahoo.com)

**Abstract:** *In a time full of financial convulsions with deep repercussions on the world wide economies, crediting is one of the easiest and serious options in finding alternative solutions for economic recovery. Using Crediting as a tool for economic recovery must be supported by all decision-factors, but not in any circumstances. The perspective of economic development in the European Union also requires the observance of medium and long-term desiderates such as coagulated ones in the concept of sustainable development. The way in which crediting derives and its effects on sustainable development represents one of the followed ways in any market economy in order to obtain the desired effects, not only economic, but also social and environmental.*

**Key words:** development, credits, regulating, surveillance, financial market.

## 1. Motivation

The money dominance and the irresistible desire of their collecting led the world economy, in recent years, in the worst crisis in its history. Started as a financial crisis, it converted into something much larger, a generalized economic crisis, long-lasting, which will radically change the face of the world. The dimensions of the crisis are global. Past crises were geographically limited, affecting countries or regions, but never financial systems from most countries in the same time.

In fact, where this generalized crisis has started? Many authors consider (rightly) that financial institutions have the most important fault. And this starting from the introduction in market of new financial innovations irregular enough that caused major lack of balances in financial investment activities.

The severe financial crisis has shaken another paradigm of development in all domains - sustainable development. The strong need for financial resources in this period fits difficult in the broader context of sustainable development which assume an inclination also to the needs of others, especially future generations.

The sustainable development model suggest a long-term balance between the economic objective of enhancing welfare through economic growth and social and environmental objectives. This concept is an response to crisis resources.

As innovator element on international plan is introduced banking system is among structures that can influence the success of sustainable development. It is clear that banks have a pivotal role in economic performance and in all forms of commerce and industry.

Although initially banks have

responded diffidence to the problems that sustainable development presented in the context of economic globalization and internationalization, banks have become increasingly aware of their role as intermediary, adapting dynamically internal policies and for crediting in order to create new products and services with sustainable component.

Is known that in economy the crediting has an essential role, especially in crisis period. Unfortunately the existing banks in Romanian banking system, majority with foreign capital (as is shown in this study) have been interested only of economical component from the triangle of sustainable development, accentuating exclusively increasing of banking performances and implicit the banking profit.

The last twenty four years have shown banks interest exclusively in increasing the number of the ones depended of credits, taking into consideration only economical performances criteria and not the social aspect or environmental one as is proceed in the basic countries.

Relaxed credit policy I could say that has been aggressively promoted in Romania in 2005-2009 (remember effervescence credits "with the bulletin") despite clear signals from international markets which attracted the attention of specialists that will enter a period of decline, unfortunately not knowing or being known only in limited circles magnitude of this recession.

We must admit that the overwhelming share of foreign capital in credit institutions in Romania has made us vulnerable to the crisis. But, as I said previously taking into account that that the Romanian financial market was a classic market, focusing on traditional instruments, the crisis would have



been much lower if we had a Romanian capital base much larger in financial institutions and much more strongly desire to come in market support not only in their own profits.

### 1.1. Market share and the number of credit institutions with foreign capital in Romania

If we analyze the market share and the number of credit institutions with foreign

capital in Romania, as shown from the table no. 1 National Bank Financial Stability Report (2013), is observed clearly very high degree of dependence on foreign capital Romanian banking market, compared to other EU countries.

We do not have to be fine specialists in financial analysis to observe that the share of foreign capital in total assets is very high in the countries of Central and Eastern Europe, precisely those countries after 1990 chose any

Table 1. Market share and the number of credit institutions with foreign capital in Romania - 2013 period

Country	Percentage(%) in total active of credit institutions with foreign capital	Credit institutions (branches and subsidiaries) with foreign capital (number)
Austria	27,16	64
Bulgaria	73,58	22
Czech Republic	92,68	38
Estonia	96,40	13
France	3,33	204
Germany	4,09	145
Greece	15,42	27
Italy	8,66	102
Latvia	61,32	16
Lithuania	94,43	12
Netherlands	10,17	62
Poland	61,93	56
Portugal	22,49	35
Slovakia	88,36	26
Slovenia	29,48	10
Spain	7,44	128
Hungary	58,13	27
Romania	90,00	34

Source: BNR, Financial Stability Report 2013 Monthly Bulletin June 2014

price mirage opening domestic markets without have a long-term strategy to protect the domestic market. It is clear that the most stable countries on the European level are also the countries with the lowest share of foreign capital - Germany (4.09), France (3.33).

Certainly do not contest that these two superpowers have strong financial entities that have consolidated their place in the panoply of leading positions in the world when referring to banking. But we can conclude without risk of error that a balance between foreign capital and domestic capital can make you less vulnerable to the international financial convulsions. Instead a share of over 90% of foreign capital can only expose you to a greater extent to the vicissitudes of the financial markets when you do not back a healthy economy, stable, productive. We find high rates and in the Baltic countries (Estonia - 96%, Lithuania - 94%), but their economies

are much stronger and can counterbalance the positive effects of the tsunami from the financial markets.

When we become partisans on equity through this not understand barriers to the foreign capital. As seen in the examples above, Germany has a total of 145 credit institutions with foreign capital, France - 204, but their share in total equity is reduced.

## 1.2. Structural indicators of the banking system in Romania

The stronger encourage of domestic owners could be a future solution to invest in local credit institutions to give a much stronger strength of the domestic banking system and therefore to the Romanian economy. In fact the structural indicators of the banking system in Romania (table no. 2) shows the same thing.

Table 2. Structural indicators of the banking system in Romania

Year	Number of credit institutions	Number of banks with major foreign capital	Percent (%) in total active of banks with foreign capital
2006	39	33	88,6
2007	62	36	88
2008	43	37	88,2
2009	42	35	85,3
2010	42	34	85
2011	41	34	83
2012	40	34	89,9
2013	40	34	90,0
2014*	40	34	90,2

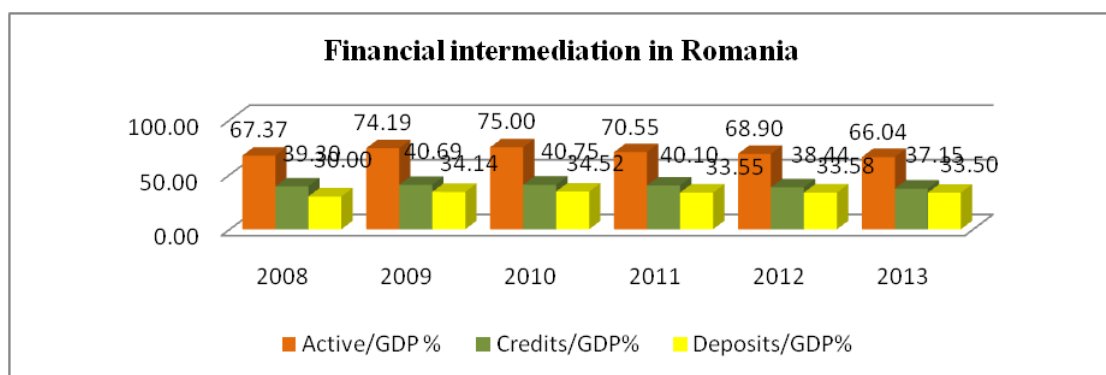
\* jun. 2014

Source: BNR, Financial Stability Report 2013 Monthly Bulletin June 2014

### 1.3. Financial intermediation in România

The accentuated crisis in recent years, as was natural, led to a decrease in the level of financial intermediation in Romania (chart. 1).

Fig. 1. The graph of financial intermediation in Romania



\* jun. 2014

Source: Own calculations based on BNR, Dec.2008-Monthly Bulletin July 2014

## 2. Credits

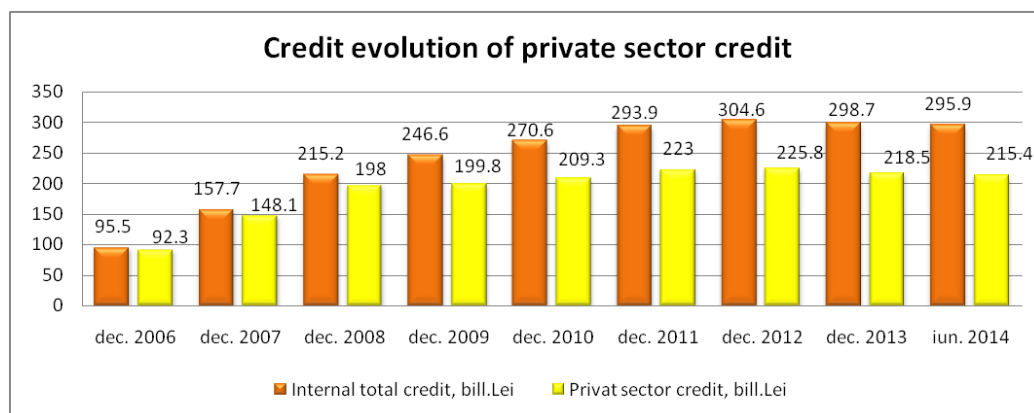
The involvement of banks in financial intermediation in Romania in recent years has become very shy, they prefer to focus more on portfolio management of existing credits of higher interest margins and fee and warrant transactions that do not involve substantial risks. There was no time showed a tendency to help a fragile economy, the economic agents are in temporary financial difficulties. In contrast, they were better and tougher filters that often lead including bankruptcy. We choose as an example for this affirmation transforming the majority of

credit lines (a very attractive product market operators) in simple credit conditions more restrictive but much clearer timetable.

Interesting to follow when analyzing credit market in Romania is the evolution of private sector credit eventually that the most urgent needs of funds, knowing that the public sector is a sector that we perpetually searched to get rid during the transition to a market economy.

The share of private credit to total internal credit declined in recent years, although the amount they have registered a rising trend (For example, see Fig. no. 2).

Fig. 2. Credit evolution of private sector credit



\* jun. 2014

Source: Own calculations based on BNR, Dec.2008-Monthly Bulletin July 2014

Unfortunately observe a decrease in the share of private sector credit. Financial firms have reacted in a selfish way I name the financial crisis, no longer fulfilling their traditional role of an entity to transfer a limited period amounts available to those who have financial surpluses to those who need the cash.

Against the background of excessive crediting period before they have provided for a very long time base of contributors, focusing only on the constraint during the crisis borrowers to pay off interest rates on time more often exorbitant and inconsistent with honorable market. We call these hazards in exorbitant interest.

It's enough to give the example of Provident, which provides market interest credits that are around 86% per year and is

more than clear that Romania is made not very clear distinction between the regulators in financial intermediation and usury.

Not so gentle are regulators when it comes to those who have returned money to financial institutions. Physical persons Bankruptcy Law is waiting for a long time to be implemented as functions in any civilized country. This bill would ruin games but financial institutions during the crisis persisted and still survive in significant percentage of credits extended with high interest.

Currency used in the credit agreement is very important in running a credit agreement. The situation in Romania shows that credits extended were preferred in foreign currency products which carry a high risk due to the involvement besides credit risk and currency risk.

Table 3. The evolution of private sector crediting by destination currency denominated and destination - percent, end of period

Period	T o t a l private credit, bil.. Lei	%	TOTAL CREDITS LEI								
			Short term			Medium term			Long term		
			Total	pop.	sc. nefin.	Total	pop.	sc. nefin.	Total	pop.	sc. nefin.
2006	92,3	52,7	19	2,4	16,1	15,2	8,9	5,9	18,5	13,5	3,8
2007	148,1	45,7	14	2,2	11,3	12,9	6,1	6,3	18,8	14,3	4,3
2008	198	42,2	12,9	2,1	10,4	11	4,9	5,7	18,3	13,6	4,6
2009	199,8	39,9	13,1	2,3	10,4	9,8	4,6	5	17,1	12,6	4,2
2010	209,2	37	12,3	2,2	9,8	9,2	4,1	4,8	15,4	10,9	4,4
2011	223	36,6	13,5	2	10,9	8,7	3,8	4,8	14,3	9,9	4,3
2012	225,8	37,5	14,8	2,2	12,2	9,8	4,6	5	12,9	8,4	4,3
2013	218,5	39	13,4	1,9	11,3	12,8	6,1	6,5	12,9	7,8	4,7
2014	215,9	42	14	1,8	11,9	14,7	7,1	7,3	13,3	8,2	4,9
Period	T o t a l private credit, bil. Lei	%	TOTAL CREDITS FOREIGN CURRENCY								
			Short term			Medium term			Long term		
			Total	pop.	sc. nefin.	Total	pop.	sc. nefin.	Total	pop.	sc. nefin.
2006	92,3	47,3	12,7	0,8	11,4	12,5	2,6	9,1	22,2	14,1	7,5
2007	148,1	54,3	9,9	0,4	9,3	10,9	1,8	8,4	33,4	23,5	9,6
2008	198	57,8	10,2	0,4	9,6	10,4	1,6	8,1	37,2	27,5	9,3
2009	199,8	60,1	9,9	0,4	9,3	10,2	1,6	8,3	40	28,8	10,9
2010	209,2	63	9,6	0,4	9,1	11,1	1,4	9,5	42,3	29,8	12,2
2011	223	63,4	10,1	0,6	9,4	11,1	1,2	9,6	42,1	29,2	12,7
2012	225,8	62,5	9,4	0,2	9,2	10,9	1,6	9,1	42,1	29,3	12,6
2013	218,5	60,9	8,2	0,2	7,8	10,7	1,5	9	42,1	29,7	12,2
2014*	215,9	58	7,3	0,2	2,8	10,6	1,4	9	40,1	28,4	11,6

\*jun 2014

Source: Own calculations based on BNR, Dec.2007-Monthly Bulletin July 2014

The differences between weight of credits in foreign currency and the national currency for the years analyzed, reveals a rate of over 60% for credits in foreign currency. These currencies used (euro, dollar, Swiss franc, Japanese yen) recorded during major fluctuations of the most serious repercussions on the stability and soundness of borrowers.

Eloquent example of the Swiss franc is promoted with a suspect insistence a long time by financial institutions as one of the safest currencies that experienced devaluations burdensome for those who have accessed a credit product in that currency.

Local financial market responsible had no reaction to the many complaints of affected

persons. In contrast to Romania, international institutions decided in favor of dissatisfaction Hungarian citizens who reported the same abuse. We wait to see if realistic position to affected consumers will be embraced by the financial authorities in Romania, in order to save the financial collapse of the many beneficiaries of such credits..

Financial institutions, with the indifference or absence of reaction weak of regulators acted exactly in the most vulnerable of the population. A population with a very low degree of economic culture, which was waved the illusion of a prosperous periods and was encouraged to into debt to the extreme, regulators are among those who increased the debt by reason of rallying international standards, but have not said a moment the truth.

Indebtedness in countries with stable economies and performance is backed by a respectable salary level that allows such coverage rate, while in Romania the salary often does not cover any basic needs of the population, not to mention living standards high. All the credits were supported by the overwhelming interest, combined with the credit agreements often overlooked unfair by control institutions and consumer market monitoring.

Until recently, protection of consumers in Romania was viewed as a factor of mice discovery in food not an instrument for control and monitoring of financial and banking market including market contracts perfidious much more bushy and full of clauses that would last a second in countries exhibiting normal care for citizens.

*Table 4. The main issues of a financial nature complained to the Consumer Protection -*

<b>Year</b>	<b>The main suppliers of financial services advertising, the order number of complaints</b>	<b>Issues claimed</b>
2009	BCR, RAIFFEISEN BANK, BRD, BANCA TRANSILVANIA, BANC POST, VOLKSBANK, OTP, PIRAEUS, ALPHA BANK, CEC BANK, ABN AMRO BANK	Charging fees that are not stipulated in the contract, interest rate hikes, lack of response to written request, issues the card transactions.
2010	BCR, VOLKSBANK, BANC POST, RAIFFEISEN, PIRAEUS, CEC BANK, BRD, ALPHA BANK, UNICREDIT, CARPATICA, BANCA TRANSILVANIA, EFG RETAIL, RBS BANK, PROVIDENT, CETELEM, TBI CREDIT, ING, MILLENIUM	Charging fees that are not stipulated in the contract, breach of OUG no. 50/2010, interest rate hikes, lack of response to written request, issues the card transactions, unfair terms in contracts, failure to issue money from the ATM, refuse to issue statements, contractual breach, failure currency displayed, account garnishment, imposition concluding insurance companies only agreed bank employee misconduct

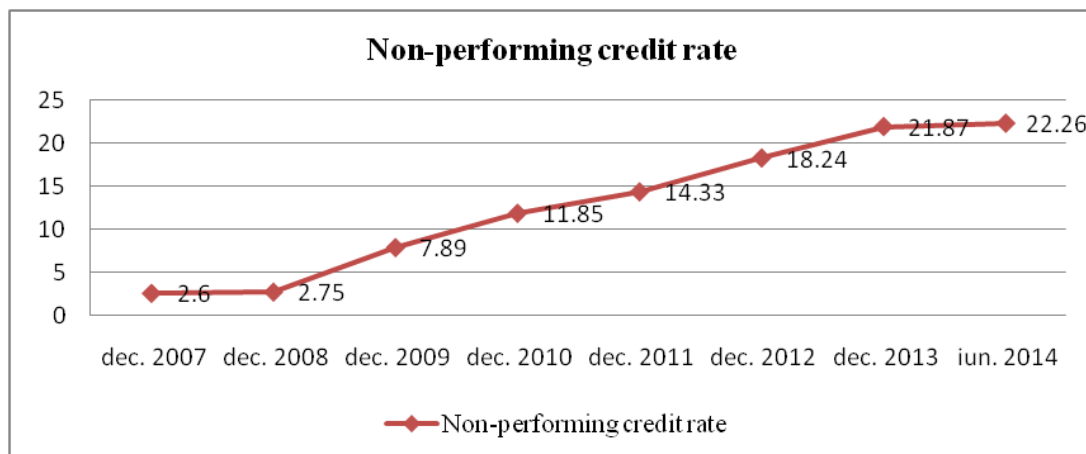
2011	BCR, VOLKSBANK, BRD, BANC POST, RAIFFEISEN, PIRAEUS, BANCA TRANSILVANIA, CEC BANK, BRD, ALPHA BANK, UNICREDIT	Interest rate hikes, unfair terms in contracts, no written response, calculating penalties for the account remained open after paying credit card transaction problems, card stuck in ATM breach enforcement procedures
2012	BCR, VOLKSBANK, RAIFFEISEN, BRD, BANK POST, BANCA TRANSILVANIA, EFG RETAIL	Interest rate hikes, unfair terms in contracts, calculating penalties for paying the loan account remained open after,
2013	BCR, VOLKSBANK, RAIFFEISEN, BRD, BANK POST, BANCA TRANSILVANIA, BANCA ROMANEASCA, EFG RETAIL, CETELEM	Charging fees that are not stipulated in the contract, interest rate hikes, lack of response to written request, issues the card transactions, unfair terms in contracts, failure to issue money from the ATM, refuse to issue statements, contractual breach, failure currency displayed, account garnishment, imposition conclusion only insurance companies approved by the bank employee misconduct, calculating penalties for the account remained open after paying the loan, communication of personal data to third parties, failure notification procedure established contractual refusals duplicate the contract

Source: County Office for Consumer Protection Iasi

Very few in number due to the high cost and involved legal action, these complaints played the role more to show the unseen face of the financial iceberg, an iceberg that swallowed without remorse to all those who have been provided to protect themselves when credit contracted. In fact, the Romanians have had too much confidence in institutional regulators, regulators, which unfortunately were not those who were entitled to receive support cause, in this case the citizens.

The natural consequence of human contracts promoted by financial institutions crediting was increasing the nonperformance, and implicitly foreclosures. As shown in the chart below (chart 3). Increased from one year to performing credit ratio and unfortunately it will further increase just because of the excessive use of long-term credit.

Fig. 3. Nonperforming credit rate



\*mar 2014

Source: Monthly Bulletin December 2013 Financial Stability Report 2013, Bulletin Month June 2014

### 3. Conclusions

What we consider that is missing?

The existence of clear standards and rules of application precise and also absence of repressive measures discouraging financial firms violate any rights of the client and just looking to trick him latter. Precisely for these reasons foresee the need regulations as clear and concise financial services. Such regulations are designed to maintain a balance in the market and attract investors honest, to be and they also protected against competition.

Imposing regulations must be supported not only national but international general application.

It is important that these rules be followed and their application in each state and deviations when signals are set clear measures of redress, correction and penalty of that State. We must look at existing and applying rigorous regulations globally, not as a favor to consumers, but as a prerequisite for carrying out serious and honest investment,

sustainable, to ensure proper functioning and development of both private entities and the economies in general and not least the personal welfare of each consumer.

However, supervisors' institutions should introduce standards for assessing the banking market and the role of banks binder and potential environmental and social components alongside existing component, the economic.

We can not sit idly by in ignorance, we say knowingly, from the banking institutions of the two components and focusing only on profit at any cost. We believe that through the efforts of Real EU to encourage green growth and protection of disadvantaged groups, and Romanian banking system should be regulated so that credits be made taking into account the development needs of the economy not only of financial interests behind banking institutions. Banks are not interested to act alone in favor of this goal, they having only one target - profitability. The lever regulators, Romania may require banking institutions to



be guided by the same principles that function in countries of origin, destroying impression of a no man's land perpetual Romanian market of financial services.

### Acknowledgements

This paper has been realized with the support of Gheorghe Zaman, Ph.D.,

Professor, Corresponding Member of the Romanian Academy Scientific Researcher I, Institute of National Economy, Romanian Academy. I thank also to entire collective for positive suggestions.

---

### REFERENCES:

1. Clark, T., Woodley, R., De Halas, D., 1962. Gas-Graphite Systems, in "Nuclear Graphite". In: Nightingale, R. (Ed.). Academic Press, New York, pp. 387.
2. Berca, A., 2010, *Crizele economice și cîlcitatea lor*, Editura Semănătorul.
3. Dănilă, N. 2011, "Sistemul Bancar din România – pilon de bază al sistemului financiar", Conferința Constanța, Septembrie, site BNR.
4. Gavin, M.; Hausmann, P. , "The Roots of Banking Crises: The Macroeconomic Context, Inter –American Development Bank", Office of the Chief Economist Working Paper.
5. Pelinescu, E. (coord), 2009, „Impactul politicilor de creditare asupra economiei românești”, Editura PIM Iași.
6. Zaman, Gh., 2013, „Aspects and trends of crediting the Romanian economy in lei and foreign currency during the pre-and post-accession periods”, Romanian Journal of Economics, Anul XXIII, Vol.36, Nr 1(45) .
7. Zaman, Gh.; Goschin Z., 2010, „Multidisciplinaritate, interdisciplinaritate și transdisciplinaritate: abordări teoretice și implicații pentru strategia dezvoltării durabile postcriză”, Economie teoretică și practică aplicată, Volumul XVII, No. 12(553).
8. Zaman, Gh.; Geamănu, M. (2006), "Eficiența economică", Editura Fundației România de mâine, București.
9. Zaman Gh, Gherasim Z., (2007), "Criterii și principii ale dezvoltării durabile din punct de vedere al resurselor acesteia", Buletinul AGIR nr. 1/2007 , ianuarie-martie.
10. Zaman, Gh.; Geamănu, M. (2006), "Eficiența economică", Editura Fundației România de mâine, București.
11. \*\*\* 2010-2013, "Raport asupra stabilității financiare", BNR.
12. \*\*\* dec.2007-iul.2014, "Buletin lunar BNR".
13. \*\*\* [www.bnr.ro](http://www.bnr.ro) Site-ul Băncii Naționale a României
14. \*\*\* [www.finantistii.ro](http://www.finantistii.ro)

# Phases and Actions of the Evolution of the Concept of Quality in Canada and Australia – A Theoretical Modelling of the Development of Knowledge in Business Performance in the XXI Century - The Approach to Excellence

~ Ph. D. Associate Professor **Cristina Raluca Popescu** (*The Bucharest University of Economic Studies, Bucharest, Romania*)

E-mail: [popescu\\_cr@yahoo.com](mailto:popescu_cr@yahoo.com)

~ Ph. D. Associate Professor **Veronica Adriana Popescu** (*Commercial Academy of Satu – Mare, Satu – Mare, Romania and The Bucharest University of Economic Studies, Bucharest, Romania*)

E-mail: [popescu\\_va@yahoo.com](mailto:popescu_va@yahoo.com)

**Abstract:** In the paper “Phases and Actions of the Evolution of the Concept of Quality in Canada and Australia – A Theoretical Modelling of the Development of Knowledge in Business Performance in the XXI Century - The Approach to Excellence” the authors present the basic features of the phases and actions of the evolution of the concept of quality in Canada and Australia, as a theoretical modelling of the development of knowledge in business performance in the XXI century in order to improve the organizational processes so that excellence can be achieved.

**Key words:** business process management, quality, modelling, knowledge, business performance, excellence, Canadian model of excellence, Australian model of excellence

## 1. Introduction

Performance Management Excellence models are structures supporting organizations in shaping initiatives in choosing appropriate strategies and their implementation through a systematic approach, whose final objective is to continuously improve the performance of organizations.

Models of excellence aim is to identify excellent organizational management practices that contributed to the tie between them, all based on a set of concepts or core values together in a model of "excellence". Over time, practices have evolved to such an extent that they became global utility models illustrating how to operate an organization to achieve a high level of performance on his way to results maintained at its best.

"Excellency" refers to outstanding performance achieved and express a high level of confidence in the organization has achieved. Today excellence is required not only by economic, but also by non-profit organizations such as schools, universities, hospitals, government, etc.

There are many countries that have developed over time through sustained efforts, their own models of excellence, then using them as structures in a process of assessing and recognizing performance in organizations through special programs that grant awards recognition of the value and performance.

Internationally, the most popular models of excellence that provides an appropriate framework to support the adoption of the principles of business excellence and develop an efficient method for evaluating the manner in which these principles were embedded, we can mention:

- The Japanese - resulted in CWQC principles (Company Wide Quality Control based on enterprise-wide quality control);

- The American - resulted in the criteria for the Malcolm Baldrige Quality Award American applied in over 25 countries, both in the US and in New Zealand;

- The European model - resulted in the European Quality Award criteria;

- The Canadian - translated into Canadian Quality Award criteria;

- The Australian - resulted in the Australian Quality Award criteria.

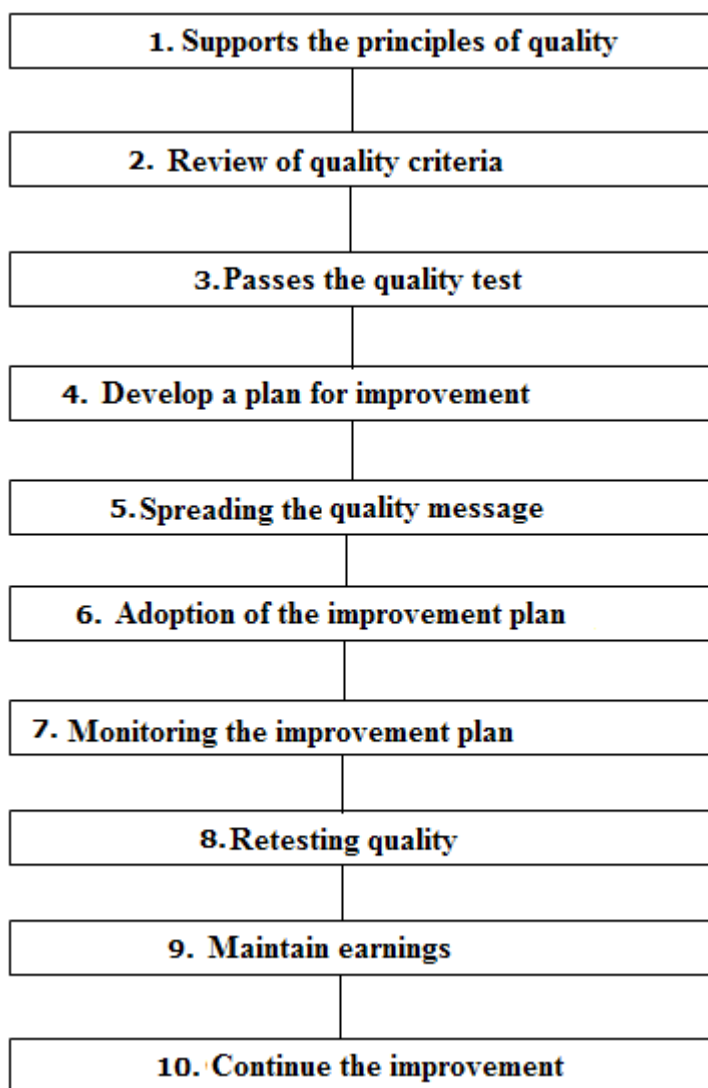
The model of Canadian organizational excellence (CAE) introduced by the Ministry of Industry in 1984: "Canadian Award for Business Excellence". To reflect the concept of MBNQA criteria and program were revised so that in 1989, the Canadian Quality Award was launched by the National Quality Institute rewarding practical concerns of companies of continuous quality improvement.

ABEF Australian model of organizational excellence, developed in 1987, is in turn one of the first four models of organizational excellence that have become recognized worldwide (Australian Business Excellence Awards 2012, Standards Australia International Ltd.). The model defines a set of criteria and practices that facilitate the identification of high-performance organizations.

## 2. The model of Canadian organizational excellence (CAE) and the Roadmap for Excellence – a theoretical approach

Instead of some specific criteria, the quality Canadian Award is based on a continuous improvement guide called "Roadmap for Excellence" (see Figure no. 1: "The Roadmap for Excellence").

Figure no. 1: "The Roadmap for Excellence"



Source: Adapted from the Canadian model of management excellence – "The Roadmap to Excellence" (Vokurka, 2000)

The Canadian model of organizational excellence (CAE) (Vokurka, R.J., Stading, G.L., Brazeal, J., 2000), has as main objectives the following (see Figure no. 2: "The Canadian model of excellence CAE - structure and basic criteria"):

**a) Leadership:** mainly focused on the strategic dimension of the organization, taking into consideration the degree of involvement of top management to continuously improve the management process to achieve the best results;

**b) Focus on the customer:** it means focusing on total customer satisfaction, and in this respect there is a specific concern regarding the identification of customer expectations, the results being permanently measured by proper management of client relationships;

**c) Planning:** implicates to monitor the development process is performed, evaluation, implementation, improvement and verification of results.

**d) Process Management:** focuses on how to operate to intervene in the organization's strategic directions aimed at insurance practices and continuous quality

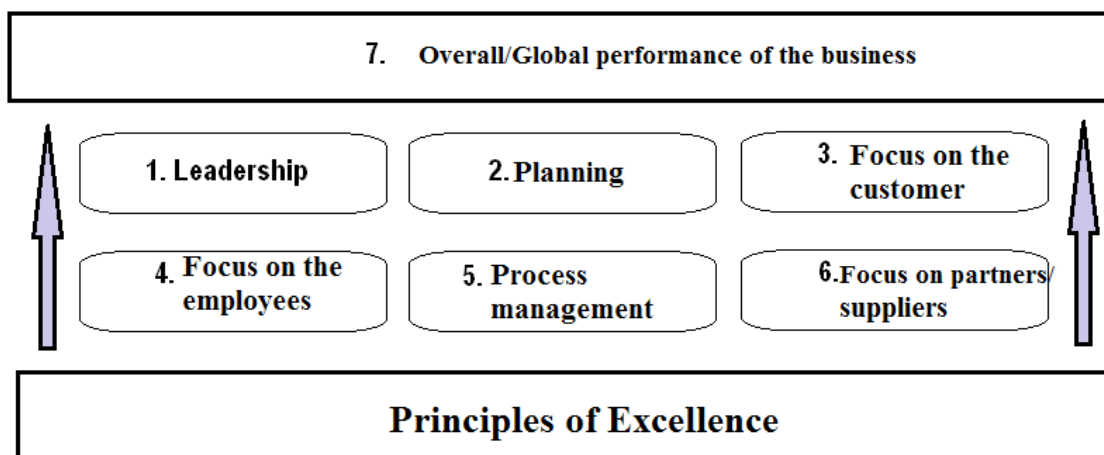
improvement, defining, monitoring, control and process improvement.

**e) Focus on suppliers/partners:** monitor how the organization develops, maintains and consolidates its relationships and partnerships, and how to deal with critical issues that may arise between them and the organization.

**f) Focus on employees:** focus on human resources development, a key factor in achieving its objectives and organizational excellence. Creating and maintaining a working environment in which staff are motivated enough so as to utilize their full potential, being concerned for continuous improvement training involves a constant concern for employees and makes them responsible and accountable for how perform their duties.

**g) Organizational Performance (Process Management)** is reflected in the overall result of the effort of continuous improvement in all areas, namely: financial performance, performance products/services, employee satisfaction, customers and markets, operating results.

Figure no. 2: "The Canadian model of excellence CAE - structure and basic criteria"



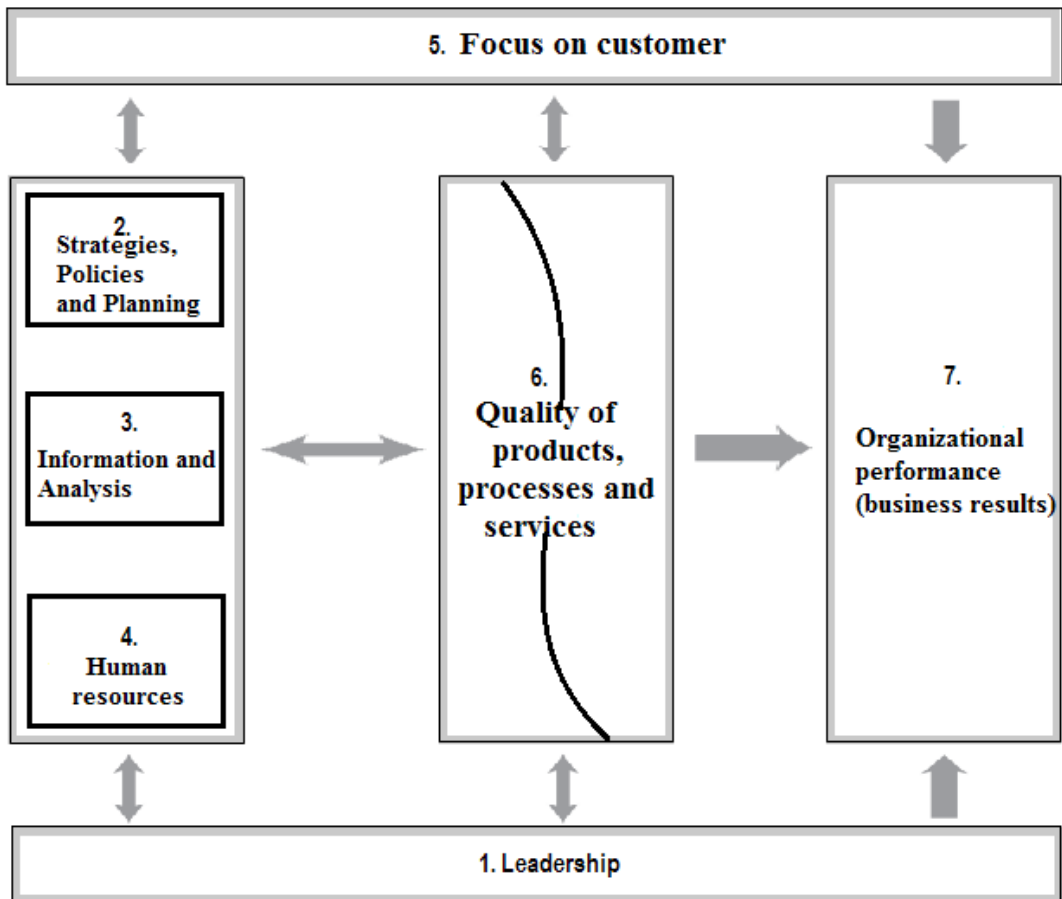
Source: Adapted from the Canadian CAE Excellence Model - National Quality Institute

### 3. Phases and actions of the evolution of the concept of quality in Australia

ABEF Australian model of organizational excellence, developed in 1987, is in turn one of the first four models of organizational excellence that have become

recognized worldwide (Australian Business Excellence Awards 2012, Standards Australia International Ltd.). The model defines a set of criteria and practices that facilitate the identification of high-performance organizations (see Figure no. 3: "Australian model quality criteria (ABEF)").

Figure no. 3: "Australian model quality criteria (ABEF)"



Source: Adapted from quality Australian model (ABEF) – Australian Quality Criteria Framework; "A comparative analysis of national and regional quality awards" – Robert J. Vokurka, Gary L. Stading and Jason Brazeal, 2000 <http://www.forms.texas-quality.org/SiteImages/125/Reference%20Library/Comparing%20Quality%20Awards.pdf>

Companies in Australia, in process management, business excellence model is used, take into account:

- ▶ Improving management practices and leadership;
- ▶ Evaluating the performance of management and leadership;
- ▶ Construction of these results in strategic planning processes and
- ▶ Determining the position of the organization in terms of market and competition.

The Australian excellence framework enables companies in their business initiatives can be integrated into coherent systems and organizational cohesion that can transform based on and consistent efforts, a model for all other companies.

The Australian model of organizational excellence (Australian Business Excellence Framework - ABEF) addresses continuous improvement processes using the methodology ADRI.

Over time, the Australian Business Excellence model has undergone many stages of development, one of which is represented by a significant change in the approach, moving from focusing more on the customer ("Customer & Market Focus") paying special attention to both customers and all other stakeholders "Customers & Other stakeholders" (customers & Other stakeholders - GB.002-2011 (The Australian Business Excellence Framework (GB.002-2011) - Global Limited, 2011; <http://infostore.saiglobal.com/store/Details.aspx?ProductID=1499769>) - (IAS, 2007) (SAI Global Ltd, Sydney, Australia, <http://www.saiglobal.com>)).

The Australian model of organizational excellence ("Australian Business Excellence

Framework" - ABEF) is based on 12 principles of management and a set of seven evaluation criteria.

The 12 principles underlying the model were studied ABEF specialists idea to reassess in the business excellence model. For example, after interviewing users (2004), 68% appreciated the principles as "very useful" or "essential" in the evaluation process. A majority of users (71.7%, or 33 of the 46 respondents), appreciated the fact that the 12 principles were too many, while 69.6% of users considered "essential" or "very important" that the principles should be formulated in a manner allowing to be catchy. (SAI Global, 2004)

Australian model of organizational excellence principles are:

**1) Direction:** allow organizational alignment according to clearly defined lines of action, focusing on the objectives;

**2) Planning:** Action Plans mutually agreed with stakeholders are translated into strands and transformed into effective operational components;

**3) Customers:** understanding the value customers who value both now and in the future will be influenced organizational direction, strategy and action, influencing the direction of action of the company;

**4) Processes:** to improve results, the system must be improved and associated processes;

**5) Personnel:** the potential of an organization is through people animated by the enthusiasm, innovation and participation;

**6) Learning:** the continuous improvement of training and innovation capacity depends on sustained permanent learning;

**7) The system:** people working in a system can improve the results when all focus exclusively on the system;

**8) Data:** efficient use of facts, data and knowledge leading to improved decisions;

**9) Variability:** variability presents all systems and processes that have an impact on predictability and performance;

**10) External Community organization:** organizations through their actions help ensure that companies clean, safe, fair and prosperous, contributing to community well-being offering its value;

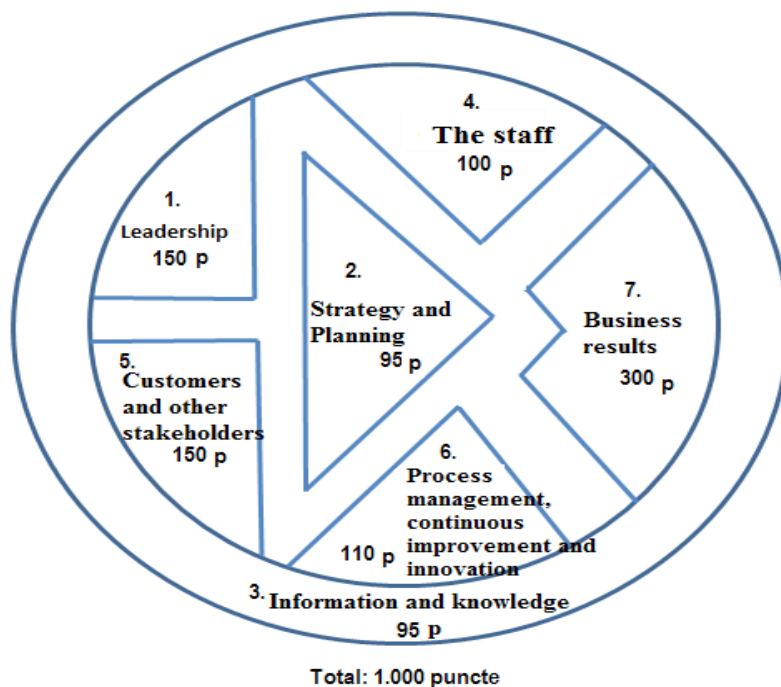
**11) Stakeholders:** Sustainability is determined by the capacity of organizations to create and deliver value to all stakeholders;

**12) Leadership:** role of top management is to shape the permanent principles and create an environment suitable for organizational excellence to implement these principles, aspect necessary to reach true potential.

In the same survey, 87% of respondents - users ABEF model, found the number of the 7 criteria to be closer to reality. On the other hand, 80.4% (ie, 37 of 46 respondents) said they knew all seven criteria, while 11% said they knew "most of the criteria", indicating that they were already familiar with them.

The 7 criteria considered useful in evaluating the performance of business processes are listed below, as represented in Figure no. 4: The Australian Business Excellence (ABEF) - structure, basic criteria and their percentages (see Figure no. 4: The Australian Business Excellence (ABEF) - structure, basic criteria and their percentages):

Figure no. 4: The Australian Business Excellence (ABEF) - structure, basic criteria and their percentages



Source: <http://www.saiglobal.com/business-improvement/solutions/excellence-conference-awards/apply-for-award/2012-Awards-Application-Guidelines.pdf>

<http://www.saiglobal.com/Improve/ExcellenceModels/BusinessExcellenceFramework/>



**1) Leadership and Innovation:** focuses on how to define strategic directions, organizational culture, leadership course at the operational level, the contribution to the community and the environment;

**2) Strategy and planning processes:** evaluation focuses on the understanding of the business environment, the key planning processes, the development and use of resources;

**3) Data, information and knowledge:** assess the collection and interpretation of data and information, integration and use of knowledge in decision-making, based on a knowledge management process;

**4) Staff:** assesses how staff involved in achieving the organization's objectives, how to develop staff through training, but also how conditions are ensured health and safety at work for the organization's staff;

**5) Customers and market:** identifying markets and customer requirements, insofar as it satisfies the customer on the value and quality that they expect, and how to manage the customer relationship management;

**6) Processes, Products and Services:** focus on process management innovation processes, the management and improve product quality and services;

**7) Business results:** enhances the performance in relation to indicators of success and sustainability.

The ABEF can be, just like the other models of organizational excellence alternative solutions such as ISO 9001, business process reengineering (BPR), and so on.

#### 4. Conclusions:

To excel in business means being better than the other competitors, particularly

through performance management, financial, quality, thus highlighting both the situation of an organization performing the superlative way and all the factors due to which it has come to excel.

"Business excellence" highlights a complex system of performance appraisal which gives the organization a maximum level of credibility in the market. Evaluated and compared with well-defined benchmarks, the performance achieved by an organization can determine a "business excellence", its specific. Moreover, to achieve public recognition of the excellence award is made by the quality attributed to the fulfilment of a complex set of criteria and performance evaluations conducted in the most discerning and transparent way possible.

All of criteria and sub-criteria of reference that can quantify global ensemble performance of an organization, consisting of both the drivers and the practical results thereof, may obtain coveted ensure quality, which is the attribute of the business excellence model.

#### Acknowledgment:

This paper was co-financed from the European Social Fund, through the Sectorial Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/138907 "Excellence in scientific interdisciplinary research, doctoral and postdoctoral, in the economic, social and medical fields – EXCELIS", coordinator The Bucharest University of Economic Studies.

## REFERENCES:

1. **Vokurka, R.J., Stading, G.L., Brazeal, J.** (2000), *A Comparative Analysis of National and Regional Quality Awards*, Quality Progress, August, pp. 41-49.
2. \*\*\* The Australian Business Excellence Framework (GB.002-2011) - Global Limited, 2011;
3. <http://infostore.saiglobal.com/store/Details.aspx?ProductID=1499769>
4. \*\*\* Australian Business Excellence Awards 2012, Standards Australia International Ltd.
5. \*\*\* SAI Global Ltd, Sydney, Australia. În anul 2005, SAI Global Ltd. a fost singura organizație privată care utiliza modelul ABEF - ("Australian Business Excellence Framework") - <http://www.saiglobal.com>

# The Assessment Methodology RADAR – A Theoretical Approach of a Methodology for Coordinating the Efforts to Improve the Organizational Processes to Achieve Excellence

~ Ph. D. Associate Professor **Cristina Raluca Popescu** (*The Bucharest University of Economic Studies, Bucharest, Romania*)

E-mail: [popescu\\_cr@yahoo.com](mailto:popescu_cr@yahoo.com)

~ Ph. D. Professor **Gheorghe N. Popescu** (*The Bucharest University of Economic Studies, Bucharest, Romania*)

E-mail: [popescu\\_gh\\_cafr@yahoo.com](mailto:popescu_gh_cafr@yahoo.com)

**Abstract:** *In the paper “The Assessment Methodology RADAR – A Theoretical Approach of a Methodology for Coordinating the Efforts to Improve the Organizational Processes to Achieve Excellence” the authors present the basic features of the assessment methodology RADAR that is designed to coordinate the efforts to improve the organizational processes in order to achieve excellence.*

**Key words:** business process management, assessment methodologies, RADAR methodology, organizational processes, quality, performance, excellence

## 1. Introduction:

The items with major impact in the modern approach to quality strategy found in three elements that have brought significant changes in the modern era, internationally:

- The globalization of markets;
- The new technology, which is in a boom, driven by a variety of factors, including a role they have e-commerce and e-Business to Business market;
- The new business models characterized by excellence and transparency strongly supported the crucial role they have resources “intangible” (man-pawn mainly found in relationships with customers, partners and suppliers, intellectual capital, technology, know-how built the products, technologies, manufacturing or other economic links in the chain, top management).

Whatever the case, achieving excellence requires continuous improvement of quality management system in any organization are essential leadership, commitment and active involvement of management at the highest level. In turn, the management at the highest level within the organization has a duty to define models of excellence and performance measurement methods both individual and organizational structure of each part, in order to monitor and periodically determine to what as planned objectives within each structure have been met.

## 2. The Assessment Methodology RADAR – a theoretical approach

It is necessary to point out that for results' assessment EFQM Excellence Model

uses two techniques: the identification card direction (*Pathfinder Card*) and the RADAR logic (*RADAR Logic*) (*EFQM Excellence Model 2013* – <http://www2.efqm.org/en/PdfResources/EFQM%20Excellence%20Model%202013%20EN%20extract.pdf>).

Pathfinder is not a scoring tool; rather it is a series of questions to expect a quick response while the company is self-assessed. RADAR logic (*RADAR Matrix - Scoring Matrix*) is the method of assessment used to mark applications for European Quality Award (*Cătuneanu, V., 2003*). It can also be used by organizations wishing to use a score of benchmarking or other purposes.

Pathfinder Card is based on a series of questions intended to provide a quick response on company self-assessment process. The response reflects RADAR logic that lies at the heart EFQM Excellence Model. Although not a binding list, it has the advantage of providing guidance organizations rather on what measures should be taken into account to improve performance (*Chen, J.M., Tsou, J.C., 2003*).

The use of this instrument should be selected in the model criterion or area of interest and questions should be applied to the relevant results or section of the determinants. Improvement activity should focus on areas where gaps are identified. (*Can EFQM model be used to assess and measure them?*)

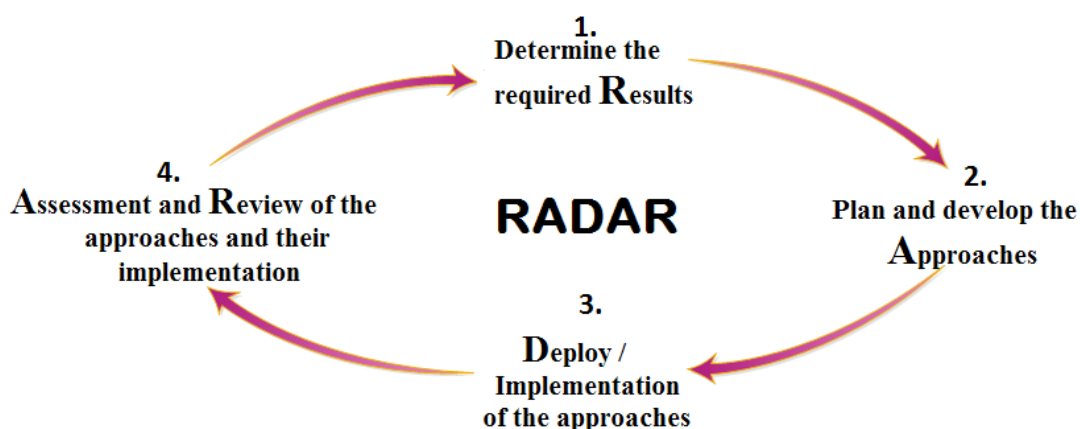
RADAR methodology is a dynamic and powerful tool for management and evaluation, which is the “backbone” supporting organization. The challenges facing the company must be addressed and overcome in order to turn aspirations into reality (*Ching-Chow, Y., 2010*), achieving sustainable excellence (<http://www.efqm.org/efqm-model/radar-logic>).

At the heart of the EFQM Excellence Model and the process of self-assessment is “logic” known as RADAR (RADAR logic). RADAR methodology specifies the EFQM European model of organizational excellence, is considering four key indicators for quality assurance management of an organization: **1. Results**; **2. Approach**; **3. Deployment** (the running processes in the organization); **4. Analysis** (*Evaluation*) and (also) **Review** (*Review and Improvement*). RADAR is an element of coordination of efforts to improve organizational processes.

Using an expression consistent with RADAR methodology in order to achieve exceptional performance that is sustainable (Coleman, R., 1991) at the same time, a company must (see Figure no. 1: The RADAR logic cycle):

- a) Determine the “Results” that aims to achieve, which corresponds to the present and future needs of stakeholders (stakeholders);
- b) Plan and develop an integrated set of “Approach” effective and efficient to achieve the results intended;
- c) Ensure “Deploying” processes within the organization in close correlation with “approaches” planned, so as to ensure effective enforcement of them;
- d) Conduct a “Analysis/Assessment” approaches, how they were carried out by monitoring and analysing the results and, finally, to “Revisit” and bring the necessary improvements based on lessons learned, learned in stages monitoring, verification and analysis of results, supported by a continuous learning process.

Figure no. 1: The RADAR logic cycle



Source: Adaptation after the European Model of Excellence, the RADAR methodology,  
<http://www.efqm.org/efqm-model/radar-logic>

The implementation of RADAR logic helps organizations identify, to give due priority, if necessary, to plan and implement necessary improvements where needed.

Identify determinants RADAR methodology based on five criteria: **1) Leadership, 2) Policy and strategy, 3) Partnerships, 4) Resources and 5) People.** Each of them is evaluated in the same manner using RADAR logic. RADAR elements that apply to these criteria are:

- Approach;
- Deployment (*implementation and translations*);
- Assessment and Analysis/ Examination/Review;
- Results.

### **A.Approach**

Depending on the orientation of the EFQM Excellence Model (EFQM, 2012), the approach is evaluated as:

- “Solid, if the argument is based on a clear, well defined, developed the processes and focused on stakeholder needs.”
- “Integrated, where it supports policy and strategy and linked to other approaches where appropriate.”

### **B.Conducting (Implementation/Translations - Deployment)**

Implementation in accordance with the guidelines EFQM (EFQM, 2012), examines two aspects:

- How often is used approach?
- The approach is conducted in a systematic and structured?

Implementing a documentation process before the land can be difficult. The assessor is best placed to decide what areas would

require implementation, and then determine what evidence it is based on the approach to be implemented in these areas. For example: a performance evaluation system may be used only with staff at a certain level or, where appropriate, to all staff; information should be shared only to some or all partners; some customers should be monitored regularly, while others not.

The systematic approach refers the planned application of the approach (Cristescu F., 2007). There must be analysed specific situations such as: if the process is defined, or is in the pilot phase, if the approach is communicated to all stakeholders or not, whether people are trained in its use, or not, if implementation is monitored, and not because of an ad hoc approach that has been designed and tested, expectations are not very high.

### **C.Assessment (Assess) and Review/ Examination (Review) approach**

The approach should also be evaluated and revised. From this point of view the EFQM model (EFQM, 2012) highlights three aspects:

- **The measurement** - is the kind of process that occurs periodically by measuring the effectiveness of the approach and implementation;
- **The teaching** - learning process requires the use of certain elements to identify and convey good practices and improvement activities;
- **The improvement** - a result of the measurement and learning is analyzed and used to identify, choose priorities, plan and implement improvements.

## D.Results

The last item is the result RADAR logic. In the process of self-evaluation according to the EFQM model weights, the results have the same weight as the underlying criteria. Business organizations in the West have always insisted on issues related to financial management, according Zairi (Zairi, M., 1994). However, Excellence Model search results in four areas: customers, people, society and business process results. It is expected that these results can be measured and not only related to intuition.

Each element is assessed in the same way, taking into account 1. the scope of the results and quality, and 2. trends, 3 goals, 4 comparisons with other organizations, 5. the causes that led to the extent results were driven approach.

**1. The scope of the results** refers to how well the results covering all areas and appropriate stakeholders and how well measured performance results most relevant approaches and their implementation.

► As an example, have all customers' representatives been interviewed?

► Can questions in the study conducted on employees covering all areas considered by employees as important?

There are indicators that take into account all measures of perception - for example, if timely delivery is important for customers, if the organization has a number of measures to allow upstream solving spot possible problems before affected customers (including customer perception).

**2. The trends** in regard to what extent the organization works well if its actions are situated on a positive trend and if that performance can be sustained over time. If

inconsistencies are recorded in the way it is produced or perceived performance will require explanation. These will help to determine the cause inconsistencies and should allow the identification of actions the organization must take the time to improve business processes. Without these "trends", the evaluator can determine whether the organization is in the process of improving or not.

**3. The objectives.** Reviewing the objectives envisaged if the organization intends achieve certain goals, whether they are appropriate and whether the organization meets the objectives it sets. The objectives indicate whether the organization is planning to improve certain business processes to achieve a certain level of performance.

It is expected that the target be of "SMART", for example specific, measurable, achievable, relevant and produced in a given time interval. Good organizations are expected to set challenging goals and objectives not only who the view to achieving a much higher performance than the previous one. If the objectives are set lower, the question is where the reasons which prompted this decision are. Similarly, if the organization does not meet its own objectives, it will seek an explanation (cause) to identify what caused the organization to reach this situation.

**4. Comparisons** check whether or not the organization is comparable with other organizations, and if so, what is the manner in which they behave compared to others in the same industry, or its partners or reference the best in that category. This is also helpful to determine whether trends are appropriate and whether the targets are sufficiently challenging. Comparisons whether an organization is open to continuous learning process. Without a comparison with other



organizations, it can be very difficult to assess the degree of excellence achieved by an organization. For example, 90% would be an excellent score in a certain area, while in another excellence must reach a value somewhere between 98% and 100%.

**5. The causes** consider whether all the results obtained led to the position, or part of them. For example, if the perception of how certain products were delivered suggests that the process was slow, then the organization could take steps to improve its programming and logistics, thereby improving the delivery mode by performance indicators (for example, transfers to time). If next year on customer perception as delivery performance improves, the organization will feel confident that his actions have contributed to increased performance. In the real world, there are many criteria that can help improve performance and improve perception. Moreover, even when performance has improved, it may take a long time to change perceptions.

However, each organization must determine for himself, which are key factors for their success.

### 3. Conclusions:

The conclusions concerning the assessment methodology RADAR are presented in the lines below:

► To assess the results, EFQM Excellence Model uses two techniques: the identification card direction (Pathfinder Card) and the RADAR logic (RADAR Logic).

► RADAR methodology is a dynamic and powerful tool for management and evaluation, which is the “backbone” supporting organization. The challenges facing

the company must be addressed and overcome in order to turn aspirations into reality, achieving sustainable excellence.

► Using an expression consistent with RADAR methodology we believe that, to achieve exceptional performance that is sustainable at the same time, a company must:

a) determine the “Results” that aims to achieve, which corresponds to the present and future needs of stakeholders (stakeholders);

b) plan and develop an integrated set of “Approach” effective and efficient to achieve the results intended;

c) ensure “Deploying” processes within the organization in close correlation with “approaches” planned, so as to ensure effective enforcement of them;

d) conduct a “Analysis/Assessment” approaches, how they were carried out by monitoring and analysing the results and, finally, to “Revisit” and bring the necessary improvements based on lessons learned, learned in stages monitoring, verification and analysis of results, supported by a continuous learning process.

► In order to identify the determinants of RADAR methodology there are five criteria that should be taken into account: 1) Leadership, 2) Policy and strategy, 3) Partnerships, 4) Resources and 5) People. Each of them is evaluated in the same manner using RADAR logic. The RADAR elements that apply to these criteria are: Approach; Implementation/Translations/Deployment; Assessment and Analysis/Examination/Review and Results.

### Acknowledgment:

This paper was co-financed from the European Social Fund, through the Sectorial



Operational Programme Human Resources Development 2007-2013, project number POSDRU/159/1.5/S/138907 "Excellence in scientific interdisciplinary research, doctoral

and postdoctoral, in the economic, social and medical fields – EXCELIS", coordinator The Bucharest University of Economic Studies.

---

## REFERENCES:

1. Cătuneanu, V. (2003), *"Ameliorarea calității"*, Fundația Română pentru Promovarea Calității, București, pp. 100-103.
2. Chen, J. M., Tsou, J. C. (2003), *"An Optimal Design for Process Quality Improvement: Modelling and Application, Production Planning & Control"*, vol. 14, nr. 7, pp. 603-612.
3. Ching - Chow, Y. (2010), *"Six Sigma and Total Quality Management"*, în: *Quality Management and Six Sigma* (ed. A. Coskun), Sciyo, pp. 1-29.
4. Coleman, R. (1991), *"People and training - the progressive evolution of a training strategy in support of the implementation of total quality management"*, în Oakland, J.S. (Ed.), *Proceedings of the 4th International Conference on Total Quality Management*, IFS Publications, Bedford
5. Cristescu F. (2007), *"Eficiență, eficacitate, competitivitate – performanță în economia contemporană"*, *Revista de Comerț*, nr. 11 - 12, pp. 8 și 10
6. Verboncu, I., Zalman, M. (2005), *Management și performanțe*, Editura Universitară, București, pag. 63
7. Zairi, M. (1994), *"Leadership in TQM implementation, some case examples"* *TQM Magazine* 6(4): 9-16.
8. \*\*\* EFQM Excellence Model 2013 – <http://www2.efqm.org/en/PdfResources/EFQM%20Excellence%20Model%202013%20EN%20extract.pdf>
9. \*\*\* <http://www.efqm.org/efqm-model/radar-logic>

## The virtuous circle and the vicious circle in managerial training investment

~ Ph. D. Student **Cristina Călugăru** (Romanian Academy, Bucharest, Romania)

E-mail: christichirita@yahoo.com

**Abstract:** *In parallel with the consolidation of the view that there is a real need to train and improve enterprises' managerial staff – also in parallel with the increase of expenses incurred by enterprises in this direction, in the past decades this investment in managerial training is rather preparatory for the subsequent professional evolution of the people appointed in management positions of said enterprises – direct beneficiaries of these training or improvement programs.*

*Thus, there appears a gap between what enterprises wish to obtain, by implementing such training and development programs, and what they are actually obtaining: in fact, the investment 'leaks' from the virtuous circle<sup>1</sup> of acquisition of higher managerial competences and of their application in said enterprises (to obtain better economic performances, in activities that are more and more competitive), into the vicious circle of non-using this investment in management training, for many various reasons that we could identify using the results of empirical research.*

**Key words:** investment in managerial training, performance gap, managerial competences, the need for managerial training and improvement, virtuous circle, vicious circle, empiric study on management skills.

<sup>1</sup> The concept of "virtuous circle and vicious circle" was introduced by Normann (1991), to explicitly link the improved performance within the organization to improved performance externally and with service users, as the service production and consumption are occurring almost simultaneously, in services industry. Same logic goes for a wide range of interconnected processes developed in all organizations. Normann, R., 1991 – "Service management: strategy and leadership in service business", Wiley Publishing, 2nd ed.

### 1. Methodological delimitations

The endeavours of this article have been initiated after the completion of the research project of connections existing between the performance (competitiveness) of the Romanian enterprises, with a 4 years duration – on a sample of 104 national companies – and the investment they have made in the managerial training and development of their own managers, in the first or the second year of the specified period of time. The panel research has revealed several interesting conclusions, of which we have resumed for a deeper analysis, the ones related to the **managerial competences** possessed in companies before participating in trainings, compared to the competences acquired by participating in these improvement training programs.

Previous researches were done using a large variety of scientific methods, to demonstrate the degree of influence between these three factors: *'training' –> 'superior competencies' –> 'superior performances'*. The dominant logic is same in all cases: direct- linked influences and strong propensity to more predictable results, if one of the factors given as "amount" or level of manifestation.

### 2. Considerations concerning the performed empirical study: data taken into the analysis and the data processing manner

The proposed set of **managerial competences** was used as evaluation metrics within the management consulting services provided by the European financed project „Romanian enterprises in the context of change” - Training, Consulting and Assistance Program of enterprises to promote adaptability and to introduce new

organizational solutions (FCA) – for 104 Romanian firms, with a three years implementation period, 2010 to 2013. The project was supported by the Sectorial Operational Programme Human Resources Development (SOP HRD), financed from the European Social Fund and by the Romanian Government under the contract number SOP HRD / 81/3.2./S/55465).

The enterprises participating in the project have been evaluated by applying this instrument only once, namely before the participation of the nominated managers in the management training&consultancy programs provided in the frame of the same project, as support of additional recommendations for professional development and in order to constitute the study groups. The analysis of the managerial training needs has been performed separately from the evaluation of the managerial skills, in the project.

The two perspectives of interest in this empirical study – that of managerial competences, respectively that of the investment in managerial training – have benefited from partially different approach methods:

➤ the first perspective is based on the *quantitative method* – **method of correlation**. It applies when between the factors and the researched phenomenon stochastic (accidental) relations occur. This method helps measuring the intensity of the relation between the analyzed phenomenon and its factors of influence, as well as their influence. We aimed at determining which of the managerial competences considered in the study have a greater impact on the performance indicators "Turnover" and "Profit", by a correlation made in the centralizing table of data collected from the scores of these managerial competences. It is useful to specify that this

correlation departs, in the analysis, from the primary obtained data, as well as from the data proposed by the author of the study by calculating the “means” of these competencies at the level of each enterprise (secondary data). The interview grid that has been used is a complex set of interlinked questions, with a scoring scale from 1 to 10, for each of the evaluated competencies;

► the second perspective is based on the **econometrics modelling** (identifying an equation of the relationship between chosen parameters, a regression-function type) – which is a mixt method, using quantitatively and qualitatively parameters; the relationship is monitoring the expenses related to the training, incurred by the analyzed enterprises, for a duration of time that is considered relatively simultaneous with that of research of managerial competences. Regarded as an investment, the expense related to training may be quantified according to variables such as the profit of the enterprise, productivity or the level of total incomes of the enterprise. The regression model chosen for research is the panel technique of data analysis, where we introduce as economic variables: the training expenses incurred by the enterprises included in the sample (variable  $Y - Ch\ Instr$ ); the gross profit of these enterprises throughout the analyzed period ( $Pb$ ); the productivity of the employees of said enterprises ( $W$ ); the total expenses of the same enterprise throughout the period of analysis ( $Ct$ ); the total incomes of said enterprises throughout the period of analysis ( $Vt$ ).  $Pb$ ,  $W$ ,  $Ct$  and  $Vt$  are considered to be  $X$  variables.

The investigated regression model concerns the dependence of the investment in the managerial training (Expenses related to the

managerial training) according to the profit and productivity of the sectionally analysed enterprises, for the term of 4 years of observation/data collection. The regression function may even be extended to 3 or 4 exogenous variables, adding the total Expenses and the total Incomes of the enterprises in the panel.

The series of managerial competences considered in this study, as having a direct impact on the economic performances of the analysed enterprises, was the following:

3. *Adaptability (Adaptation to the circumstances; Creative thinking)*-  $Adp$ ;
6. *Action (Measures; Results)*-  $Act$ ;
7. *Others' development (Develops individual talents; Motivates successfully)*-  $ODv$ ;
8. *Personal development (Implication and commitment; Wish to improve oneself)*-  $PDv$ .

The answers to the questions included in the questionnaire have allowed for the determination of the average scores for each of the abilities constituting the series of competences that have been individually acquired, resulting from the manager's evaluation by all the observers (superior, direct subordinates and peers). Thus, they highlight the differences from the maximum possible value for the items evaluated by grading.

The analyzed data *for the evaluation of managerial competences* (Perspective 1) have been:

- The set of managerial competence measurements – values obtained for the managers of the enterprises participating in the evaluation;
- The gross profit of the analyzed companies and the turnover achieved in the estimated period as resulting from the “possession” of these internal competences (2009 – 2012).

The analyzed data to evaluate *the impact of the investment in the managerial training* (Perspective 2) have been:

- The values of the investments in managerial training for each of the enterprises participating in the evaluation;
- The gross profit of the analyzed companies and the turnover achieved in the period immediately following the investment (2009 – 2012).

For Perspective 2 - the investment in managerial training and improvement - the method of analysis that was used was shown and described in a distinct research report – and it uses a data analysis econometric method (the panel method, with temporal data series). The linear relation was designed to test a null hypothesis. The test either accepts or reject the null hypothesis, for the null hypothesis named as: there is no relationship between the level of investment in managerial training and the economic results (performance, or competitiveness) of studied companies.

In this method, the following items have been used as economic variables: the training expenses (Ch Instr) incurred by the enterprises included in the sample (variable  $Y - Ch\ Instr$ , as endogenous variable); the gross profit of the enterprises included in the sample during the period of analysis (Pb); the productivity of the employees of the enterprises in the sample (W); the total expenses of the enterprises in the sample during the period of analysis (Ct); the total incomes of the enterprises in the sample during the analyzed period (Vt). We have Pb, W, Ct and Vt considered as X variables (exogenous). The null hypothesis was rejected, which demonstrated the dependency between the endogenous and exogenous variables.

### 3. Data analysis; partial results

Only the Perspective 1 is to be presented in more details in this article, although a complete sense-making perspective in studying this subject comprises both perspectives.

Figure 1 – Connections between the Investment in Management training, leading to Managerial competences - and the Income and profit of the enterprise (author's diagram)



As it follows, for the evaluation of the managerial competences for the analysis of relations between the level of managerial competences within enterprises and their business results, we have tested a simple correlation of the values of variables at the moment when the test was made (the year when the previous survey to the participation to training was made), and the business results obtained in the same year and in the following year – after the target-group's participation in the management improvement training programs.

The individual reports of evaluation of the managerial competences drafted for each manager of the target group (three to seven or more representatives of the the analyzed enterprises' management staff, from top, middle and executive levels) are centralized in an Report of Evaluation of the Managerial Competences, for each of the participating enterprises. The scores (marks) obtained for managerial competences and abilities are processed and interpreted in the excel table where they are introduced as primary data, in order to identify the specified correlation. Thus, the data in the questionnaires or the numeric values of the evaluations based on 360° feedback method for said abilities, have been introduced in a table.

In the second stage, the average value for each pursued competence has been calculated, and afterwards the means of these competences at enterprise level.

In the third stage, the means of the competences (4 values for every enterprise) have been correlated with the indicators Turnover, respectively the Gross profit of the enterprise, obtained in the period of analysis. For simplification, we have also calculated the variant of the difference between the results obtained

in the year subsequent to training, and those in the year of evaluation, by circular feedback questionnaires (feedback at 360°), using the gross profit margin rate ( $\text{gross profit} \times 100 / \text{turnover}$ ).

The data in the excel table have been visualized as a histogram, allowing for the quick interpretation of the differences between the managerial competences, respectively their means, and the tendency of evolution of the gross margin of profit – if there is one.

### **Simple correlation; usefulness of the histogram**

The correlation between pairs of variables is measured by the correlation coefficient, calculated by means of the "correl" function for the data introduced in Excel files. This coefficient may take values between -1 and +1; when the value of the coefficient is = 0, there is no correlation between the analyzed data (very rare situations). For coefficient values close to 0, the correlation is weak, and we should interpret this as a weak tendency towards evolution of a series of variables in one direction (ascending or descending). For values close to 1, the evolution tendency of the dependent variable on the direction in which it varies and the independent variable is very big (perfect correlation for values = 1). The dependent variable in this analysis is considered to be the gross margin of profit/ with the alternatives of exercises related to the evolution of the Turnover or to the Gross Profit.

A quick manner to identify the correlation tendencies between the values of certain variables consists in their graphic

representation in the system of two coordinates (x, Y); we obtain a histogram, a primary graph where variables values are represented as “scattered” points within the ranges of values obtained by scores.

A histogram has the following components:

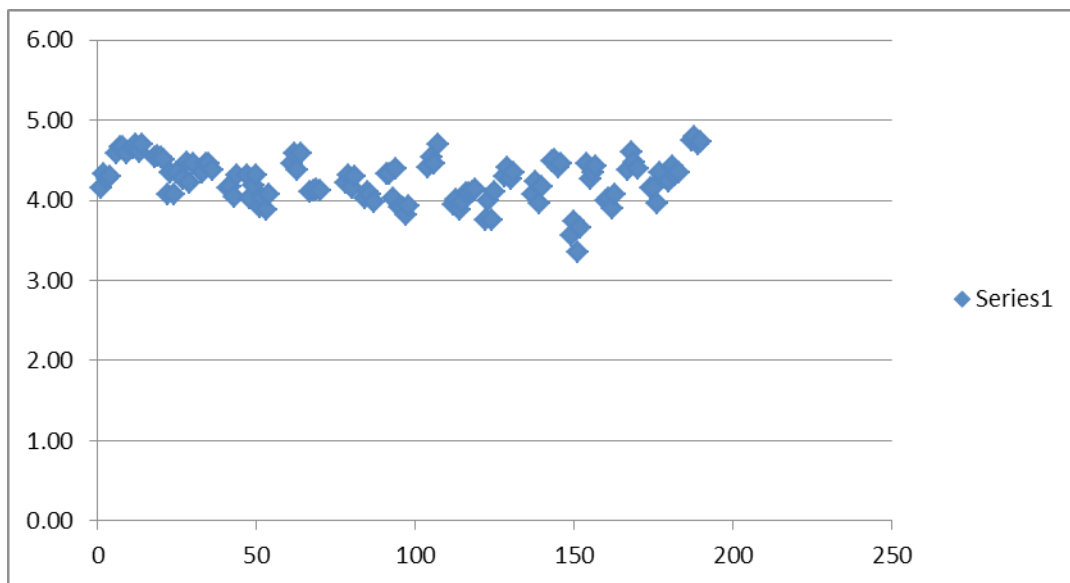
i) A title that specifies the population that it refers to – in this case, the means of managerial competences;

ii) A horizontal scale where X variable is identified, class limit values, class borders, class marks;

iii) A vertical scale where the frequencies for each class are identified.

The histogram obtained for the means of managerial competences (the set of four competences), for the 30 enterprises selected in the sample, is shown in the following figure:

Figure 2 – Histogram of the means of managerial competences existing in the enterprises of the analyzed sample



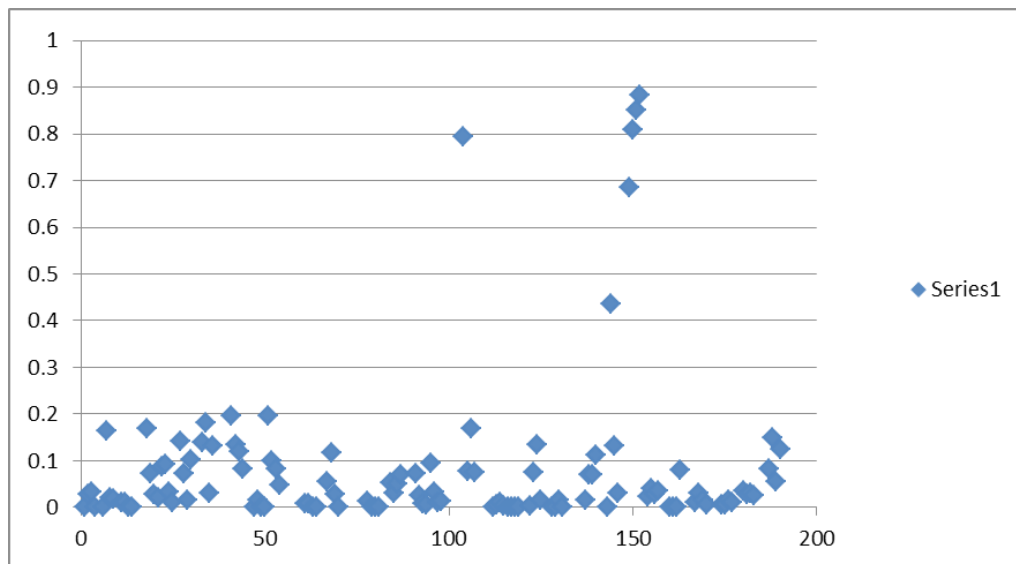
Interpretation of histogram: the “managerial competences” variables evaluated for the target group are linearly positioned in a range of values between 4.8 and 3.25, which shows that they are correlated among each other (they are situated in the same range of

values), and the value fluctuations are low (points are ‘agglutinated’).

The histogram obtained for the gross profit margin of the enterprises in the sample looks as follows:



Figure 3 – Histogram of the gross margin of profit of enterprises in the sample.



Interpretation of histogram: the variable « gross margin of profit of enterprises also has a linear evolution in a range of values between 0 and 0.89, which shows that these values are correlated among them and have the same tendency as the “managerial competences” set of variables, but there are bigger differences between the positions of the points on the system of axes, which indicates other manifested influences over the values of these gross margins. We can also see that six much bigger value peaks are registered, confirming the hypothesis of other influences, of other exogenous variables over the gross profit margins (e.g. external environment factors like technology, social trends in consumption, fluctuations of exchange rates, geographical cover, market demands, competitive offer, degree of profitability of the industry etc.)

The interpretation of histograms may be subsequently completed by registering

different value ranges of the profit margin variable, in correlation with different value ranges also for the evaluated set of managerial competences, for instance, competences scored with values between 4.5 – 4.9 are joined by increases by x % of the values of the economic indicators (in this case, the gross margin).

#### 4. Interpretation of results.

##### Conclusions and future perspectives

Best practices in management appraisal and management skills development demonstrate broadly, today, the bond between the companies' economic performances and the level of their internal management competencies. This is the first recommendation to make, for all companies pursuing growth and sustainable business achievements – strive for better managerial skills and competencies, better managers. But better or (more) suitable? Let's try a concise answer to this question.



In this short empiric study, the evaluation of managerial competences determining economic results of companies (which I called Perspective 1) leads to the following noticed aspects:

- the linear, positive correlation of the values of managerial competences with the gross profit margin calculated for the enterprises in the sample;

- none of the enterprises has unsatisfactory economic results (loss/ negative results), as the range of the evaluated competencies is in the superior third of the scale: from 3,6 to 6 in the scale values; this could suggest an optimization of profit levels for management teams with such values, on the scale;

- the need of identification of other variables with impact on the business results of the enterprises – influences of the internal or external environment – necessary for a better understanding of the correlation and, possibly, for the identification of one of the four managerial competences as factor with a decisive influence on economic performances;

- the strong impact of the chosen four managerial competencies, in a total of eight - and the rising question on how much the training could increase their level of manifestation;

- the type of management training needed, in order to develop such management competencies, are mainly in the field of interpersonal or intrapersonal skills; how could we have a clue on the technical managerial trainings impact (the so-called “hard” or teachable skills in management, like planning, strategy setting, financial skills etc.), when evaluating the training needs;

- the working instance for the analyzed enterprises: other key information are

connected to their economic results and set of competencies scores, e.g.

It is important to note that the evaluation of managerial competences in the beneficiary target group of the project had as defined objectives both the evaluation of the current performance, and the future personal development, which supposed the drafting of personalized recommendations of personal development directions and of participation in the managerial improvement courses offered in the project.

The human capital is an essential component of the economic competitiveness at the microeconomic level and, as it has been proven by recent analyses, it is more and more important in the sustainable development. Understanding how the human capital affects the level of economic competitiveness at microeconomic level will allow the more efficient targeting of the necessary resources to improve competitiveness at the national level; a complete list of the issue of human capital and of its effects on competitiveness is still difficult to constitute. “The extension of the field of microeconomic analysis to a wide range of behavior and of human interactions, that include the human behavior in relation to education, has led to the conclusion that the results of learning and of education in general rather have the features of a capital and not of an investment”<sup>2</sup> – and, seen as investment, the expense for training may be quantified according to variables such as the profit of the enterprise or its profitability or the level of total incomes of an enterprise.

It would be premature to appreciate that the relation between the two research

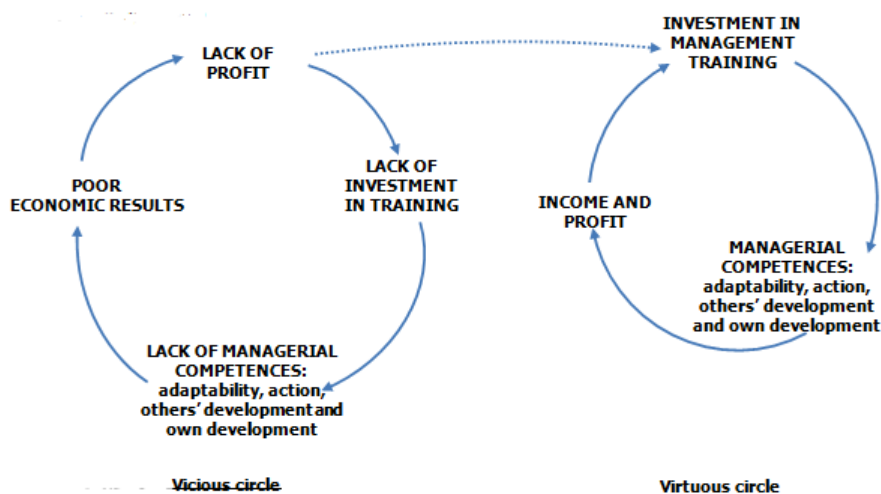
---

<sup>2</sup> [http://siteresources.worldbank.org/INTMENA/Resources/EDU\\_02-Chap02-Education.pdf](http://siteresources.worldbank.org/INTMENA/Resources/EDU_02-Chap02-Education.pdf)

perspectives is fully quantifiable, but we may appreciate that it is obvious and it may be proved by the joint impact they have on the performance indicators. We may state that there is a “vicious circle” of the investment in managerial training and the performance indicators such as turnover and profit – if the enterprise does not generate profit, does not

have sufficiently high sales, then there are no resources for training; this “vicious circle” becomes a “virtuous” one by including the managerial competence as engine to increase the incomes and profit of the enterprise, profit that subsequently may provide the budget for training and improvement of management competencies.

Fig. 4 – Virtuous circle and vicious circle of investment in managerial training investment (author's adaptation)



after the model of R. Normann (1991)

Although there are increases or decreases of the investment variables in managerial training, on the short or medium run, they are partially determined by the managerial competences existing in enterprises and, rather, they may be the result of external influences – i.e. the opportunity of non-refundable financing opportunities of the training, in human resources field (CEE perspective for 2007 – 2020: the opportunity of SOP HRD programmes). The developed higher competences will migrate, while the period to capitalize the investment in improvement shortens. One of this reasons is its “migration” to actually other companies – that are, in some cases, direct competitors

of those making the investment in training. But only gaining better management competencies leads to better economic results, to better level of profitability, leading therefore to a higher financial amount for investment in people development decisions.

Also, in order to recover the gap between ‘necessary’ and ‘sufficient’ in the key field of training that management skills represents for any company – the practice has shown that, most of the time, this investment in managerial training is rather preparatory for the subsequent professional evolution of the people appointed in management positions of said enterprises (beneficiaries of these training or improvement programs),

that are to perform better at their future jobs, than in the enterprises where they benefited from said training (to be understood that they have benefited from internal support, motivation and financial investment).

We must also specify that the performed research is rigorous in terms of the selected method and of the methodological steps, but it has insufficient (or non-concludent) geographic and sectorial covering – the number of analyzed enterprises is at the limit of the validation threshold of interpretations, and their activity fields are quite spread, although they all belong to the scope of services. The size of the firms participating in the study is also a factor of influence to issue hypotheses related to the interdependence of the factors involved in the researched perspectives (they have between 20 – 1400 employees, so the gap is significant).

A central reflection topic for the future deepening of the proposed research direction

(the enhancement of managerial competences through the investment in management training, as determinant of enterprise competitiveness) consists in the investment decision that is bounded to be firmly grounded and motivated – at the national, sectorial, organizational and individual level, in all development or performance analysis contexts. These are among the hardest challenges we face in actual economic, social and educational context, when going to obtain reliable data that underlie these issues of study.

### Acknowledgements

This paper is supported by the Sectorial Operational Programme Human Resources Development (SOP HRD), financed from the European Social Fund and by the Romanian Government under the contract number SOP HRD/159/1.5/S/136077.

### REFERENCES:

1. **Donald Currie** - *"Introducere în managementul resurselor umane"*, Ed. CODECS, 2009;
2. **Dennis Lock** - *"Manualul Gower de management"*, Ed. CODECS, 2001;
3. **Michael Armstrong** - *"Managementul resurselor umane – manual de practică"*, Ed. CODECS, 2001;
4. *Principles of good research and research proposal guide*, London Borough of Richmond upon Thames, 2006;
5. **Corneliu Russu** - *"Management strategic"*, Ed. All Beck, 1999, Bucuresti;;
6. **Ana-Lucia Ristea, Valeriu Ioan-Franc** - *"Metodica în cercetarea științifică"* – Ed. Expert, 2013;
7. **Robert Bacal** - *"Manager's guide to performance management"* – McGraw-Hill Publishing Enterprises, USA; 2nd ed., 2012;
8. *"Skills, capabilities and management practices"*: [www.isc.hbs.edu/competitiveness-economic-development/frameworks-and-key-concepts/Pages/default.aspx](http://www.isc.hbs.edu/competitiveness-economic-development/frameworks-and-key-concepts/Pages/default.aspx)
9. <http://theconversation.com/how-individual-firms-can-solve-the-productivity-paradox-8657>
10. <http://garj.org/garjeaf/abstract/2013/May/Andrade%20and%20Sotomayor.htm> – *"Measurement models of human capital accounting: a case study"*
11. [http://siteresources.worldbank.org/INTMENA/Resources/EDU\\_02-Chap02-Education.pdf](http://siteresources.worldbank.org/INTMENA/Resources/EDU_02-Chap02-Education.pdf)

# Human Capital - A Quality Factor For The Competitiveness Of IT Companies

~ Ph.D. Student **Elisei Crăciun** (Romanian Academy, Bucharest, Romania)

E-mail: [eliseicraciun@yahoo.com](mailto:eliseicraciun@yahoo.com)

**Abstract:** This paper treats quality, human capital and competitiveness concepts in order to determine in which measure the Human Capital quality influences the competitiveness of a firm. The human capital theory is a relatively new approach, the first valuable approach being that of Garry Becker which, subsequent of the modern management theoretical views, puts human capital into scientific frame. This present paper relates deeply on this theoretical frame as it is considered that, besides financial or tangible resources that allows and generate long term benefits for an enterprise, there is also another source that consists in an intangible form: the human capital. This resource is based on education and health, indirectly generating additional benefits for the individual as for the organization and is calculated as instruction, education and health insurances costs. That implies that this capital is an asset for the worker itself and that the worker cannot be distinguished from the knowledges, capacities, his health or his values. From this perspective, the worker is actively present in any activity a firm operates: from defining and executing pro-

cess, operational planning, monitoring and control, research and development, human resources, etc. The hypothesis of this present paper will be explored with the examples of Jeff Bezos ( Amazon ) or Steve Jobs ( Apple ) as human capital is considered to be the most important component for the competitive advantage of IT enterprises. The quality level of the human capital represents the main source for long term sustainability of this competitive advantage and, given the best case practices, it's impact on firm's effect indicators is obvious. The paper will also emphasize the role of values and health as they are also the main issues on an IT enterprise. The article is structured in two parts. One is the theoretical frame that encompass the influence of the human capital on the competitiveness of the firm. The second part treats where the following aspects: IT enterprise competitiveness, the relationship between human capital and competitiveness as well as techniques, instruments for highlighting the influence of the human capital quality over the competitiveness of an IT enterprise.

**Key words:** human capital; IT; enterprise; competitiveness.

## I.THE CONCEPT OF HUMAN CAPITAL. FEATURES AT COMPANY LEVEL

At the conceptual level, human capital was first introduced by Adam Smith and recently developed by Gary Becker scientific and Jacob Mincer. Human capital can be defined as the totality of knowledge, skills, competencies and other attributes embodied in an individual, relevant economic activities.

According to C. Russu human capital is an additional factor of production, represented both the amount of stock of knowledge, skills and experience of both formal education and post-school learning in the work process ("learning by doing "). Also, E. Pelinescu argues that the education and the amount of courses offered by a country of its population are important measures of investment in human capital. Kagochi and Curtis believes that the share of secondary education in the total population or labor pate as a proxy indicator for highlighting the human capital stock of a country in international comparisons, given that graduating secondary schools is an essential factor in ensuring quality of human capital, especially in agriculture.

In recent years, a growing group of specialists, politicians and government entities recognize the importance of human capital for economic growth and national success. The Human Capital significant property is that it exceeds several times the amount of physical capital. For example, in the United States, the level of human capital is over \$ 750 billion, much higher than the cumulative physical and financial capital, which is about \$ 70 billion.

Another important property of human capital is its degree of versatility, as demonstrated by various theoretical approaches:

A. Firm-specific human capital that creates competitive advantages in business relationship with other companies, with a relative effect of reducing the level of innovation,

B. Specific Human Capital industry, which plays an important role in innovation within the industry, and

C. Individual Human Capital, which refers to the knowledge applicable to the progress of society in general.

From these above hypotheses, we can define the quality of human capital as the expected level of performance of human capital

relative to objectives. These objectives can be distinguished:

- Strategic objectives: profitability, growth, sustainability, market, object of activity, market positioning, customer competitiveness;
- Objectives resource: tangible capital (money, land, buildings, machinery production), intangible (brand, patents, goodwill);
- Cultural objectives (people, success stories, rules and regulations, symbols).

Next we illustrate these types of objectives, to identify in detail the possible impact of the quality of human capital on the company.

First, what is the strategy? This question was put it in a fundamental way by Michael E. Porter in his famous work "What is strategy?"[1]. He replies that strategy is a process of analysis designed to achieve a sustainable competitive advantage of a firm to other firms.

Other definitions of the strategy are:

- "The determination of the basic long-term goals and Objectives of year enterprise, and the Adoption of courses of action and the allocation of resources Necessary for Those and goals" [2]

- "Every business organization, Every sub-unit of organization, making and even Every individual (ought to) have a clearly defined set of purposes or goals which keeps it moving in a deliberately chosen direction and prevents it drifting in undesired directions" [3]

- Two Further definitions implied May be attributed to Porter and to Henderson:

- „to enable an organisation to identify, build and deploy resources most effectively towards the attainment of its objectives" [4]

From the author's perspective and in the study of various theoretical approaches, a company-wide strategic process could be:

- Decisions on the company's mission and vision;
- Analysis of the external general environment of the company;
- Analysis of the external closed environment to the company, or the markets in which it operates;
- Definition of the company personnel policies;
- Analysis of available capital firm and of its resources in general;
- Determination of the critical success factors in the industry;
- Analysis of the organizational culture;
- Finding of the long-term goals of the company.

It is important to note that although the strategy is a long-term process, it depends essentially on the time factor. For example, a strategic analysis conducted at a time can be invalidated by the market at any time, following significant or subtle changes in market (evolutions of consumers' needs, introducing new technologies) or disruptive (joining different markets, wars). So, the strategy is an ongoing process and the results of this process, albeit long-term stability can be significantly altered at any time change the entries in the strategic process. A good example of this is 1997 in the market for mobile devices. At that time, the world market was authoritarian dominated by Nokia, with over 87% market share. Although Nokia had the needed technology, it decided that a mobile phone without keys will not be accepted by consumers. This decision has left enough room in the market for Apple to bring the iPhone or cell phone that has fundamentally



changed the balance in the market for mobile devices. Today Apple company is the market leader and one of the companies with the largest market capitalization and Nokia has consistently lost market share and eventually sold its mobile phone to Microsoft company. Clearly, quite exceptional human capital resources that represented Apple - Steve Jobs - and no such visionary among Nokia led eventually to radically change the balance of power in the mobile devices market.

To define the personnel policies of the company, we retain the opinion of Professor C. Russu [5], "Human Resource Management is a specialized aspect of the general management of the organization in which staff issue is addressed in an integrative vision, globalist, interdisciplinary and professional in order to achieve organizational objectives by recruiting, selectioning, developing and by the appropriate use of its human resources to fully implement the potential and creativity of it's personnel." So company personnel policies must not only provide the necessary manpower, but also to develop staff and to highlight the creative potential of the members. The role of Human Capital is to create and maintain an internal culture of the organization to enable individuals to develop and use their creative potential to contribute further to the development of the organization.

From this perspective we must remember that in strategic processes, human capital has an important role on existential issues for companies: the determination of the directions in which they will carry out economic activity, changes in economic policies and even fundamental changes to the scope of business, the survival of the company in the market and not least the company's profitability.

## II. THE RELATIONSHIP: HUMAN CAPITAL – HUMAN CAPITAL QUALITY - COMPETITIVENESS

By definition, human capital represents all the knowledge, skills, health and human values. For some unique and personal perspective of each individual, so in the context of the firm are a contributor of competitive advantage, which further leads to business competitiveness in the market and in relation to direct competition. In simple words, quality human capital is a source of competitiveness for companies.

In terms of level of knowledge of man, we can refer to two types of knowledge [6]:

- Explicit knowledge, that is obtained from formal education, in that the firm or the individual invests. These are easy to identify and to measure. We can easily tell if a certain individual know some programming language such as through simple questions and references to the concepts of those programming languages. Also, we can easily decide whether a manager explicitly know the theory and practice of management even by consulting experience, studies and various tests we can explicitly involve him. All these knowledge or skills are within the scope of Human Capital for the individual to obtain the necessary investment of time and capital. However this type of explicit knowledge are not part of the scope of competitive advantages. For certain knowledge or skills can become competitive advantages, thus influencing the competitiveness of the company, they should be rare, inimitable and difficult to transfer to other companies or others. Explicit knowledge is easily imitated today. Education costs are not prohibitive, and quality information is accessible without special efforts. Lisbon Strategy itself open

knowledge barriers, promoting access to university and post-graduate in a manner easily accessible to those interested. The practice of outsourcing to companies who need a specific set of knowledge and expertise, short-term spread across in the information technology and communication has evolved in recent years.

- Tacit knowledge that is obtained from personal experiences, our individual ability to understand and interpret things and phenomena around us. In a company, this kind of knowledge specific to that company and is developed in time, as employees become part of the team, understand the internal culture, processes and learn how the company operates as a whole. The accumulation of tacit knowledge includes a significant effort [7], especially in terms of time and effort, attention and motivation necessary to understand how the hidden levers of the company works. In addition, competitors can not benefit from these tacit knowledge, even recruiting staff from the company because this knowledge belongs to the company as a whole and works only in teamwork. Thus, tacit knowledge (not explicit), are difficult to identify and virtually impossible transferred or copied by other companies. In conclusion, tacit knowledge can be sources of competitive advantage for firms.

Therefore, only a part of the company's human capital can be a source of benefits for companies that tacit knowledge and skills, combined with health, desire and ability to use this knowledge and skills for the benefit of the company. However, for the company to be competitive, these benefits must be competitive, so the results of the use of that knowledge and skills to be better than direct competitors in the market.

For example, software development industry research, a programmer's ability to produce higher quality code compiler, with a small number of defects, which compiles easy and not unduly loaded processor or computer memory can be a source of competitive advantage. This ability is part of tacit knowledge, it is only acquired by long experience. However, this ability is not necessarily a firm's competitive advantage, as both competitors through similar processes can develop this skill.

Quite different is the case, however, Apple company led by late Steve Jobs. Although university educated equally with other students, Steve Jobs understood something unique among the other students. To pursue their dreams no matter how crazy they are. This, combined with a number of technical and managerial skills, ultimately led Apple to position the company's largest information technology company in the world, surpassing Microsoft company, its traditional competitor. The difference that did Steve Jobs is the level of performance at which he worked and that was the maximum possible among its competitors.

Here, then, education is an important factor in generating human capital companies, but not a sufficient factor, personal investment of time, attention and interest in the studied material leading to the development of tacit knowledge. Also, human capital itself is not necessarily a company's overall competitiveness. It may however contribute to the competitiveness of the company if the characteristics of tacit knowledge, if applicable in industry and firm explicitly if higher quality of existing competitors.

Techniques, tools that highlight the quality of human capital influence on firm competitiveness.



In a recent study [8], Dr. Elena Pelinescu highlights the influence of human capital in the knowledge economy. The study is based on statistical data from Eurostat database for all member countries of the European Union in the period 2000 - 2012. Based on the assumption that "the higher the level of human capital in a country is, the higher the level of innovation of the country" and using a panel data structure, the study demonstrates the following relationship:

$P = F(\text{Exp\_RD}, \text{Pat\_Aplic}, \text{Graduate}(-4) \text{Exp\_Edu}(-2))$ , where:

- P is the number of patents;
- Exp\_RD is expenditure on research - development expressed as a percentage of GDP;
- Pat\_Aplic is the number of patents applied;
- Graduate (-4) is the number of graduates with a lag of 4 years;
- Exp\_Edu (-2) is the education expenditure as a percentage of GDP, with a lag of two years.

The results of this study are remarkable in several important respects for this paper, even if limited to the macroeconomic framework:

- It requires sustained investment in education for at least two years to transfer a sufficient level of explicit knowledge;
- It takes effort to research and development and innovation attempts to internalize and transform tacit knowledge into explicit knowledge;
- It takes a basis on which graduates to apply these efforts mentioned above, to generate a level of competitive intellectual capital in the European Union;
- The study confirms a correlation between the number of macroeconomic patents

in that country - as an expression of the human capital quality - and indicators measuring investment in human capital in the same macroeconomic level.

Applying these findings at the firm level, we can define a list of indicators of the quality of human capital:

- Number of patents may be the number of innovations in processes, personnel proposed and approved by management;
- R & D expenditure may be the same indicator, but compared to the turnover of the company;
- Graduate may represent the number of skilled graduates (higher or technical) employees in the company;
- Exp\_Edu may represent the company's training budget, based on the turnover of the company.

In practice, Light Green IT company monitors a number of indicators to assess the level of training and professional development of its consultants:

- Training budget is set at a rate of at least 5% of the turnover of the company;
- R & D budget is not explicitly defined, it resulting from projects delivered to the client. Assigning a clear budget for research and development can be improved firm performance IT Green Light in Romania;
- a number of specialized courses completed or in connection with projects undertaken;
- a number of courses to improve communication skills and negotiation generally soft-skills;
- Internationally recognized certification that each consultant gets;
- Attendance at professional conferences for each consultant;
- Improvements that consultants bring work processes of IT Green Light;

- The personal contribution that each IT consultant has in Green Light firm (presentations of solutions or innovations, practical approach to personal projects);

- And last but not least, the results of the action, SERVQUAL methodology outlined above.

### III. CONCLUSIONS

From the theoretical perspective, human capital is the man himself along with several attributes: skills, knowledge and health, attributes that can not be separated.

From the perspective of the firm, the concept of human capital is complex, with numerous interferences in the respective company's competitiveness in the market.

The company's competitiveness is based on its ability to obtain and exploit competitive advantages and its ability to retain them. From the same perspective, human capital is seen as a plus of existing human capital stock in the company brings that its competitive advantage by itself.

However, the need for competitiveness in the market is constantly pushing firms to various innovations that alter the balance of the market and newly developed human capital becomes unusable or of low value. All this need for competitiveness pushes companies to recognize the value of human capital investment and constantly focus towards its development.

The added value that this work brings to the previous understanding is the fact that any investment in human capital is automatically contributing to the development or strengthening of the competitive advantage. Knowledge or newly developed skills need work experience and applicability for them to be thoroughly understood by the individual. Transforming new explicit knowledge into tacit knowledge in time is the manner in which human capital can become a source of competitive advantage in the market and can help increase the competitiveness of the company. In other words, applied knowledge and achieving outstanding results are the strengths of human capital, perhaps more than its potential growth.

In terms of measuring the impact of human capital on the company, besides its clear dependence of education and research and development at the macroeconomic level, a possible direction for future research is the hypothesis: "the higher human capital stock in a company, the greater competitiveness in the market in which they operate".

### Acknowledgements

This paper is supported by the Sectorial Operational Programme Human Resources Development (SOP HRD), financed from the European Social Fund and by the Romanian Government under the contract number SOP HRD/159/1.5/S/136077.

---

### REFERENCES:

1. **Porter, M.**, 1996. *What is Strategy?*, Harvard Business Review, Nov 01. Page 25-34
2. **Chandler, A.D. Jr.**, 1962. *Strategy and Structure: Chapters in the History of the American Industrial Enterprise*. Cambridge, MA, MIT Press. Pages 480
3. **Andrews, K. R.**, 1987. *The concept of corporate strategy*, Third edition, Homewood. Pages 180

4. **Henderson, B.**, 1984. *The logic of business strategy*, Cambridge, Ballinger Pub. Co. Pages 114
5. **Russu, C., Gheorghe, I.**, 2004. *Managementul resurselor umane. Note de curs, Aplicații, Studii de caz*, Editura Tribuna economică, București. Pages 219
6. **Polanyi, M.**, 1966. *The Tacit Dimension*, University of Chicago Press, Chicago. Pages 128
7. **Luthans, F., Youssef C.**, 2004. *Human, Social, and Now Positive Psychological Capital Management: Investing in People for Competitive Advantage*, *Organizational Dynamics*, Vol. 33, No. 2. pages 146
8. **Pelinescu, E. et al**, 2014. *The human capital in the knowledge society. Theoretical and empirical approach*, *International Conference Global Economy & Governance*, 10-12 September 2014, Bucharest.

## Toxic economy - interferences with recent Romanian experience

~ Ph. D. **Cristian Gheorghe Iacob** (Romanian Academy, National Institute for Economic Research "Costin C. Kirilăscu", Bucharest, Romania)

E-mail: [cristiang.iacob@gmail.com](mailto:cristiang.iacob@gmail.com)

### **Abstract:**

*What is the toxic economy?*

*Economy through which the legislation and control in place, fails to provide a standard of living with sustainable uptrend, getting to transform assets into cash whose value is consumed unproductively.*

*Why we do not live well?*

*Good life is in fact the standard of living of the economic and political offered by the laws of a state or groups of states, citizens living on a certain territory. The standard of living is a result of variety of factors, difficult to quantify both separately and in particular unit. In this article we will try to define the fractal complexity of how the toxic economy is affecting the standard of leaving*

**Key words:** economy toxic, toxic products, toxic assets, cash toxic.

## Motivation

The state is the authority entitled to measure the standard of living of a nation. Laws have a very important role in the economic development of a country, correlated with the political environment. The issue is whether the economic growth and the law is permissive in polarizing the wealth of a nation or is encouraging equitable distribution.

Among the most serious problems arising in the world, after the third industrial wave was the global instigating tendency for regional toxic economies formation. This is mostly applicable to the country from the ex-communist block that was faced with important structural problems. The way those countries fail to overpass all the problems, creates in some cases, like Romania, other structural inconveniences. Such inconveniences define the toxic economy. The purpose of this study is to bring into attention the adverse effect, of apparent well intentioned actions in the short run that brings negative effects, especially on the mass of population, like downturn in the standard of living.

A balanced economy traditionally organized as republic or monarchy, in great respect is following some major rules like the ones presented below:

- Money treasured in the form of currency in major national banks;

- Banks lead a monetary policy that focus on investments for the production of means of production, and the production of goods for consumption for domestic and / or export.

- Production sector is obliged to use the local labor force contributing to budget revenues through a series of charges, with

significant share in the budget of the respective country.

- The products of the same kind that entered through imports are cleared and excised, so as to reach a price level close to or higher than comparable domestic product, market and stock market are those who decide to sell existing products in the market transparency and the normal control of sales. In this way it is possible to balance the export of domestic products with imports with additional positive consequences: proper use of labor; better collection of taxes both internally and from importers; State control; industrial development plans to ensure competitive advantage, endeavors that labor productivity to reach a level close to the external productivity;

- Foreign loans are loans made to national road infrastructure and infrastructure for production without being intended to other unproductive destination like: pay of pensions, wages, social contribution. This approach will enable every citizen to contribute to raising living standards work for personal or group.

- Monetary policy is guided and controlled to give credits for sustainable development projects meant for environmentally friendly production.

- Banks with cheap loans to support production but also to be a guarantor of the development of economic relations of production in the long term.

- Macroeconomic policy is one that adjusts the transparency of monetary markets, capital and control mechanisms on both participants to the market as customers but also the regulatory authorities.

Along with the feature of the economy as mentioned above, toxic economy is making its way through, starting from the good intention of the classic economy.

Viewed generally the two types of economies do not differ much, only difference being that, while classical economy tends to increase the standard of living for the citizens of the respective state, the toxic economy tends to diminish this indicator and to polarize the national wealth by a privileged segment. Of course, there are also a lot of other adverse effects that will be described below in this study. So toxic is creating an impasse social economy can be scaled only by a short circuit at the dramatic political will or by a revolution.

Without considering the present study able to present the whole complexity of the phenomenon, we can pretend that there are distinguished several significant macroeconomic aspects of the toxic economy.

#### Definitions

**Toxic products** - products not manufactured in the country, for which no customs or excise taxes paid proper or fraudulent border last product category for which were prepared false documents and proceeds from the sale are taken illegally in the country.

**Toxic assets** - assets of the state, or granted sold at a price undervalued and state money obtained are used to pay state salaries, pensions or benefits.

**Toxic money** - external support borrowed money without investment destination, which are used by governmental apparatus for payment of wages, pension benefits. These destinations are normally covered by contributions from taxes and fees.

#### Phases forming the toxic economy

**Phase I.** The first phase occurs with the creation of toxic products and toxic assets. This phase involves the opening of the domestic market to international markets. Although a customs union involves bringing a progress because access to more diversified range of products at lower prices, but still in a certain context this advantage can become a drawback, which can create structural imbalances. In fact, this study considers this event as a beginning of the imbalance between domestic production, domestic and standard of living of the citizens of that country:

► It is not clearly defined if the balance lean in favor of this motion, but there are two big disadvantages can be defined;

► Domestic similar products imported are affected. The cause can arise from different levels of productivity, learning curve, Economies of scale, but also in quality of market entry of smuggled goods un-cleared, or false documents; Creation of toxic assets.

Toxic products create more competition in the market, not in all the cases a fair one. Thus some of domestic products can be eliminated by the market. The domino effect is that some production activities are out of service, jobs disappear which generates toxic effect of lowering the standard of living.

It is to be mentioned that toxic products may affect (not directly) the policy by the impact that such products have on the exchange rate.

It should be underlined however that is contrary to the worldwide trend of the global economy to believe that an economy could exist without affiliation to a customs union,

but same time adverse effects must be considered with objectively.

**Phase II** occurs when toxic products create an unbalance in the market. This is called the unbalanced toxic market. This type of market is the one of predominated by the goods imported from abroad and an important part of them are brought into the market without paying any customs duties.

Smuggled goods sold with false invoices bring great disservice to the state budget that requires a system of control very well developed, associated with a system of tax collection. Imbalances are clearly outlined: small budget collection, danger of insolvency of the country, needs to borrow additional funds to balance the budget deficit.

This is the phase in which corruption is deeply entrenched, personal interests of the ruling party prevail over the national interest. Dissatisfaction is growing among population, due to lowering of the living standards.

**Phase III** The third stage is the appearances of toxic money. Such money can be created from several sources, and due to several reasons.

The first category is represented by the retail consumer loans for the purchase of various durable goods, or for mortgage backed with immobile or purchased land. These types of loans exist in any economy, but how can such money become toxic?

Thus, where credit is granted in an period with accelerated lending growth, without an adequate risk management, after a period when the customers lose their ability to pay the borrowed money for the bank loan, those

money becomes toxic. Both parties are effected banks need to make provisions and customers who reduce their standard of living to support delayed rates and penalties.

The second category represents loans granted to companies without having an initial proper risk management. An example would be the most common loans for real estate projects, not intended for creation of inputs. When the real estate market fell all these funds become unprofitable. In cases of default banks must create provision again, but this time for a very large amount. All such loans create toxic money.

In general terms, banks already should finance projects that target long-term sustainable development and in consequence to pursue two main objectives: projects that do not affect that care for the environment and future generations.

The third category is the loans contracted by the state government both from domestically and externally markets to cover all expenses other than investment that can create added value. This can include loans from the IMF, EBRD, which did not target the production of goods or the investments for infrastructure.

A comprehensive view of the situation related to toxic money is suggestive presented by Charles Gide and Charles Rist in the book "A History of Economic Doctrines from the time of the physiocrats to the present day" Jun 5, 2011:

Moreover billion coins which came from abroad causes in the country which is received, a reverse phenomenon, poverty and depreciation of the currency, curves prices, shrinking exports and incentive for imports "



The fourth category is the proceeds from the privatization of state companies that do not give back a return to real economy and for which the state spent in unproductive purposes or special purpose money which also become is unproductive. Here the most convincing examples come from spending financing election campaign.

For the third and fourth category we can exemplify the money borrowed by the state at a cost which unless are invested in projects that lead to a return above the cost of financing, than such movement will create a burden on future generations and therefore can be considered as money super toxic

The fifth category is the black money resulting from tax evasion or money laundering. Compared to other categories harmful effects of these toxic money is obviously no place to return.

**Phase IV** is the phase of when using toxic money, toxic products and toxic assets the markets try to reach an apparent point of balance with a constant growth rate of GDP, but where standard of living is the lowest. It is the way it destroys a balanced economy in favor of other developing economies through an immense commercial network by transnational corporations in the country that no longer has any industries and industrial chains due to lack of money. Local banks to finance are not able to save from insolvency themselves and become bankrupt or sold.

Balancing toxic mechanism is the following: State borrow money which are with no certain destination from an international body (IMF, EBRD) and use those money for

the payment of pensions, wages, benefits, money unproductive instead of choosing to finance direct investment in national infrastructure that create jobs, and bring tax contributions to state and also create national added value.

The balanced toxic market the export of high-tech production and processing is very low, in turn exported raw or lightly processed at ridiculous prices.

Production of consumer goods production is divided into national, regional production and production worldwide. What distinguishes them from the same product manufactured in three conditions is the level of productivity generates price differentiation. The higher productivity is lower with both costs are higher and lower profit margin, given that the market imposes a price. Ultimately lowest productivity product is removed from the market.

But production of the product is done by the workers in another state, thus earnings are collected by the exporting country where GDP is produced and this increase the standards of living and importing country worker who is forced to work on a salary of power purchase diminished.

### Effects

The apparent balance from the fourth phase toxic money – toxic products in fact are creating the impression of an equilibrium but in fact is accelerating the dependence of to import. Those imports cannot be done directly by the locals but by companies specializing in sales with aggressive marketing policies, those benefits from commercial



loans almost limitless from Head Offices. The goal is to create market share and eliminate local producers and in this way to secure positions addiction.

The balance toxic money - toxic products lead to chronic unemployment in the labor market and thus to lower living standards. In fact, the state has no budgetary resources is forced to resort to reform the salary reduction or enlargement of taxes and resort to internal or external loans.

Inside a toxic economy two spiral born, one that falls - the standard of living and has lower base and another one that is based on small bottom and large base representing the balancing up of the toxic assets in the market.

In the event that in an industry there is no access to financing, funds for research and there are no market to sell their products internally or externally, then that industry bankruptcy. An industry such as the automotive, support, besides the main factory a series of other satellite factories where involved hundreds perhaps thousands of workers. It is possible that a breakdown of such industries if the unemployed hundreds of highly skilled workers who are forced to leave the country to other economies, or to reconvert themselves

The money from the privatization of various economic activities are not destined to become toxic but after their allocation to destinations unproductive consumption and offers no prospect of return. Only in this moment money becomes toxic. There is another aspect that must be considered which is the lack of control of money destination that

could become exotic destinations in the mailbox address.

The magnitude of the toxic effect leads to an irreversible destruction of the economic system that accentuates the falling living standards and with transforming the territory in a market for other countries with high productivity.

### Conclusions and recommendations

- Toxic economy is producing those imbalances;
- The transformation of productive assets in toxic money;
- Total lack of specialized control at all levels of the economy;
- Massive migration of specialized workforce in Western countries;
- Lack of perspective in terms of sustainable development;
- Decreased of standard of living.

The analysis starts from the interdependence of political, economic and the society. If the personal interests of politics, which is the power of government decision-making, prevail in the country, is the starting point in the formation of toxic economy. In this type of economy resources are suited to the formation of toxic products, toxic assets and toxic money. There is no focus on sustainable investment and the creation of value added respectively.

How the society reacts?

The society has the right to make change from four to four years, through elections. But

the vote is not often an option which is based on doctrine, but rather a vote of denial. In addition there are many techniques for manipulating the population by those which govern and are better organized in the territory. Also another contributor to this situation is the fact that another part of the population opts for absenteeism. Thus, another political regime imposes his personal or group interests beyond national interests and such a regime is rooted corruption at the lower level to higher levels. What is the worst are the prerequisites to develop in society, feeling that can steal without criminally liable.

This interdependence creates a spiral of political interest, policymakers, impact on the economy, population and standard of living.

What to do?

The output of toxic economy spirals cannot do than by removing the causes. The first and most important cause not related to monetary policy or fiscal policy but is the lack of leaders committed to the national interest.

A second major underlying cause is the lack of an independent judiciary to impose

impartial in society and among political leaders following approach: you cannot hurt a nation without paying.

For the first problem solution comes primarily from the society that has the maturity, experience and intuition to choose the right leaders.

For the second problem structures must be created using examples adaptable from other more developed countries that do their job. The entire political class in a toxic economy must be cleared. The new governmental regime must impose those structural reforms that induce sustainable development strategies aimed to pursue the following pillars:

- Economic development,
- Environmental,
- Social protection.

Sustainable development invariably brings increased standards of living, environmental protection and also care for future generations. Raising living standards develops a reliable national pride sentiment among the population.

---

## REFERENCES:

1. **Zaman Gheorghe**, 2013, „Aspects and trends of crediting the Romanian economy in lei and foreign currency during the pre- and post-accession periods”, Romanian Journal of Economics, Anul XXIII, Vol.36, Nr 1(45)
2. **Zaman Gheorghe, Geamănu, M.**(2006), „Eficiența economică”, Editura Fundației România de mâine, București.
3. **Marcel Jeucken**; (2001) *Sustainable Finance and Banking*, Earthscan Publication
4. **Moorad Choudhry**, *The principles of banking*, John Wiley and Sons Singapore Pre. Ltd., Singapore, 2012
5. **Isărescu Mugur** (2010) *Contribuții teoretice și practice în domeniul politicilor monetare și bancare*, Editura Academiei Române, 2010

6. **M. Dock, D. Lachat**, *Banques d'ingenierie financiare*, Paris, Paperback – France, 2000
7. **William J. Baumol, Alan S. Blinder**, *Macroeconomics, Principle and policy*, Thomsan Library, 2003
8. **Al. H Hansen**, *Business-cycle theory*, New York, Columbia University Press, 1999
9. **Joel Bessis**, *Risk management in banking*, John Wiley and Sons Limited, 2010, England
10. **N Georgescu Roegen**, *Legea entropiei și procesul economic*, Editura Expert, 1996
11. **Caracota C.R** (2012) *Sistemul bancar din România*, Ed. Universitară
12. **Stephen Kaelhofer, Jeffrey R Bohn**, *KMV Portfolio Risk management*, California USA, 2005
13. **Mark Blaug**, *Retrospective Economic Theory*, Ed Didactica si Pedagogica, Bucharest, 1992
14. BPP Learning media ACCA, (2014) *Advanced performance management*, London, 2014
15. \*\*\* European Central Bank, Financial Stability Review, June 2012. Section EU bank deliverying – during forces and strategies.
16. \*\*\* 2010-2014, "NBR sustainability reports", BNR.
17. \*\*\* dec.2007-iul.2014, "Buletin lunar BNR".
18. \*\*\* [www.bnr.ro](http://www.bnr.ro) Site-ul Băncii Naționale a României
19. \*\*\* [www.finantistii.ro](http://www.finantistii.ro)

# The difference between lending interest rate and funds interest rate. Link with sustainable banking.

## Particularities of Romanian Market

~ Ph.D. **Cristian Gheorghe Iacob** (Romanian Academy, National Institute for Economic Research "Costin C. Kirițescu", Bucharest, Romania)

E-mail: [cristiang.iacob@gmail.com](mailto:cristiang.iacob@gmail.com)

**Abstract:** The article, is trying to capture the way difference between active and passive interest rates influence macroeconomic sustainable development in a country. However the theory is limited on this area and the author is intending to merge practical aspects with conceptual terms.

The role of banks in an economy is very important, as all inflows and outflows are done through financial institutions. Bank sustainability is the area of study and practice that captures the contribution of banks in sustainable development of a country. Banking instruments are the means by which banks are present and act in the economy. Banking techniques are the mechanisms of banking instruments. The most important banking instruments are the loans and the deposits. So banks take deposits from different entities and use them as resource to finance other entities. A bank is considered contributing to sustainable development, if lending divisions allocates resources to investments that bring long-term welfare to the community not only for today people, but for future generations. Therefore, we can establish a correlation between banking sustainability and sustainable development through the evolution of banking instruments.

Looking to detail, bank sustainability is highly affected by the local macroeconomic issues, but also from global influences.

**Key words:** Transfer pricing cost, transfer pricing income, sustainable banking, reference rate.

## Motivation

The challenge of banking sustainability is very suggestive described in the company's vision of Triodos Bank, one of the bank that is exclusively dedicated to sustainable development, which is done beyond the declarative attitude - often visible within majority of the other banks. One of the Board members says: "Triodos Bank promotes the dignity of human and environmental conservation focusing on people's quality of life. The key to success is responsible attitude to business, transparency and conscientious use of money. Triodos Bank offers banking sustainability through products and services that directly promotes sustainable development. This in turn creates a society that enjoys a better quality of life. "

The study of sustainability in banking can include specific issues or the classical ones:

- Differential between the active and passive interest rate. As this difference is smaller, the more transparent the contribution of banks in sustainable development of economy is;

- Relationship between short-term financing and long-term financing;

- Relationship between lending in local currency and in foreign currency

- Risk management;

- Financing green project

The intention of the author is to reveal the magnitude of the impact at macroeconomic and microeconomic level of the interest rate differential between loans and deposits.

The concept of "the difference between active and passive interest", using the most

simple definition is the expression of the balance of the interest rate charged by bank for the interest rate on investments and the interest rate paid by the bank for the funds attracted.

But, with the purpose to capture the essence and also in order to ease the understanding of the importance of the diversified effects in an economy generated by the difference between active and passive interest rate, we have to identify the components of our indicator.

The beginning of the analyze, is to get a bird eye overview of the mechanism behind the concept. Thus, banks receive interest revenues from customers and pay interest expense also to customers. If ignoring commissions, the net result is the operational profit margin. Furthermore the bank need to cover the risks costs (credit risk, currency risk, interest rate risk) and administration cost resulting the net profit. The sustainability issue appears in the situation where the bottom line, i.e. net profit, is excessive high, compared with the return in other sectors of economy. This is due to the fact that the interest revenues are high, while the interest expense is too low, meaning that the banking sector in such economy has a monopolistic position on both sides lending and depositing. This is an anomaly of the banking system and in the long run, such an unbalance will not bring sustainable development.

Why this happened? How is possible that banks have interest revenues so high? Who is bearing this? Why the banks offer so small compensation for the resource attracted?

The way to get inside this deviation is to identify the elements that compose the

differential between the active and passive interest.

As already mentioned, interest revenues need to cover the cost with deposits and to ensure a profit after deducting administrative expenses. But the mechanism inside the banks is done through a treasury department which perceives a cost to lending and is paying revenue for the resources attracted. The instrument which is behind this process is the banking transfer price instrument. In theory, transfer price is often met as a fiscal tool. The role in the banking area is more sophisticated and the transfer price used is established through internal bank policies. The reason is related to the fact that the banking internal transfer price behave in a certain way depending on specific features of each bank.

Characteristics of the transfer price instrument are:

- The transfer price is the key tool which is determinant in computing the profitability of each business entity, or a product in a bank;

- The transfer price is governed by rules, procedures and internal policies. Particularly for banking sector each bank has specific regulations for calculating the transfer price;

- The transfer price is made up of a number of components which can be divided into a fixed (given and unchangeable subcomponents) and respectively in variable components;

So, the difference between active and passive interest rate is dependent on interest rate and on transfer price. Furthermore those core elements are dependent on other factors of influences. As it will be described each

influence will create an additional cost/incentive on interest rate determining the level of the differential.

### Factors of influence

The differential between active and passive interest rate, is influenced by a complexity of elements, but the major category is to split them in: macroeconomic factors and internal factors.

Macroeconomic factors could be fiscal policy or monetary policy. With regard the banking sector, monetary policy weight more than other macroeconomic factors of influence.

Monetary policy depends on: inflation, reference interest rate and the mandatory minimum reserve requirements.

**Influence from inflation.** The higher the inflation rate is, the more difficult is to control the market expectation and in consequence the banks are forced to include in their interest rate components a risk margin to cover the losses from inflation.

**Influence from reference interest rate.** Reference interest rate is the interest rate of a country monetary policy which is determined by decision of the Board of Directors of the Central Bank, in Romania the decision is taken by the National Bank of Romania. In a relative stabilized economy, key interest rate is meant to stimulate the economic growth and the community welfare.

The role of the reference rate is reflected in the formation of the base rate, as it is the starting point in construction of a level of interest rate, which in fact can be EURIBOR, LIBOR or ROBOR.

Reference rate creates a double impact:

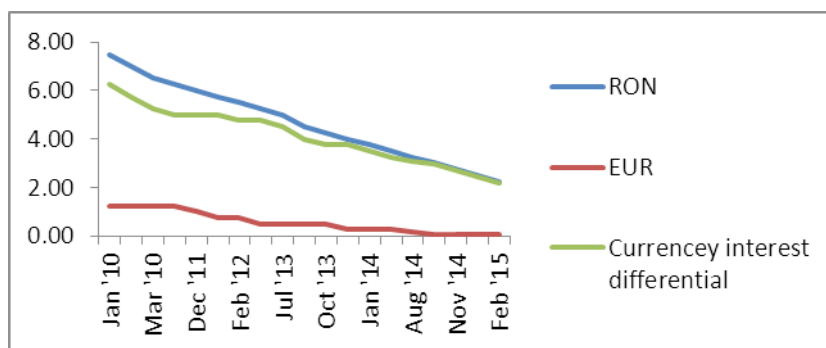
► firstly, direct impact on the resultant of the differential between the active and passive interest rate;

► on the other hand creates a preference on foreign currency lending, which consequently brings negative effects on the national currency. This impact is found also in the differential between the active and passive in the sense that, if maintained at a high level allows commercial banks to benefit from a wide range of market manipulation tools in establishing the interest rate. From recently banking practice, if looking at Romanian market, in order to maintain the profitability

as high as possible or for covering the provision for bad loans, banks are keen to benefit from a high level of reference rate.

In conclusion, this factor represents one of the given and unchangeable element which is part of interest rates composition. In our country even if the last years prove a downtrend for these indicators, if compared to the region, remains at a high level.

In the chart below is presented the evolution of the interest rate differential between the rates of reference name in RON compared to rates in EUR



Source: Statistics from NBR, ECB

Influence from minimum reserves requirements. As defined by the Central banks minimal reserve requirements (MRR) is the amounts blocked at the national bank accounts of the commercial banks in a certain quota, on hand of credit institutions in domestic and foreign currency, with the very clear purpose of limiting uncontrolled bank expansion activity. The National Bank of Romania states that, "MRR function is the main mechanism of monetary control (which is closely correlated with the liquidity management by the central bank) and the stabilization of interest rates on the interbank

market. The major role of reserve requirements in foreign currency is to mitigate foreign currency credit expansion".

Thus, the minimum reserves become placement in central bank accounts remunerated with a low interest.

Those resources are locking legal reserve requirements are part of a bank's total market funds raised from clients that are gathered for a cost supported by the bank, as interest expense. To pay this cost commercial bank must make investments with the remaining available funds after part of the resource is in MRR accounts which need to



ensure a return to cover the cost of attracted resource. So, indirectly this creates an additional pressure on customers interest rate that is translates into a possible increase of the differential between the active and passive interest rate.

For the purpose of profitability, banks use MRR as another reason to keep the lending interest rate up, while the deposit rate is low, which conduct to a difference between them unreasonable high, neglecting the effect on created on the other sector of activity or the entire community.

Internal factors. The most significant contribution is the transfer price as a link between the mother company and the subsidiary of the parent company.

The transfer price is the instrument by which these revenues are transferred to the parent bank. This is nothing unusual, as are common rules of the market economy. Imbalance lies in when the subsidiaries are pushed for huge profits, in detriment of the pressure on customers that need to bear important financing cost.

In every bank, transfer pricing decisions are taken by the Committee dealing with asset and liability management, met name ALCO (Assets and Liabilities Committee)

The transfer price is determined by management policies as follows:

- For private banks with foreign capital contribution, transfer price is established by the parent company;
- For private banks with private and state owned capital, by headquarters.

The core in-house analysis of profitability is done through transfer price computation. The internal workflow considers the

profitability per each type of product, classified function of currency, volumes, terms and also on destination retail or corporate. The logic is different in case of loans compared with deposits. Lending represents a division and deposit another division. Treasury is the matching entity. Transfer price is deducted from interest revenue to compute a profit margin. Furthermore Treasury receives revenue from lending division while deposits receive revenues as providers of resource.

This is how it works a standard banking mechanism, but can help understanding the source of the pressure on the customers.

Divisions fight for their operating profit margins, and in case the mother company associated with the contextual influences set high level of transfer rate, than the solution is to push on interest rate, up for lending, down for deposits.

So the pressure creates pressure. Executive managers of the banks to safeguard their positions and bonuses are under pressure to bring profit and so they induce pressure in the market. Therefore, the transfer price play an important role, is the instrument of the banks to take decision, and at the end to determine the difference between active and passive interest rate.

The transfer price is composed of fixed elements and of variable elements. The fixed elements are that one given by the regulators. Also transfer price differ if computed for loans and if computed for deposits. There are also common elements for both deposits and loans.

The first component is the BOR rates which is the base for loans and for deposits. This rate is classified depending on the currency and on the term of the instrument.

Cost with MRR is another fixed element



of transfer price. This has been explained already.

Another fixed component of transfer price given by the regulator is the cost related to the guarantee fund. This component appears with the role of cost, meaning that transfer income diminishes. It is calculated as a percentage of the average volume of deposits recorded at the end of previous year.

Cost with cash in ATM or respectively the other cash that exists in an economy is also a fix component. Basically the logic behind is that cost is the same as for MRR cost. The cash comes from various resources which bear interest expense, that need to be cover by the revenues from lending interest rate.

Above all of fixed elements comes the contribution from variable elements.

The first one to mention is the country risk. This represents an additional cost controlled by the bank Head Office, which encompass an abstract vision of the bank which has foreign investment in an overseas country. This cost contains a very subjective approach to the mechanism of the transfer price policy of a bank. A short example can clarify this. A bank owned by Greece has a subsidiary in Romania. There is no comparison between those two countries in terms of macroeconomic stability, monetary policy, external debt, constant GDP growth. But the Head Office from Greece includes in the transfer pricing computation a cost related to country risk.

The cost of procurement of currency other than the EUR and local one, like for example CHF, involves an additional cost justified by the transactions to purchase that currency through a SWAP. This component

varies depending on the liquidity of the market. Most frequent is called the "SWAP cost basis".

Finally the spread which is justifying the profitability as the core purpose comes with an additional cost. This is highly variable and dependent on the market conditions whether the bank intends to gain market share or not.

All in all, not claiming that the exposure is exhaustive those are the major elements of impact in constructing the interest rate. The mechanism described is the same in any bank.

## Conclusions

The differential between the active and passive interest rate is a consequence of how a banking system maturity degree is driven by the monetary policy instruments. However, the general economic context through the rest of economic policies (fiscal, budgetary, the labor market etc.) is also a contributor to the evolution of the active and passive differential.

Simple information regarding this differential is not sufficient to conclude whether or not banks promote sustainable development. Why? The reason could be that this indicator is only related to operational profit. In order to find a rate of return of bank, there must be considered the provisioning expenses and all the other administrative expenses.

In the table below it is visible the evolution of the differential, which is in a downward trend up to 2013, but re-launched in 2014, so the concern of this study is still an issue.

Currency RON	2010	2011	2012	2013	2014
Average interest rate for deposits retail	6.80%	6.10%	5.64%	4.83%	2.40%
Average interest for consumer loans retail	20.90%	17.75%	15.80%	13.95%	12.37%
<b>Interest rate differential</b>	<b>14.10%</b>	<b>11.65%</b>	<b>10.16%</b>	<b>9.12%</b>	<b>9.97%</b>

Source: Own computations

Is it possible to have a sustainable development in a country where the profit is concentrate in a one single sector?

If this induces a net profit rate of return than the average from the other sectors of economy, it means that interest rate differential is high and the revenues collected by the bank creates a polarization of profit within the banking domain within an economy. Taking the analysis further, this creates an imbalance with the other sectors by diminishing the capacity of the real economy to expand because they do not have financial power or ability to generate profit.

Two important conclusions can be drawn:

► The first conclusion is that in a free market, it is difficult to impose a maximum limits for interest charged by banks and if


these interests are unjustifiable high, the contribution to sustainable development is diminished. It is up to banks management as manifested in the market, but it is mostly guided according to the objective of maximization of benefits.

► The second conclusion that can be drawn, given the current context of international banking systems, the banks must pursue their profitability policies through volumes increasing which is a more long time view and more beneficial for the entire economy. This comes instead of a short time horizon with high profits, but that may come with reverse consequences mostly in terms of risk management. The bank that foresee this approach as an opportunity will ensure:

- income on a time horizon is sustainable
- good market image
- strong market share

## REFERENCES:

1. Zaman Gheorghe, 2013, „Aspects and trends of crediting the Romanian economy in lei and foreign currency during the pre-and post-accession periods”, Romanian Journal of Economics, Anul XXIII, Vol.36, Nr 1(45)
2. Zaman Gheorghe, Geamănu, M.(2006), „Eficiența economică”, Editura Fundației România de mâine, București.
3. Marcel Jeucken; (2001) *Sustainable Finance and Banking*, Earthscan Publication
4. Moorad Choudhry, *The principles of banking*, John Wiley and Sons Singapore Pre. Ltd., Singapore, 2012
5. Isărescu Mugur (2010) *Contribuții teoretice și practice în domeniul politicilor monetare și bancare*, Editura Academiei Române, 2010
6. N Georgescu Roegen, *Legea entropiei și procesul economic*, Editura Expert 1996
7. Caracota C.R (2012) *Sistemul bancar din România*, Ed.Universitară

8. BPP Learning media ACCA, (2014) Advanced performance management, London, 2014
  9. \*\*\* 2010-2014," NBR sustainability reports", BNR.
  10. \*\*\* dec.2007-iul.2014, "Buletin lunar BNR".
  11. \*\*\* [www.bnr.ro](http://www.bnr.ro) Site-ul Băncii Naționale a României
  12. \*\*\* [www.finantistii.ro](http://www.finantistii.ro)
- 

## The Dynamics of Romanian SMEs within the European Context

~ Ph. D. Associate Professor **Vladimir-Codrin Ionescu** (University of Bucharest, Faculty of Business and Administration, Romania)

E-mail: [vladimir-codrin.ionescu@faa.unibuc.ro](mailto:vladimir-codrin.ionescu@faa.unibuc.ro)

~ Ph. D. Professor **Viorel Cornescu** ("Nicolae Titulescu" University, Bucharest, Romania)

E-mail: [cornescuviorel@yahoo.com](mailto:cornescuviorel@yahoo.com)

**Abstract:** *On a long term Romania's economic and social development potential looks quite promising thanks to the potential that SMEs pose and that must be encouraged and stimulated to capitalize current and potential business opportunities. The present paper gives an overview of Romanian SMEs within the European context, while analysing the number and proportion of firms and their employees, as well as the added value that the SMEs sector brings to economy. Similarly, the present paper analyses demographic evolution of SMEs and their density, regarded as a strategic indicator that reflects, from a quantitative perspective, the development stage of SMEs in Romania and in relation to the EU. The last section of the paper illustrates various aspects regarding the position that Romania occupies in the EC as to the implementation of the Small Business Act for Europe.*

**Key words:** SMEs, number of employees, added value, demographic evolution, density of SMEs, SBA for Europe.

JEL Classification: L25, L26, M10, M21, O10.

## 1. Introduction

In the last few years, Romania has made several important steps as regards the creation of a stable and predictable business environment; however, there is still more to do: the configuration of a legislative and institutional framework that offers premises for a favourable manifestation of the entrepreneurial spirit. The efforts that have been made so far must be continued because the existence of a stimulating and dynamic business environment, which is attractive to investors, and the development of SMEs, are fundamental premises that ensure a sustainable development for Romania, which must comply with the Europe 2020 Strategy.

The importance of SMEs in contemporary economy is generally acknowledged if we consider the multiple economic, technical and social functions which they accomplish. Of these, we would like to mention [2], [9]:

- SMEs bring a substantial contribution to the GDP: between 55% and 95%, in general;
- SMEs produce a large variety of goods and services, while substantially satisfying the demand on the market;
- SMEs support the activity performed by large and very large companies through outsourcing (parts, subsets and/or specialized services);
- SMEs create workplaces for most of the population;
- SMEs offer products and services at lower costs in comparison with large companies;
- SMEs represent the most dynamic sector of economy;
- SMEs contribute to the reduction of unemployment, while absorbing the

- laid off personnel through the reorganization of large companies;
- SMEs offer to many persons the possibility to achieve professional and social fulfilment, particularly to the most active and innovative segment of the population;
- SMEs manifest a high receptivity for the innovating phenomenon both as regards production, and also as regards the incorporation of inventions and innovations;
- SMEs are an important revenue source for the state budget (taxes, VAT, etc.);
- SMEs are the main vectors of knowledge-based economic development;
- SMEs are the basis of the future large companies, especially in new areas of economy, such as the most important domains of activity that rely on state-of-the-art technology.

Romania, as an EU member state, has a consistent economic and social development potential on a long term; this potential exists particularly at local level, where SMEs should be encouraged and stimulated to profitably and fairly capitalize their current and potential business opportunities for the benefit of Romanian society.

By 2020 building a national and viable entrepreneurial ecosystem will have allowed productive chains of SMEs, which are spread in all the regions of the country, to function in an interconnected manner; priority is given to those chains that have an increased potential of added value, such as clusters and poles of excellence or industrial networks or chains that provide high quality services.

Thus, it will be possible for the national entrepreneurial ecosystem to be built on

the reinforced structure of the SMEs sector, which has the capacity to significantly contribute to the sustainable development of Romania and, implicitly, to its social progress, as well as to the prosperity of all its citizens [7].

## 2. Romanian SMEs – proportion, distribution and demographic evolution

The general performances that SMEs have in Romania are measured and evaluated

with the help of three main indicators, i.e.: the number of firms, the number of employees and added value [Table, 1, Table 2, Table 3]. According to the information published in “2014 SBA Fact Sheet Romania” [5], Romanian SMEs represent 99.7% of the total number of companies in the country; this percentage is comparable with the one recorded in the European Union on the whole, i.e. 99.8%.

*Table 1: Number and proportion of enterprises in Romania and the EU-28, on size classes [5]*

Indicator Size classes	Number of enterprises		
	Romania		EU-28
	Number	Proportion	Proportion
Micro	373944	87.4%	92.4%
Small	44682	10.4%	6.4%
Medium-sized	7669	1.8%	1.0%
SMEs	426295	99.7%	99.8%
Large	1455	0.3%	0.2%
Total	427750	100.0%	100.0%

*Table 2: Number and proportion of employees in Romanian SMEs and the EU-28, on size classes [5]*

Indicator Size classes	Number of employees		
	Romania		EU-28
	Number	Proportion	Proportion
Micro	931091	22.9%	29.1%
Small	929499	22.9%	20.6%
Medium-sized	848216	20.9%	17.2%
SMEs	2708806	66.7%	66.9%
Large	1349456	33.3%	33.1%
Total	4058262	100.0%	100.0%

Tabel 3: Added value created by enterprises in Romania and the EU-28, on size classes [5]

Indicator Size classes	Value added		
	Romania		EU-28
	Billion Euros	Proportion	Proportion
Micro	7	13.4%	21.6%
Small	9	16.3%	18.2%
Medium-sized	10	19.7%	18.3%
SMEs	26	49.4%	58.1%
Large	26	50.6%	41.9%
Total	52	100.0%	100.0%

Even though in the last few years we have witnessed an increase in the number of start-ups, small enterprises amount at 87.4% of the total number of firms that exist in Romania (in comparison with the level of 92.4% that is recorded at EU level); they supply 22.9% of the workplaces in the private sector (in comparison with the EU average of 29.1%) and contribute with 13.4 % to the creation of added value (in comparison with the percentage of 21.6% that is recorded at EU level).

Romanian small enterprises surpass the EU average as regards the share that they cover (10.4% in comparison with 6.4% in EU-28) and as regards their number of employees (22.9% in comparison with 20.6% in EU-28); however, they contribute with less as to the added value (16.3% in comparison with 18.2% in EU-28).

It is interesting to notice that medium size Romanian enterprises surpass the EU average level for all the three indicators.

Thus, Romanian medium-size enterprises represent 1.8% of the total number of companies (in comparison with the level of 1% recorded by EU-28); they ensure 20.9% of the workplaces in the private

sector (comparatively with the average level of 17.2% recorded by EU-28) and they contribute with 19.7% to the creation of added value (comparatively with the EU-28 average of 18.3%).

On the whole, the Romanian SMEs sector is situated under the EU average from the point of view of the three indicators that we considered in our analysis.

Differences are insignificant as regards the share of firms and employees number; however, a significant difference is recorded as to the contribution that the SMEs sector brings for the added value (49.4% in Romania, comparatively with 58.1% in EU-28).

The distribution of Romanian SMEs on economic branches is comparable with the average distribution recorded at EU level since most of these enterprises perform wholesale and retail activities, in the industry of civil engineering and in industrial processing activities.

In comparison with other EU member states, Romanian SMEs that are service providers pursue their activities in areas that require less specialized knowledge: whole and retail activities, rent and leasing activities, food, transport and courier services. [5].

Table 4: The total number of companies which were subjected to incorporation, suspension, dissolution and deregistration for 2008-2012 [7]

Year	2008	2009	2010	2011	2012
Incorporations	144,239	111,832	119,048	132,069	125,603
Suspensions	12,019	134,441	66,428	21,086	24,078
Dissolutions	3,762	30,105	8,191	11,660	22,500
Deregistration cases	17,676	43,713	171,146	73,244	71,746
I / SDR	4.31	0.54	0.48	1.25	1.06

The demographic evolution of SMEs is, on the one hand, illustrated by the total number of incorporated companies, and, respectively, by the number of companies that were subjected to suspension, dissolution and deregistration, on the other hand [Table 4] [8].

In 2008, 144,239 companies were incorporated, while the total number of companies that were subjected to dissolution, suspension and deregistration amounted at 33,457 firms.

In other words, for 4 companies that were incorporated in 2008, only one ceased its activity.

In 2009 and 2010, the number of dissolutions, suspensions and deregistration cases was double in comparison with the number of the incorporated companies due to the economic crisis.

The situation improved in 2011 and 2012, when the relation between the number of incorporated companies and the number of companies that ceased to perform their activity was around 1 (in 2012 a number of 125,603 companies were incorporated and a number of 118,324 companies ceased to pursue their activity).

### 3. Density of SMEs

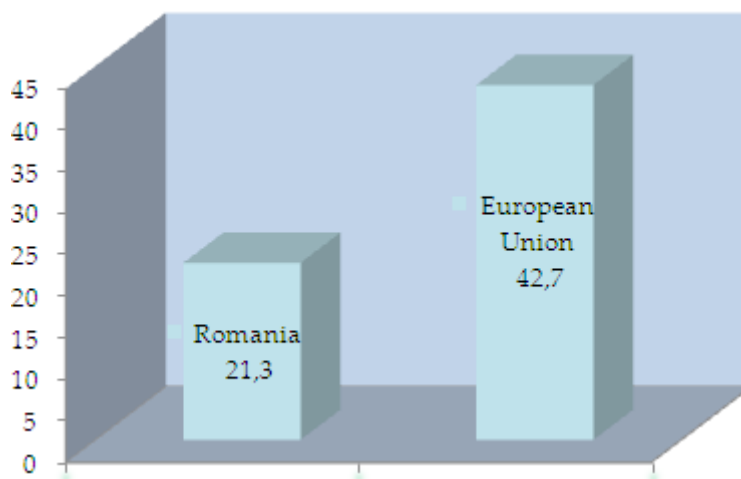
The strategic indicator that points out the development stage for SMEs in an economy is their density, respectively the number of active SMEs calculated in proportion to 1,000 inhabitants. This index provides essential information as to the efficiency of the governing policies which are meant to encourage and assist SMEs and, at the same time, it reflects the sectorial and regional trends [3]. At present, in Romania, SMEs density amounts at 21,3 firms/1,000 inhabitants, representing 49,88 % of the EU average, i.e. 42,7 firms/1,000 inhabitants [4].

One should remark that a year ago the density of SMEs in Romania was of 23 firms per 1,000 inhabitants, i.e. 56% of the average density recorded at EU level, which amounted at 41 firms per 1,000 inhabitants.

Analysing the density of SMEs territorially (see Table 5), one can notice that the region of Bucharest-Ilfov occupies the first position in the hierarchy, with a density of 50.23 firms/1,000 inhabitant, followed by the North-West region with a density of 24.35 firms/1,000 inhabitants and by the Central region whose density is of 23.54 firms/1,000



Figure 1. Density of SMEs in Romania in relation to the EU average



inhabitants. The last positions are occupied by the regions of South-Muntenia and North-East, in which the density of SMEs is of 16.10 firms/1,000 inhabitants and, respectively, 15.12 firms/1,000 inhabitants. One can notice that the hierarchy of the 8 development regions, as regards the density of SMEs, remains stable in time; however, one can also identify a significant gap between the first region, Bucharest-Ilfov, and the regions of

North-West, Centre and West, which occupy the next three positions. Similarly, one can spot a critical situation in the regions of South-Muntenia and North-East, where 32.27% of the total population of Romania lives, and which record the lowest density level for SMEs. The data comprised in Table no. 5 illustrate the major gaps existing between the eight development regions of Romania as to the entrepreneurial phenomenon.

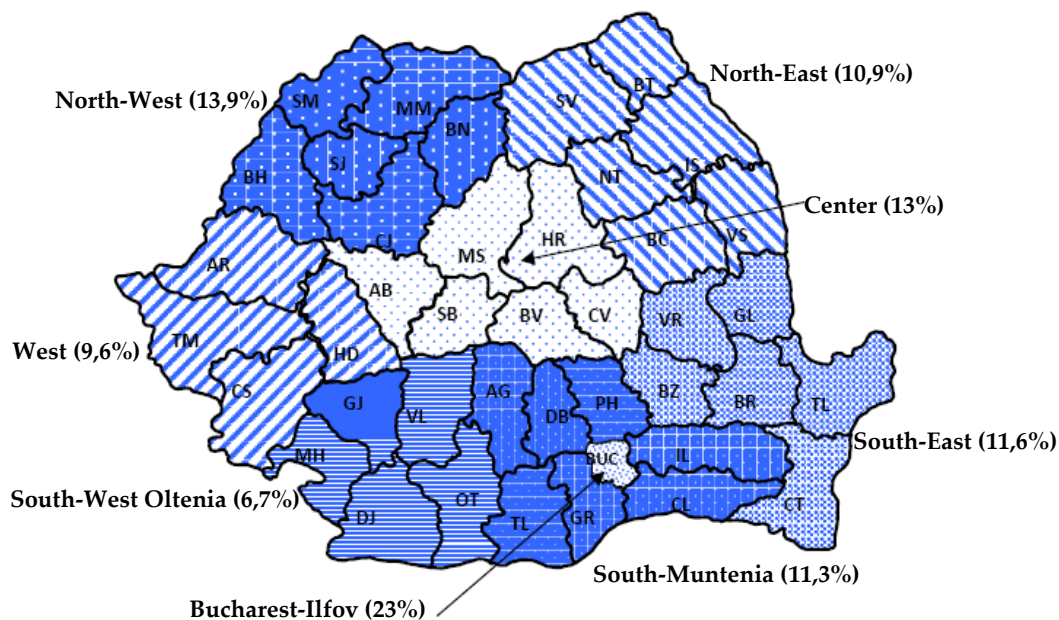
Table 5: Number and density of SMEs in the 8 development regions [8]

Region	Number of SMEs	Regional share of SMEs	Number of inhabitants	Density (no. of SMEs / 1,000 inhabitants)
BUCHAREST-ILFOV	102,577	22.69%	2,042,226	50,23
NORTH-WEST	60,758	13.95%	2,495,247	24,35
CENTRE	53,002	12.31%	2,251,302	23,54
WEST	40,594	9.41%	1,730,146	23,46
SOUTH-EAST	51,694	11.94%	2,399,604	21,54
SOUTH-WEST OLTENIA	32,532	7.48%	1,977,986	16,45
SOUTH-MUNTENIA	48,273	11.17%	2,998,679	16,10
NORTH-EAST	47,612	11.05%	3,148,577	15,12
ROMANIA	437,042	100%	19,043,767	22,95

As to the distribution of employees who perform their activity in SMEs, illustrated per regions of development (see Figure 2), one can spot the first position in the hierarchy for the region of Bucharest-Ilfov with 23%. In fact, almost a quarter of the total number of employees in SMEs in Romania work in companies that are located in this region, which also occupied the first position also as to the SMEs density. Actually, there is a natural correspondence between the two indices, the regions of North-West and Centre, which occupy the second and, respectively, the third positions as to the SMEs density, and as to

the share of employees. The West Region, which occupies the fourth position as to the SMEs density, is the first before last in the hierarchy as to the share of employees, a situation which is not accidental if we consider that this region has the lowest number of inhabitants of all the 8 regions of development. A critical situation exists in the North-East region, which occupies the last position as regards the SMEs density and which records only 10.9% of the total number of employees working for SMEs, though this region has the largest number of inhabitants of all the existing ones.

Figure 2. Regional distribution of the employees in SMEs (adapted in accordance with [7])



#### 4. Small Business Act for Europe

The European Commission adopted in 2008 a document entitled "Small Business Act" for Europe, the first ample frame of policies for SMEs within the EU and the EU member states [1]. The main goal of the "Small Business Act" for Europe is the adaptation of the general strategic approach to the entrepreneurial spirit in order to irreversibly impose the principle: "Think small first".

In order to successfully implement "Small Business Act" for Europe, the Commission suggested concluding a political partnership between the European Union and member states, which must observe the principles of subsidiarity and proportionality. "Small Business Act" for Europe promotes a set of 10 principles which are meant to guide the conception and application of public policies within the area of SMEs both at European Union level and at the member states level. The 10 principles are as follows [1], [5]:

- Entrepreneurship;
- Second chance;
- Think small first;
- Responsive administration;
- State aid & public procurement;
- Access to finance;
- Single market;
- Skills and Innovation;
- Environment;
- Internationalization.

As one can notice in Figure no. 3, the first principle, "entrepreneurship", is the only of the 10 principles where Romania exceeds the European Union average. The result is surprising if we consider that in Romania, the SMEs sector does not benefit from the

support and assistance offered to the other member states. Moreover, only 15.34% of the Romanian entrepreneurs consider that the economic environment is favourable to the development of businesses [10].

Consequently, one can state that in Romania there is a culture of the entrepreneurial spirit, a favourable attitude and a tendency towards the setting up of businesses and, at the same time, a tendency towards developing the existing companies, a fact which is an important premise for the consolidation of the SMEs sector for the next period. Similarly, in May 2014 a new law was passed on SMEs, which introduced the compulsory application of the SMEs test that creates an evaluation group for estimating the economic impact of regulations regarding SMEs and, at the same time, allots about 0.4 % of the annual GDP for programs that support the SMEs sector in Romania.

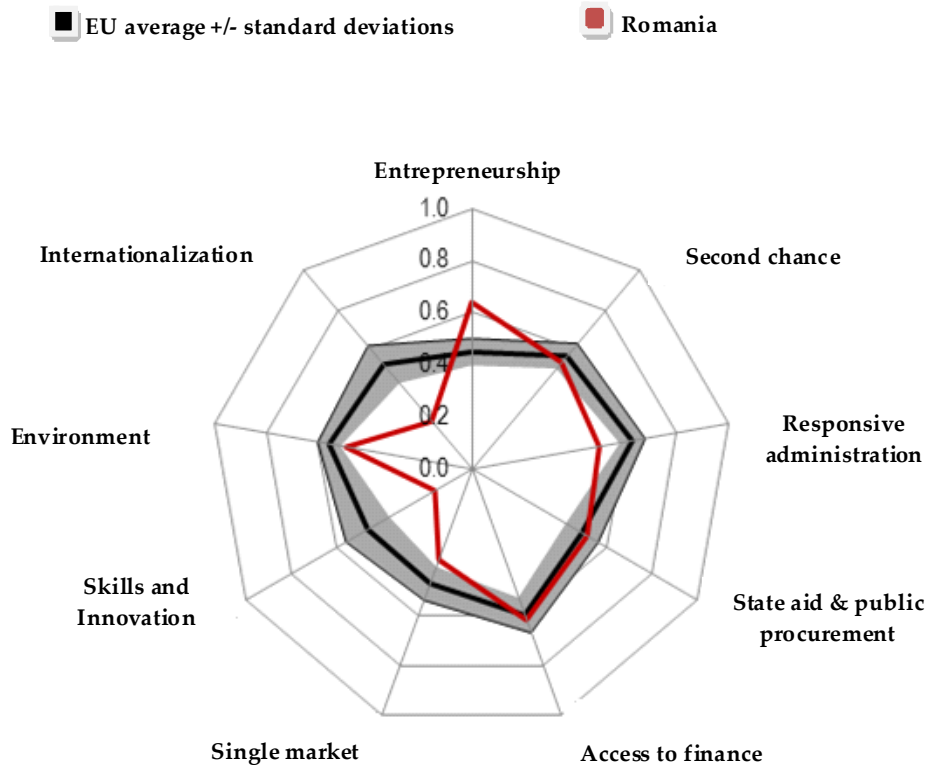
#### 5. Conclusions

Building a national viable entrepreneurial ecosystem by 2020 will ensure an interconnected functioning of the production SMEs chains, which exist throughout the country; priority is given to chains that have an increased added value potential, such as the clusters and the poles of excellence or industrial networks or the networks that provide high quality services.

The overall performance of Romanian SMEs is measured and evaluated in accordance with three main indicators, i.e.: the number of firms, the number of employees and added value.

Differences are insignificant as to the share of the SMEs and the number of employees; however, there is a significant gap

Figure 3. Principles of the "Small Business Act" for Europe. Comparison between Romania and the European Union



as to the contribution brought by the SMEs sector for added value (49.4% in Romania, comparatively with 58.1% in EU-28).

The distribution of Romanian SMEs on economic branches is comparable with the average distribution recorded at EU level; most of the SMEs pursue commercial activities, such as wholesale and retail activities, and provide services in the processing industrial activities, as well as in civil engineering.

The density of SMEs is a strategic indicator, which provides essential information as to the efficiency of governmental policies designed for encouraging and assisting SMEs; this indicator also illustrates sectorial and regional tendencies. In Romania, the density of

SMEs records a value of 21.3 firms/1,000 inhabitants, representing 49.88% of the average recorded at EU level, which amounts at 42.7 firms/1,000 inhabitants.

The "entrepreneurship" principle, of the total number of 10 principles that are provided by the Small Business Act for Europe, is the only one for which Romania is classified above the EU average. One could say that in Romania there is an entrepreneurial culture, a favourable attitude and an orientation towards the setting up of businesses, as well as towards the development of the existing ones; this fact is an important premise for the reinforcement of the SMEs sector in the next period.

## REFERENCES:

1. Commission of the European Communities, "A Small Business Act" for Europe, Brussels, 2008.
2. **Cornescu, V., Ionescu, V.**, *Economia și managementul afacerilor mici și mijlocii*, Bucharest: University of Bucharest Publishing House, 2011.
3. **Dinu, M.**, *Economia României. Întreprinderile mici și mijlocii. Cu ce ne integrăm?*, Bucharest: Economică Publishing House, 2002.
4. European Commission, *Annual Report on European SMEs - A Partial and Fragile Recovery*, 2014.
5. European Commission, Directorate-General for Enterprise and Industry, 2014 *SBA Fact Sheet Romania*, Brussels, 2014.
6. European Commission, *Europe 2020*, Brussels, 2010.
7. Romanian Government, Department for SMEs, Business Environment and Tourism, *The Government Strategy for the Development of the SMEs Sector and the Enhancement of the Business Enterprise in Romania – Orizont 2020*, Bucharest, 2014.
8. Post – Privatization Foundation, *Raportul privind sectorul IMM din România*. Ediția 2013, Bucharest, 2013.
9. The National Council of Private SMEs in Romania, *Strategy 2012-2016*, Bucharest, 2012.
10. The National Council of Private SMEs in Romania, The Ministry of Economy (Department for SMEs, Business and Tourism Environment), *White Charter of Romanian SMEs*, Bucharest: Sigma Publishing House, 2013.
11. [www.europeancommission.com](http://www.europeancommission.com)
12. [www.infoeuropa.ro](http://www.infoeuropa.ro)

## Innovation in Organizations

~ Ph. D. Associate Professor **Vladimir-Codrin Ionescu** (University of Bucharest, Faculty of Business and Administration, Romania)

E-mail: [vladimir-codrin.ionescu@faa.unibuc.ro](mailto:vladimir-codrin.ionescu@faa.unibuc.ro)

~ Ph. D. Professor **Viorel Cornescu** ("Nicolae Titulescu" University, Bucharest, Romania)

E-mail: [cornescuviorel@yahoo.com](mailto:cornescuviorel@yahoo.com)

**Abstract:** Innovation is an integrating part of the re-vitalization plan of EU economy and it is one of the seven initiatives comprised in the 2020 Europe Strategy. The European Union supports through active policies the creative-innovative processes, as illustrated by the Cohesion Policy Program for 2007-2013 and by the "Horizon 2020" Program for Research and Innovation. The present paper presents, from an organizational perspective, relevant aspects related to the question of innovation and innovation management, while pointing out the most important internal and external factors that favour the introduction of innovation into the sphere of processes that are run by organizations, as well as into the sphere of products and services provided by organizations. At the same time, the paper briefly presents the essential attributes of organizations which obtain competitive sustainable advantages through innovation.

**Key words:** organization, innovation, management of innovation, contextual factors, intra-organizational factors, competitive advantage.

**JEL Classification:** D83, L21, L25, O31, O32.

## 1. Introduction

Innovation was one of the main topics approached at the 6th edition of the World Science Forum held at Rio de Janeiro on 24th-27th November 2013. Thus, the "Declaration of the World Science Forum" presents five recommendations, of which two refer to innovation activities [9]:

- training for reducing inequality and promoting sustainable science and innovation worldwide;

- ethical and responsible attitude in research and innovation.

At EU level, Europe 2020 Strategy is structured on three main pillars, i.e. intelligent growth, sustainable growth and enlargement growth [2].

Intelligent growth implies reinforcing knowledge and innovation as essential vectors for society and economy-based knowledge. In order to achieve this objective, the European Union, through its institutions, attempts to improve the quality of educational systems, to increase performance in the area of research, to promote innovation and knowledge transfer within the EU space and to enhance the entrepreneurial spirit, which is centred on market opportunities and the users' needs etc.

Innovation is an integrating part of the revitalization plan conceived for EU economy and it is one of the seven initiatives comprised in Europe 2020 Strategy.

The objective of this initiative is represented by the orientation of the research & development and innovation policy towards the challenges of contemporary society, such as climatic change, energy and the efficient use of resources, health and demographic change.

For the last years, the European Union has supported through active policies creative-innovative processes, as revealed by the Cohesion Policies Program devised for 2007-2013. Being an essential element of this program, innovation is supposed to have ensured sustainable development; consequently, 25% of all the structural funds were allotted to the Agenda for Innovation, which includes: research and innovation, ICT exploitation (Information and Communication Technologies), measures for enhancing the entrepreneurial spirit, as well as innovation at the workplace.

In 2013 the Program for Research and Innovation "Horizon 2020" was adopted; this program is a financial instrument used for implementing the Initiative "A Union of Innovation" within the reference period of 2014-2020 [10].

The Program "Horizon 2020" is mainly meant to reinforce the scientific and technological basis by creating a European Area of Research, within which researchers, scientific knowledge and technology may freely circulate.

Similarly, the Program for Research and Innovation "Horizon 2020" is going to support the development and implementation of the public-private and public-public partnerships, including the European Platforms for Technology, the Joint Program Initiatives and the European Partnerships for Innovation [8].

Benefiting from a budget of 70 billion of Euro, allotted for 7 years (2014-2020), "Horizon 2020" is the most important program of research and innovation in the world if we consider the fact that the precedent multiannual Framework Program (FP7) has benefited from a budgetary allotment of 53 billion of Euro for 2007-2013.



## 2. The concept of innovation.

### Innovation management

The innovative potential of organizations is determined by the creative potential of the personnel, the competence of the managerial team and the existence of mechanisms that support the application of the new ideas, respectively their transformation into competitive products and services. The development of the creative and innovative potential of human resources within an organization is accomplished through the recruitment, adequate training and on-going specialization thereof.

Creativity is the capacity of human resources to identify new solutions for current problems, whereas innovation is the process whereby an idea is transformed into utility and is launched on the market. Consequently, creative and innovative activities are interdependent.

Given the importance of creative-innovative processes within the context of knowledge-based economy, we appreciate that it is absolutely necessary to have within the organizational structure of companies a department that is meant to plan, organize and develop innovation.

Moreover, it is necessary to apply management methods and techniques in the sphere of creativity and innovation. Due to the development of present technology and the increase of the funds allotted for research and innovation, the relation between the inspiration and the effort used to accomplish a new product or service becomes even smaller. Under these circumstances, creativity and innovation management must be directed towards the transformation of ideas into

products, services or combinations thereof.

From a managerial point of view, innovation can be defined as a process that implies a multitude of activities that are accomplished by a range of actors coming from one or more organizations, through a whole set of new combinations of means and/or goals, which aim at growth and/or the adoption of new products and services, which are developed and/or executed and/or implemented and/or transferred towards partners coming from old and/or new markets [4].

Managerial innovation poses a series of particular features, of which we mention: its object is represented by human activity; it has a multidisciplinary nature because it implies the settlement of economic, technical and human problems; managerial innovation is subject to a rapid moral usage rhythm due to the large number of dynamic variables on which it depends; it is the result of team work due to the variety and complexity of the elements involved in the managerial processes.

Innovation management has been defined by Sandrine Fernez-Walch and François Romon as "a set of actions performed in an organization and a set of options expressed in order to favour the emergence of innovation projects, to decide the launching thereof and to accomplish the trading of new products or the implementation of new processes for increasing competitiveness" (our translation; the original text is: „ansamblul acțiunilor întreprinse într-o organizație și al opțiunilor efectuate pentru a favoriza emergența proiectelor de inovare, a decide lansarea lor și a realiza comercializarea noilor produse sau implementarea de noi procese, în vederea creșterea competitivității") [3].

From the perspective of the final goal of the innovation process, innovation



management may be approached as a process that aims to identify, organize and allot available resources - human, technical, economic ones – in order to acquire new knowledge, to come up with ideas that allow for new products and services to be obtained and modernized, through the transfer of the best ideas into the sphere of production and commercialization [5].

The British standard BS 7000-1:2008 is a guide in the area of innovation management and it particularly refers to the design and development of competitive products [1]. The general principles of innovation management that are comprised by this standard may be applied both in economic organizations (firms), and in public organizations (institutions and public authorities), as well as in non-profit organizations. This standard offers indications that are structured onto three main coordinates:

- innovation management at organizational level;
- performance within innovation management processes;
- instruments and techniques used in innovation management activities.

The management of creative-innovative activities should be an important part of the development strategy for an organization; it should have clearly defined objectives, with clearly outlined strategic options, with allotted resources, as well as with realistic initial, intermediate and final terms.

### 3. Factors that favour innovation

Factors that favour innovation in organizations, i.e. the introduction of the novel element into the technical, technological and managerial plan, may be organized in two

large categories:

- factors related to the organizational environment (contextual factors);
- factors related to the internal environment of the organization (intra-organizational factors).

Of the contextual factors that help organizations acquire innovation and promote the novel in the processes they perform, as well as in their products and services, we mention [6]:

- the imperative need to develop or at least to maintain their position on the market (organizations must comply with the exigencies imposed by the ones who express demand by offering new or modernized products and services);
- market demand to diversify production (most companies resort to diversification strategies and, more rarely, they modify their activity profile);
- compliance with norms imposed by government, legislation, social demand (for the last years the most frequently modified norms have been the ones that refer to environmental protection, particularly to the products offered by enterprises that are active in chemical, pharmaceutical and car industry);
- increased prices for raw materials and energy (due to this state of facts, organizations are bound to modernize the technology they use or to adopt other technologies and, at the same time, to re-design certain products);
- harsher competition on the market (in order to remain competitive, an organization must permanently take into consideration the strategic actions

adopted by competing firms as regards the technology, prices and the distribution channels that they use, as well as the promoted marketing strategies and policies that they resort to etc.);

There are other contextual factors that bring innovation in organizations, i.e.:

- enhanced quality of products and services on the market;
- new competitors on the market;
- Internationalization of economic activities;
- Proliferation of equipment and symbolic products (cards, electronic trading, electronic banking, IT programs etc.);
- the new knowledge-based economy regarded as a whole.

Intra-organizational factors that favour creative-innovative processes are, basically, the following ones:

- the development strategy of the organization (which is based on a strategic vision of the managerial team and which emphasizes the creative-innovative potential of human resources, regarded as a main vector for obtaining the competitive sustainable advantage);
- the promoted managerial style (it is recommendable to adopt a proactive, flexible and innovative management);
- the system of objectives in an organization (e.g., entering a new market, developing new products or services, diversifying products, specializing certain products or a single product etc.);
- organizational culture, which in time cultivates good practice in the area

of innovation and which at the same time borrows good practice that has proved to be workable and efficient in other organizations;

- plain and flexible organizational structure and, if possible, with few hierarchical levels;
- the managerial instruments used in an organization (promoting a mix of managerial systems, methods and techniques, of which we mention: management through objectives, management through projects, product-centred management, budget management, total quality managements, management of profit centres, diagnosis method, scoreboard, methods for simulating the creative-innovative potential of human resources etc.).

#### 4. Competitive advantage

At present, creativity and innovation are important sources for the competitive advantage that may be measured at national, organizational and individual level. In fact, the efficiency of an organizational strategy is illustrated by the competitive advantage that one can win and that, basically, consists in creating a product or a service which is different thanks to its characteristics from the other products and services that are offered by competing firms. The strategic option that a company may use is, in fact, the source of competitive advantage. An essential condition for maintaining organizations in the sphere of economic and social efficiency is to obtain a competitive and sustainable advantage. Creativity and innovation are, in our opinion vectors that ensure a sustainable competitive advantage.

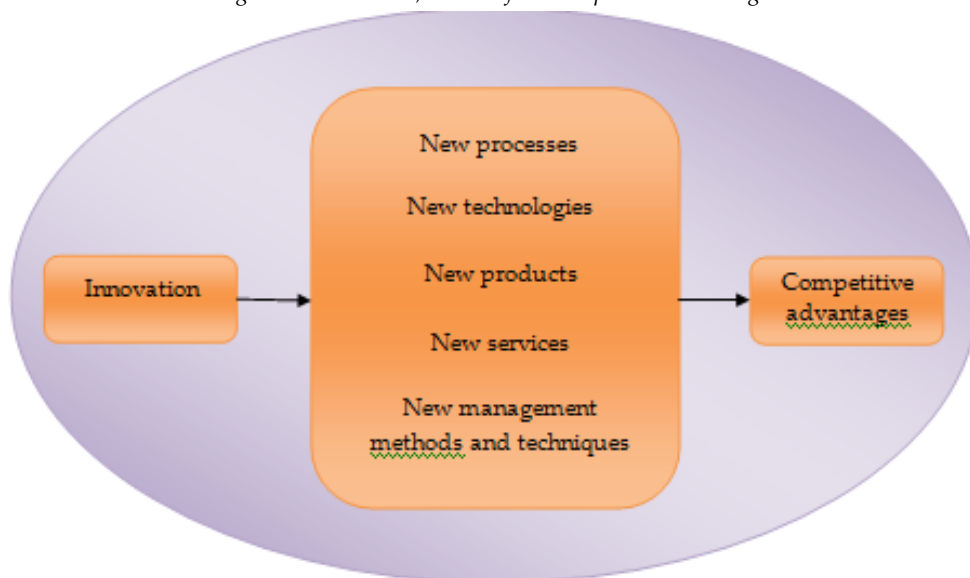
A new and improved product or service, a new or modernized technology, a new managerial method or a new organizational technique, which may improve organizational processes, are the result of creative-innovative activities and, at the same time, a source for competitive advantage in a more and more complex and competing business environment [Figure 1].

Due to the internationalization of the economic activities, firms must obtain competitive advantages both at national, and at international level. Thus, M. Porter considers that there is a close link between the national and international competitive

advantage, a fact which may be explained thanks to the connections which exist between the economies of different states [7].

Coordinates that define the national economic environment significantly influence the possibility for a firm to obtain a competitive advantage. A dynamic business environment that is favourable from a legislative point of view determines organizations to act rapidly and efficiently when they compete with other firms, while modernizing their technologies and permanently enhancing their systems of management and offering products and services that satisfy the higher and higher expectations of consumers.

Figure 1. Innovation, source of the competitive advantage



The innovative organization is the one that obtains competitive sustainable advantages through innovation projects and activities from a technical, technological and managerial point of view. In consequence, the innovative organization is a knowledge-based organization and it presents the following essential features:

- the knowledge and competence of human resources is the main class of organizational resources;
- the processes and performed activities aim at producing, developing, accumulating and transferring knowledge;
- the knowledge and competence
- mastered by human resources are the

main factors that bring a competitive advantage;

- ▶ a knowledge-based organization is an organization that learns;
- ▶ a knowledge-based organization is a sustainable organization (it generates long-term performance; it is integrated into the economic, social and ecological environment; it capitalizes in a superior way all categories of resources - human, material, financial, informational, knowledge etc.; it constantly creates competitive advantages in relation to competing companies).

## 5. Conclusions

For the last few years, the European Union has supported through active policies creative-innovative processes, a fact which is illustrated by the Cohesion Policy Program for 2007-2013 and, respectively, by the Program for Research and Innovation "Horizon 2020", „which is a financial instrument for implementing the Initiative known as "A Union of Innovation" for 2014-2020.

With a budget of 70 billion of Euro allotted for 7 years (2014-2020), the Program "Horizon 2020" is the most important

research and innovation program that has ever existed; the precedent multiannual Program - Framework (FP7) – benefited from a budgetary allotment of 53 billion of Euro for 2007-2013.

Management of innovation activities may be approached as a process that aims at the identification, organization and allotment of available resources - human, technical, economic ones – with a view to acquiring new knowledge, generating new ideas that facilitate the creation of new or modernized products and services thanks to the transfer of the best ideas into the sphere of production and commercialization.

The contextual factors that determine organizations to initiate and develop innovative projects are: the market position, the demand of the market for production diversification, observance of norms imposed by the government, legislation, social demand, intensification of competition on the market, enhanced quality in products and services, new competitors etc.

The most important internal factors that favour creative-innovative processes within organizations are: the development strategy, the promoted managerial style, organizational culture, organizational structure, as well as the instruments used by its managerial team.

---

## REFERENCES:

1. British Standards Institution, *BS 7000-1:2008 - Design management systems. Guide to managing innovation*, London, 2008.
2. European Commission, *Europe 2020*, Brussels, 2010.
3. **Fernez-Walch, S., Romon, F.**, *Dictionnaire du management de l'innovation*, Vuibert, Paris, 2009.
4. **Mudrak, T., Van Wagenberg, A., Wubben, E.**, *Innovation process and innovativeness of facility management organizations*, Facilities, Vol. 23, Iss. ¾, 2005.
5. **Nagîț, Gh.**, *Inovarea tehnologică*, Editura Tehnica-Info, Chișinău, 2001.

6. **Plumb, I., Vișan, S., Botez, L.F., Florescu, M.S., Angelescu, A.**, *Managementul cercetării și inovării*, Ediția a II-a, Editura ASE, București, 2007.
7. **Porter, M.**, *The Competitive Advantage of Nations*, MacMillan, London, 1990.
8. Post – Privatization Foundation, *Inovarea și Antreprenoriatul. Piloni ai competitivității*, Bucharest, 2013.
9. World Science Forum, *Science for Global Sustainable Development*, Rio de Janeiro, 24-27 November, 2013.
10. [http://ec.europa.eu/research/horizon2020/index\\_en.cfm](http://ec.europa.eu/research/horizon2020/index_en.cfm)

## Macroprudential policies on banking system

~ Ph. D. Student **Ionuț Mircea** (Romanian Academy, Bucharest, Romania)

E-mail: [ionutmircea78@yahoo.com](mailto:ionutmircea78@yahoo.com)

**Abstract:** *The macro-prudential tool kit deals with those risks that contributed to the outbreak of the last economic crisis or materialized during it, namely the excessive credit growth, the excessive price assets growth driven by the credit growth, the excessive increase in leverage, the liquidity risk, the volatile capital flows and foreign currency lending. It can be argued that macro-prudential policies underestimated the systemic risks mentioned, although they were better positioned than other policies aimed at financial stability. The impact of macro-prudential policy is difficult to be determined, because is usually applied simultaneously and in the same direction with other macroeconomic policies. Thus, it is necessary a better coordination of policies and a better calibration of instruments in order to get a quick and effective response during their implementation. These must be in line with national specificities and the risks identified. Until the new macro-prudential tools introduced by Basel III will prove their effectiveness, the issue of finding proper tools is still open.*

**Key words:** banking system, risks, macro-prudential, liquidity, crisis

**JEL Classification:** E 58, E 59, E 60

## 1. Introduction

Europe, US and a large part of the world's economy suffered a banking crisis followed by a severe economic crisis. Banking crises are recurrent, triggering deep and lasting recession (Reinhart and Rogoff, 2009, Schularick and Taylor, 2011). The main channel through which the weaknesses of banks' balance sheets affect the real economy is to reduce the supply of credit (Bernanke, 1983). Banking crises occur after periods of accelerated growth of credit (Kindleberger, 1978 Gourinchas and Obstfeld 2012, Bordo and Meissner 2012). Pro-cyclicality in the banking system and in the credit supply is generated by excessive credit expansion which grounded future crises because banks do not have much equity in the game (Holmström and Tirole, 1997). In times of crisis there is a credit contraction caused by reduced capital position, since it is expensive, the optimum level is lower than that required and affects bank financing (Freixas and Rochet 2008 and Iyer and Peydro 2011, Gertler, Kiyotaki and Queralto 2011).

Alessi and Detken (2011), Borgy et al. (2009), Borio and Lowe (2002, 2004), Drehmann et al. (2010, 2011) and Schularick and Taylor (2012) have shown that indicators of excessive credit growth are very effective in signaling financial crises. Schularik and Taylor (2012), analyzing a set of indicators for a number of 12 developed countries for a period of 140 years, found that credit expansion was the best tool that can signal the financial instability in this period. Dell'Ariccia et al. (2012) reported similar information, after analyzing a sample of data for 170 countries since the 60's, a third of credit booms being followed by crises and two-thirds by periods of low performance (measured as the

deviation of GDP growth from its long-term trend). Saurina and Jiménez (2006) show that there is a direct, albeit delayed, connection between the growth of credit and the increase of credit risk, a rapid increase in the loan portfolios being positively associated with an increase in non-performing loans in the future.

Studies to date contain sufficient evidence of loosening lending policies during periods of expansion, loans originated during booms having higher default rates than those granted in periods of moderate credit growth. Both lenders and borrowers are very optimistic about investment projects and this translates into low lending standards. During the crisis, banks suddenly become very conservative and restrict the credit policy, which will lead to a credit crunch, leaving the economy without funding. In addition, financial markets do not work perfectly, periodically being registered under-estimation of risks, which cannot be readily controlled. The value of collateral, which tends to be cyclical, plays an important role in the credit cycle. Additionally, competition between intermediaries may worsen financial stability. However, recording over a long period of low interest rates, low volatility and moderate inflation rates, such as the ones before the crisis, tend to encourage risk-taking by banks which are searching for yield (Jiménez, Ongena, Peydró and Saurina 2013). Also, it is widely accepted that, in essence, the banks behavior is pro-cyclical whatever regulatory, market or capital requirements.

Macro-prudential policies aim to reduce negative externalities from the financial system to the economy. They are designed to ensure overall stability of financial systems. Macro-prudential approach considers issues



affecting the market as a whole, distinct individual financial institution, problems that cannot be identified at micro-prudential level.

If a credit growth at a bank level may seem sustainable, it is possible that this trend will not be confirmed at the aggregate level. In an attempt to secure their individual stability, financial institutions may behave collectively threatening the system as a whole. The sale of assets, when the cost of risk increase makes sense from a micro prudential perspective, but when the measure is adopted by all institutions, asset prices will fall significantly, increasing volatility in asset markets. Thus, there may be a conflict between macro and micro supervision of the banking system.

Until recently it was thought that financial stability is given by each financial institution stability that will make sure the system as a whole, the fallacy of composition, an approach which underestimate systemic risks. Supervising the system components to ensure the overall stability was the approach of Basel I, the Basel II approach pursued within, and further contained a number of elements that have been shown to be pro-cyclical. A macro component was introduced only under Basel III.

While micro-prudential policy can exaggerate through administrative measures in its attempt to protect each credit institution and each depositor, macro-prudential policy can achieve a better balance between market discipline and administrative discipline, without trying to provide excessive protection (Isărescu, 2011).

The recent financial crisis highlighted the need to develop a new system of financial regulation and supervision, requiring the

establishment of a new set of macro-prudential tools to control the credit growth.

Countercyclical macro-prudential policy tools can be used to solve cyclical vulnerabilities by slowing credit growth during periods of exuberance and maintaining the credit supply in times of recession.

It is difficult to measure the success or failure of macro-prudential policies, given the relevance of other policies for financial stability. In addition, transmission mechanisms are not fully known. Also, macro-prudential policies are complementary and do not replace macroeconomic policies (monetary and fiscal).

Schoenmaker (2012) draws attention to the rise of interest in micro-prudential supervision by creating the Single Supervisory Mechanism (SSM) and the relatively low interest on the implementation of macro-prudential policy at the EU level, while respecting local specificity of each Member State and risks they are facing. He argues that macro developments, such as the sharp rise in residential real estate prices, which determined the economic crisis, requires the placement of the instruments of macro-prudential policy at the European Central Bank, separated from micro-prudential supervisory function, with the national central banks support when it is necessary. It is thus indicated a matter of macro-prudential policy coordination at EU and national level.

However, skeptics argue that intensive application of macro-prudential policies can cause distortions and higher macroeconomic volatility (Calomiris, 2013). They believe that excessive risk taking is the main symptom of monetary policy and micro-supervision ineffective, which once corrected will lead to removing incentives for taking high risks in



periods of boom and implicitly no need for application of macro-prudential tools.

## 2. Objectives and Methodology

I intend to examine the macro-prudential policies applied at national level and how they influenced the financial position of banks, the financial system stability overall and the credit supply to real economy during the last crisis. International experience is relevant in assessing both the effectiveness of different instruments, and the possibility of adopting new tools. Issues presented could provide a starting point for more detailed analysis.

The paper will focus on the study of:

- i) macro-prudential policy interaction with monetary policy in ensuring financial stability;
- ii) vulnerabilities addressed by macro-prudential policies;
- iii) macro-prudential instruments.

### **i) Macro-prudential policy interaction with monetary policy in ensuring financial stability**

The latest financial crisis has shown that there is a major conflict between monetary and financial stability. While monetary stability focuses on consumer prices, financial stability is considering changes in prices of assets, such as real estate market prices, and aims to reduce the pro-cyclicality of the financial system. Once the interest rate for monetary policy purposes is set, central banks are choosing the macro-prudential tools necessary to ensure the stability of financial cycles.

Cerna S. (2011) considers that monetary policy pursued by most central banks in the last decade, exclusively oriented towards

price stability facilitated and even fueled credit expansion. The belief that keeping inflation low will automatically ensure the monetary and financial stability enabled the maintenance of the bubble for years. The monetary policy strategy called inflation targeting neglected the ability of credit to cause financial instability. Analyses performed by Crowe, Dell'Ariccia, Igan and Rabanal (FMI 2011) on a sample of 40 countries showed that monetary policy is an inappropriate tool which can create additional costs to solve the problem of indebtedness and sharp house prices growth, if it is not linked to a wider process of overheating. Thus, there is a positive link between monetary policy stance and the evolution of the real estate market. An increase in the monetary policy rate may cause a reduction in the GDP growth, but this is not reflected with the same intensity in the property prices.

Alberola, Trucharte and Vega (2011) believe that analyzing the interaction between monetary policy and financial stability is useful to delimit two time horizons, i.e. short and long term.

In the long term, the conclusion in economic theory is that there is no conflict between monetary stability and financial stability, the two concepts are mutually supporting, low inflation and stable long-term monetary policy tend to promote financial stability. Existing empirical data support this theory, showing that monetary instability is one of the main factors in the past episodes of financial instability. This complementarity shows that monetary policy measures taken in order to maintain price stability should not generally be contrary to the requirements needed to ensure financial stability.

However, recent events show that financial imbalances can accumulate in periods

when prices are stable. Consequently, price stability can be seen as a necessary but not sufficient condition for financial stability and short-term interaction between these two objectives is more complex than long-term relationship between them. Lindsay (1996) suggest that succeeding in maintaining low inflation rates could trigger too optimistic vision of the future to population and this false sense can lead to asset price appreciation. Thus, monetary policy should remain to the intended objective of maintaining price stability. Instruments other than monetary policy rate, including macro-prudential regulation and supervision may be more appropriate to address financial stability.

From today's perspective, it is clear that the long period of stable non-inflationary growth in the global economy (so-called The great moderation, Bernanke 2004) led to the elimination of perception that vulnerabilities producing macroeconomic instability can accumulate during periods of growth, characterized by an exaggerated optimism. The economic instability experienced in crisis reinforces the idea of the difficulty of monetary policy to counteract the effects of a financial crisis. Alberola, Trucharte and Vega (2011) believes that the interaction between the two policies has not been properly calibrated and that the implementation of macro-prudential policies to address both objectives requires an adaptation of the micro-prudential supervision tools at the system level, to strengthen individual institutions and the system resilience. Regarding the effect of tightening monetary policy in reducing excessive credit growth can be argued that this was one undesirable, at least in Eastern Europe, leading to accelerating foreign currency lending. Brzoza, Chmielewski and Niedźwiedzińska

(2007) studying the effects of monetary policy in the presence of developed financial markets in terms of capital flows found that tightening monetary policy leads to a substitution of local currency financing in foreign currency financing (Czech Republic, Poland, Hungary and Slovakia). Empirical analyzes confirm this trend for other emerging economies.

Brzezina, Kolasa and Makarsky (2013) suggests that macro-prudential policies can at least partially cancel the effect of losing the monetary policy independence in the periphery countries of the European Union, including the fact that the interest rate set by the ECB could not answer to asymmetrical development of the periphery (Greece, Ireland, Portugal and Spain) and the central euro area. Using two models for the real estate market and for the banking system, they found that the loan to value - LTV seems to be more effective than the tools of capital adequacy, but to be effective must be implemented at national level. The countries of the periphery accumulated some imbalances since integration, property prices almost doubled in the period 1996 - 2006, while they stagnated or slightly increased in the rest of the Eurozone. This accelerated the GDP growth in these countries, and later, when the housing bubble ended determined a significant reduction of it. The accelerated growth of real estate prices has been identified as the main determinant of the divergence in GDP evolution between periphery and center area. The main source of asymmetric development was the sharp reduction of interest rates on the periphery as a result of accession to the euro zone, combined with easier access to cross-border funding.

## ii). Vulnerabilities addressed by macro-prudential policies

Based on a panel regression analysis Lim C. et al. (2011) suggests that macro-prudential instruments may have an impact on four measures of systemic risk:

- a) risks generated by strong credit growth and credit-driven asset price inflation;
- b) risks arising from excessive leverage and the consequent de-leveraging;
- c) systemic liquidity risk; and
- d) risks related to large and volatile capital flows, including foreign currency lending.

Real estate crisis in the United States was determined by the unsustainable growth of credit and leverage and led to a recession, which was exported throughout the world, especially in countries which were facing internally an accelerated credit growth and unsustainable property prices (Crowe, Dell'Ariccia, Igan and Rabanal 2011). Also, Crowe et al. (2011) found that monetary policy is a blunt instrument to deal with asset prices bubbles.

For a number of related fiscal policy instruments (i.e. property taxes, transaction fees etc.) was found that, although they may be effective, in practice they might create distortions and also have a limited effect. Consequently, macro-prudential policy instruments, such as loan-to-value LTV, accompanied by dynamic provisioning policies are the most important and effective tools that can lead to deleveraging and control the rapid growth of house prices, unrelated to economic fundamentals. The crisis in the United States was based on property owners with a high LTV, which, amid falling house prices, did not want or were unable to repay their debts or to sale the collaterals. This generated

a reduction in the value of the assets backed securities (ABS), generating chain effects. Studies show that in the United States, LTV increased significantly before the crisis, the great it was the LTV before the great were losses incurred after.

It is also recognized that residential real estate is an important preserver of wealth, if not the most important for the population (Crowe, Dell'Ariccia, Igan and Rabanal 2011).

Kiyotaki and Moore (1997) in their model showed that real estates properties, as collaterals, amplify economic fluctuations when the real estate market cycle is correlated with the credit cycle. There is thus a two-way process of amplification, property prices affect the rapid growth of credit during booms and the credit crunch during recession. Lambertini, Mendicino and Punzi (2010) and Gomes and Mendicino (2011) explains residential real estate bubble cycle through models that take into account fluctuations in the property owners' expectations about future macroeconomic developments.

Macro - Prudential Working Group Research Network (MARS) created under the European Central Bank in order to improve macro-prudential supervision in the EU, mentioned in its Report on the first two years of the macro-prudential research network that most studies prepared highlighted the role played by the real estate prices in the economic crisis in the European Union. Other studies prepared in this working group suggest that recessions are more severe when bank financing plays an important role in crisis. However, the ways of transmission of financial instability are related to constraints in the supply and demand for loans, which affects the household consumption plans.

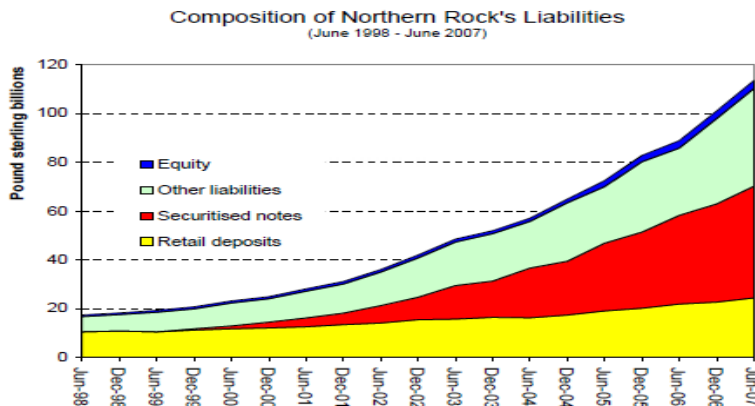
Excessive credit growth is also reflected

in the banks liabilities, changing the funding pattern. Normally core funding is the retail resources. But they grow in line with the population's revenues. When is recorded a credit boom these resources are not sufficient to finance the credit growth, so that other sources are attracted to support lending. In conclusion, the financial cycle can be reflected in the funding structure (Shin 2011). Shin (2010) suggest that in addition to excessive credit growth or deviation of credit growth

relative to GDP (Basel III), which in some countries cannot be defined with precision, it is necessary to carefully monitor the liabilities of banks, namely the increase of wholesale funding relative to core funding.

The most relevant example considered by Shin (2011) is the evolution of the financing structure of Northern Rock (figure 1), which shows an accelerated growth of wholesale funding, while the bank's leverage increased significantly.

Fig. 1: Northern Rock funding structure



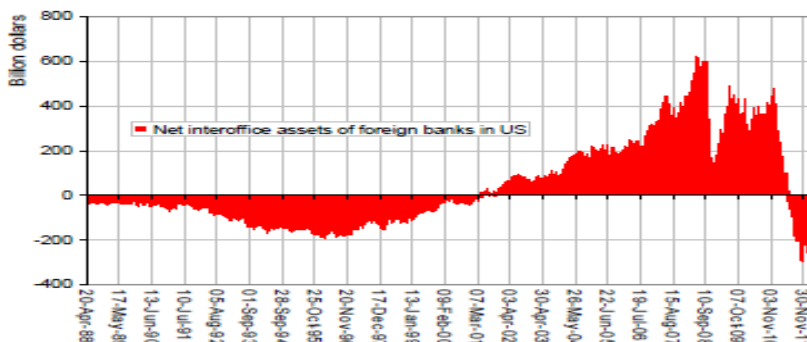
Source: Shin H., *Macroprudential policies beyond Basel III*, 2011

From 1998 to 2007, the date of falling, the bank's balance sheet increased 6.5 times, retail sources being supplemented with wholesale resources. The rapid growth of non-core funding in open emerging economies occurs as a result of increased capital flows denominated in foreign currency. An increase in non-core liabilities is accompanied by a reduction of the debt maturity.

A BIS study (2010), quoted by Shin (2011), describes how branches and subsidiaries of foreign banks in the US have borrowed

money on interbank markets, then channeled these funds to headquarters. Baba, McCauley and Ramaswamy (2009), IMF (2011) and Shin (2012) found that before the crisis a large part of the US capital market bonds were issued by European banks. The figure 2 highlights intra net assets of subsidiaries and subsidiaries of foreign banks in the US.

Fig.2 Net interoffice assets of foreign banks in US

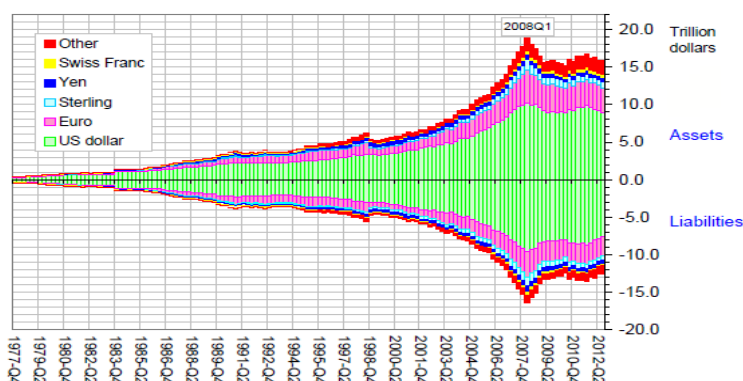


Source: Bruno V., H. S. Shin, *Assessing Macprudential Policies: Case Of Korea, 2013*

Usually, intra net assets of the head-quarters to branches are negative, since they act as points of granting loans. However, in the period 2001 - 2011, their volume turned positive, branches becoming sources of funding for European banks. The net position of subsidiaries reflects the extent to which European banks with global representation supplied other parts of the world with dollars. This level is considered to be one of the main elements of supply push factor generated by wholesale funding.

The US dollars has played a dominant role in increasing international capital flows, as it is highlighted by Borio and Disyatat (2011) and Obstfeld (2012). In the figure 3 appear the assets denominated in foreign currencies outside the state of origin (the volume of assets in US dollars outside the US, the volume of assets in euro outside the euro area etc.) and it shows the role played by the US dollars.

Fig.3 Foreign currency assets and liabilities of BIS reporting banks, classified according to currency



Source: Bruno V., H. S. Shin, *Assessing Macprudential Policies: Case Of Korea, 2013*

### iii). Macro-prudential policy tools

Macro-prudential tools palette is wide. They were usually applied to reduce systemic risk, either the time dimension or the distribution of risks in the financial system (TD - time dimension, CD - cross dimension). Claessen, Ghosh and Mihet (2012) identified a wide range of macro-prudential policy tools, some being applied more frequently or as a result of the crisis. However, International Monetary Fund (Lim C. et al., 2011), based on countries experience, found that some macro-prudential policy instruments were most frequently used, such as: caps on the loan-to-value ratio LTV, caps on the debt-to-income ratio DTI, ceilings on credit or credit growth, reserve requirements, countercyclical capital requirements and time-varying/dynamic provisioning, limits on net open currency positions/currency mismatch and limits on maturity mismatch.

Macro-prudential policy implementation depends on the financial and economic development of the country, the exchange rate regime and vulnerabilities to certain internal or external shocks. Frequently, these tools were used in combination at the same time or to complement other macroeconomic policies. Adjusting instruments according to different stages of the economic cycle have made them more effective and contribute to smooth the financial cycle stages.

Their effects were enhanced when they were used together with monetary and fiscal policies that pursued the same macro objectives.

Using multiple instruments had the advantage to cover more aspects of the same risk, reducing the possibilities of arbitraging the limitations, increasing thus the efficiency of the instrument. Uniform or targeted

application of macro-prudential tools, when the risks were identified, has increased accuracy and efficiency of these instruments.

Some instruments were rules based while others were applied at discretion. However, there are some tools where the rules are difficult to define and regulators must remain free to make changes to their discretion. The use of macro-prudential policy implies costs and benefits must be considered in relation to those costs. In addition, the calibration may be difficult and can lead to dampen the economic growth when it does not impose or to create negative distortions in markets when the definition or implementations of tool s have deficiencies.

There are certain prerequisites that must be met in order to lead to successful implementation of macro-prudential policy, namely the existence of a rigorous regulatory framework, high quality supervisory processes and effective macroeconomic policies. Also, the institutional framework for the implementation of macro-prudential policies must be appropriate. Some instruments are seen as affecting the supply of credit, while others can affect the demand.

Some measures are intended to be time varying, on specific institutions or variable, depending on the national policy. Many of the macro-prudential tools are traditional instruments used in micro-prudential supervision, but when they vary in time may serve to macro-prudential policy goals of reducing the amplitude cycles. Countries who participated in an IMF survey (Lim C. et al. 2011) confirmed that macro-prudential policies are more effective in controlling risks listed above than monetary policy instruments and more flexible, with lower implementation and response times.



It was also found that emerging economies are more concerned with systemic liquidity risk while developed economies tend to use more policies related to credit risk.

Exchange rate regime appears to have a key role in the choice of instruments. Countries with fixed exchange rate regime or administered tend to use more macro-prudential policy instruments since the exchange rate regime limits the impact of monetary policy rate. In such countries, credit growth tends to be associated with increased capital flows since the implied exchange rate warranty acts as an incentive for financial institutions to increase credit supply through external funding. Measures related to credit risk, such as LTV's limits, credit growth limits, were usually used by these countries to manage the volume of loans when interest rates were inefficient. They also tend to use measures for liquidity (i.e. limiting the net open foreign currency position) to manage the risk arising from foreign financing. This was the case of emerging economies.

Depending on the objective, instruments were grouped into three categories, namely:

a) measures on credit risk (loan-to-value LTV, debt-to-income DTI, currency and credit limit growth);

b) measures on liquidity risk (net open foreign exchange position limit/currency mismatches, maturity mismatches, minimum reserve requirements, taxation on non-core funding);

c) measures on capital (countercyclical capital buffers, dynamic provisioning/time variable).

a) Measures on credit risk (loan-to-value LTV, debt-to-income DTI, currency and credit limit growth)

Quantitative restrictions on borrowers, instruments or activities have mainly focused on reducing the residual risk of borrowers and of the related collateral, LTV and DTI.

Fees and leverage effects can be applied to reduce the externalities generated by excessive credit growth. They can be also used to limit the non-core financing.

It turned out that in emerging economies such instruments were used more intensively than in developed countries, both before and after the crisis. When they were used, there was a clear statement of the objective pursued by the application of each instrument. This was based on macro-prudential regulatory framework, established to reduce systemic risk generated by the crises recorded at their level in the 90'. For these countries, the instruments were part of broader macro financial regulatory frameworks, which included the instrument of the exchange rate regime and the capital account management.

Many instruments, such as limiting LTV's, DTI, FX lending and risk weighting of assets were applied to specific sectors or for certain types of loan portfolios without causing a general reduction in economic activity.

Some countries have limited foreign currency lending, because such limits directly constraint the excessive growth of foreign currency lending in a way that other policies could not do. These tools were generally used in moments when tightening monetary policy was not desirable.

Some countries in Eastern Europe have used measures relating to credit risk, such as restricting foreign currency lending to correct the excessive growth of credit generated by the positive flows of capital. The instruments have had some effect in reducing the growth rate of FX loans but the tools were

affected by the migration to nonbank lending and by the direct lending performed by the parent banks.

A combination of several instruments was usually used when the credit cycle overlapped the economic cycle and it was a risk of excessive credit growth and overheating. In such cases macro-prudential policies have been implemented as part of broader policies to reduce excessive growth in demand and the accumulation of systemic risk, thus being complementary to macroeconomic policies.

The experience of many countries shows that often it was used a mix of tools to manage the same risk. Caps on LTV and DTI were frequently used concurrently in order to reduce rapid credit growth in the real estate sector. Limitations on LTV and DTI have been used for example in connection with loan size, the location and the value of real estate collateral (e.g. India, Hong Kong, Korea). Minimum reserve requirements used for macro-prudential purposes were applied differently, depending on currency or debt type, applied in bands or as a percentage if an increase in loans exceeded a certain threshold.

In my view, a good example is India, which applied intensively, since 2004, a series of macro-prudential policies, and in particular countercyclical policies in accordance with adjustments on monetary policy. Macro-prudential policies aimed time-varying risk weighting assets (RWA), provisioning policies for different sectors where there were rapid increases in credit in conjunction with rapid increases in asset prices and limitations of LTV's differentiated depending on loan or collateral value. Since 2005 India's central bank adopted a tighter provisioning policy for all assets, except for loans to

SMEs and those for agriculture. In a six years period the RWA varied for residential real estate exposures between 50-125%, accompanied by a variation in the provisioning level from 0,25 to 2% (higher rates being applied on loans with promotional interest). Similar rates and limits were applied on commercial real estate exposures and on systemically financial non-banking institutions. The RWA was fluctuating depending on LTV, which was set depending on the loan value, lower limits being set for loans above a certain threshold. Although it was not adopted a dynamic provisioning policy, measures were similar, being created a stock of provisions to be gradually released.

The LTV's limitations depending on loan value in conjunction with differentiated RWA proved to be an effective mix of instruments of macro-prudential policy. Lambertini et al. (2013), in a model analyzing real estate market, considers that a cyclical LTV based on credit growth may stabilize the economy better than the interest rate.

b) Measures on liquidity risk (net open foreign exchange position limit/currency mismatches, maturity mismatches, minimum reserve requirements)

Federico, Vegh and Vuletin (2012) identified on a sample of 52 emerging countries, that 74% of them used the minimum reserve requirements in a countercyclical way. Reserve requirements can be applied both on debts, and on specific classes of assets. Reserve requirements were used in connection with credit risk and liquidity risk as part of monetary policy, but can be used to determine the asset mix or as a tool to reduce cyclicity.

Given the systemic liquidity risk in times of recession, as evidenced by the last



crisis, Basel III introduced two indicators the LCR (liquidity coverage ratio) and the NSFR (net stable funding ratio). They will be used for monitoring highly liquid assets necessary to manage crisis situations and financing structure on a time horizon of one year.

Hahm, Shin and Shin (2011) showed that the percentage of non-core funding in stable deposits (especially non-core liabilities to foreign creditors) is one of the most relevant indicators of a country's vulnerability to credit and currency crises. Bruno and Shin (2011) identified that the global supply push is determinant for international capital flows.

In my opinion, a good example is the case of Korea, which since 2010 has implemented a set of tools that targeted the liabilities of banks, and thus the pattern of funding. Korea was affected by the liquidity withdrawal of foreign banks in the domestic market, given that in previous periods was recorded an accelerated growth of credit unsupported equally by domestic savings.

The aim was to reduce pro-cyclicality in banking system by reducing the wholesale funding, namely the cross border interbank liabilities, the not-core funding (not obtained from domestic savers, mainly from households).

The Korean authorities introduced a non-core liabilities levy to limit non-core liabilities of banks, applied to the amount of foreign currency debt of the banking system.

After the levy implementation, Bruno and Shin (2013) examined the evolution of the Korean banking system, compared with a group of five large countries in the region (Indonesia, Malaysia, Philippines, Thailand and Vietnam), demonstrating the positive effect of applying the non-core liabilities levy, Korea' vulnerability to crisis being reduced.

The instruments used by the Korean authorities on debts other than basic deposits are distinctive, acting directly on the banks cost of funding, unlike the capital instruments or those applied to control credit growth, such as caps on LTV or DTI. Such an approach has broadened macro-prudential policy toolkit. The study of Bruno and Shin (2013) on Korea's evolution confirms Borio and Disyatat (2011), Obstfeld (2012) and Gourinchas and Obstfeld (2012) studies on the importance of cross-border capital flows in determining the financial condition of nations, in special the flows intermediated by the banking sector.

In my view, this kind of levy on non-core liabilities can be explored in other ways. It can be applied as a limitation on maturity, limiting the short term funding, rather than imposing levies on short term non-core funding. Taking into account that emerging economies depend on capital flows in my opinion, is better to let the markets to set the cost for extending the maturity of funds, and not to cap the funds available in the economy. In my view, since the issue is the short term funding, and not the level of funding, the first must be fixed. This it is beneficial both for the local banking system, and for the global banking groups. Local banks may have access to funds to finance the real economy, while the global lenders may have safe placements, on long term, in emerging economies, which can provide good yields.

c) Measures on capital (countercyclical capital buffers, dynamic provisioning/time varying)

After the economic crisis started regulators have realized the importance of building up capital buffers to be used in recession and

thus helping maintaining the availability of credit. Another effect of this objective is reducing credit growth, and hence the booms financed by credit, given the increase in credit costs.

Capital and provisioning requirements may reduce the amplitude cycles, but are intended primarily to increase the system resilience (Basel III imposed countercyclical capital requirements while credit expansion or other indicators signals a period of risks accumulation). Thus, the minimum level of own funds of banks will fluctuate depending on the position of the cycle, increasing during periods of exuberance and decreasing during downturns. Also, Basel III introduced a leverage ratio and a capital surcharge on systemically important financial institutions to reduce the externalities generated by the interconnection of these institutions.

Analyzing the macro component introduced by Basel III, it can be argued that increasing the capital requirements may lead to the transfer of risks to unregulated sectors. The new liquidity standards may stimulate the public sector financing at the expense of economic sectors and individuals and promotes the direct funding of companies through the capital market and not through the banking system. Also, the leverage ratio may have cyclical effects, being insufficiently stringent to the top of the economic cycle and unnecessarily restrictive in the bottom of the cycle. In the United States authorities adopted since 1991 a leverage ratio, but the indicator was not adjusted in response to changes in time. The main weakness was that it was not applicable to investment banks after 2004. Therefore, the leverage increased significantly in investment banks.

Shin (2011) believes that Basel III is

almost exclusively micro-prudential focusing more on individual capital adequacy of banks, rather than the system resilience. Focusing on a greater capacity to absorb losses, it does not directly control excessive credit growth in boom periods and lose sight of volatile short-term funding and short-term debt in foreign currency.

Repullo and Saurina (2011) criticize taking into account when determining the countercyclical capital requirements the deviation of credit in relation to GDP trend, indicator proposed by Borio et al. in 2010. They argue that in some countries the difference between credit and GDP tends to be negatively correlated with GDP growth. Periods of expansion and recession differ between the economic cycle and financial cycle while credit cycles and business cycle are not the same. In addition, during the boom, credit is growing faster than GDP and in normal times or in crisis, credit grows or decreases less than GDP.

Dynamic provisioning is also considered as a countercyclical tool that increases the stock of provisions, which will be released during recession.

Spain has since 2000 a dynamic provisioning mechanism, which is similar to setting up countercyclical capital requirements. Methodology for determining the dynamic provisions was different from setting up banks specific provisions for losses identified in their portfolios. The methodology takes into account existing latent loss in total loans in the banking system (statistically estimated) although they are not individually identified, leading to the build-up of provisions stocks during periods of expansion, which will be used in downturns.

The formula for calculating dynamic provisions is simple and transparent,

summarizing i) specific provisions determined for non-performing loans to a certain date; ii) determined proportion of general provisions on loan portfolio growth; and iii) a general provision based on a comparison of the average cyclical provisions recorded in the last credit cycle (at system level) with specific provisions determined at the time of calculation, for each bank.

This comparison is one that is the countercyclical element in times of expansion, when the level of non-performing loans is low, the specific provisions is reduced compared with the average provisioning on a cycle, the difference is positive and dynamic provisions fund is established. In a recession, the trend is reversed, specific provisions increases due to a rise of non-performing loans, the countercyclical component becomes negative and the stock of dynamic provisions is used.

In addition to these mechanisms were established minimum and maximum limits in terms of total volume of such provisions to ensure a minimum and avoid excessive provisioning. Alberola, Trucharte and Vega (2011) showed that if Spain would have had only specific provisions, they would be grown in two years to less than 0.5% of total loans at about 2.5%, i.e. nearly five times when banks have no longer profits and capital was expensive and rare. Jiménez and Saurina Ongena (2013) show that dynamic provisioning in Spain generated countercyclical capital for banks and supported the supply of credit in times of crisis. The mechanism applied in Spain was based on a formula with parameters determined statistically and proved his effectiveness. However, this tool is not intended to cover the whole area of issues affecting banks.

In my opinion more research work must be done in order to determine if the dynamic provisioning mechanism, which can be applied at national level, could be a more appropriate tool than the countercyclical capital requirements introduced by Basel III.

### 3. Conclusions

Macro-prudential policy tools could be helpful, but their effects are still far from being fully understood, systemic risk is multidimensional and difficult to measure, and transmission mechanisms are not yet fully known. In addition, macro-prudential policies are not a substitute for traditional solid micro or macroeconomic policies while monetary and fiscal policies should remain effective against distortions and macroeconomic imbalances (Isărescu, 2011).

In view of the above, it could be concluded that, according to national specificities, the most effective tools that can reduce the accelerated credit growth without inducing distortions remain LTV and DTL, especially when monetary policy is less effective. Taxes on wholesale debt can have a stabilizing effect, reducing excessive growth of assets based on short-term volatile resources. In addition, taxes could reduce the vulnerabilities in open economies, namely the disintermediation risk generated by the sudden reversal of capital flows. These instruments could be supplemented to raise the maturity of funds, letting the markets to set the price for that. At the same time, limiting foreign currency lending may be effective in the build-up phase, when risks accumulate.

Regarding the tools to increase capital reserves, dynamic provisioning model has proved successful. This can lead to proper

risks coverage, if the probability of default at the banking system level is adequately estimated. By comparison, the countercyclical capital requirements introduced by Basel III could be less effective since it is difficult to delimit the GDP increase generated by productivity and technological progress.

In my view, the traditional instruments of macro-prudential policy remain effective in controlling systemic risk, but they need to be applied at national level and according to the identified risks.

### Acknowledgements

This paper is supported by the Sectorial Operational Programme Human Resources Development (SOP HRD), financed from the European Social Fund and by the Romanian Government under the contract number SOP HRD/159/1.5/S/136077.

---

### REFERENCES:

1. **Adrian, T. and H. Shin** (2008), *Financial Intermediaries, Financial Stability, and Monetary Policy*, Federal Reserve Bank of New York Staff Report, 346.
2. **Adrian, T., and H. S. Shin**, 2010, *Liquidity and Leverage*, Journal of Financial Intermediation 19.
3. **Adrian T and H Shin**, *"The changing nature of financial intermediation and the financial crisis of 2007–09"*, Federal Reserve Bank of New York Staff Report, no 239, April 2010.
4. **Adrian, T., and N. Boyarchenko**, 2012, *Intermediary Leverage Cycles and Financial Stability*, Staff Report 567, Federal Reserve Bank of New York.
5. **Aikman D, Haldane AG, Nelson BD** 2010. *'Curbing the credit cycle'*, prepared for the Columbia University Centre on Capital and Society Annual Conference, New York, November 2010.
6. **Alberola, E., C. Trucharte and J. L. Vega**, 2011, *Managing the risks of the new macro-prudential policy regime. The Spanish Experience*, Documentos Ocasionales N.º 1105.
7. **Alessi L., C. Detken** (2009). *Real-time Early Warning Indicators for Costly Asset Price Boom/Bust Cycles: A Role for Global Liquidity*, ECB Working Paper 1039.
8. **Allen, F., and E. Carletti**. 2011. *"Systemic Risk and Macroprudential Regulation."* University of Pennsylvania.
9. **Bernanke B., Mishkin F.**, *Inflation Targeting: A New Framework for Monetary Policy*, Journal of Economic Perspectives, vol. 11, n° 2, 1997.
10. **Bernanke, B.** (2004). *"The great moderation"*, speech given at the meetings of the Eastern Economic Association, Washington DC, February 20, 2004.
11. **Bernanke, B., and M. Gertler** (1999). *"Monetary Policy and Asset Price Volatility"*, in New Challenges for Monetary Policy, Federal Reserve of Kansas City.
12. **Bernanke, B.**, 1983, *Nonmonetary effects of the financial crisis in the propagation of the great depression*, American Economic Review 73, 257-276.
13. **Bernanke, B.**, 2009, *The Crisis and the Policy Response*, Stamp Lecture London School of Economics.

14. **Bernanke, B.**, 2011, *International Capital Flows and the Return to Safe Assets in the United States*, International Finance Discussion Paper 1014, Board of Governors of the Federal Reserve System.
15. **Bernanke, B., and Cara S. Lown**, 1991, *The Credit Crunch*, Brookings Papers on Economic Activity.
16. **Bernanke, B., and Mark Gertler**, 1989, *Agency Costs, Net Worth, and Business Fluctuations*, American Economic Review 79.
17. **Blanchard, O., G. Dell’Ariccia and P. Mauro** (2010). “*Rethinking macroeconomic policy*”, IMF Staff Position Note, 10/03.
18. **Bolton, P. and X. Freixas** (2006): “*Corporate Finance and the monetary transmission mechanism*,” Review of Financial Studies 19(3).
19. **Bordo, M. D., M. J. Dueker and D. C. Wheelock** (2000). *Aggregate Price Shocks and Financial Instability: A Historical Analysis*, NBER Working Paper 7652, April.
20. **Bordo, M. D., and C. M. Meissner**, 2012, *Does inequality lead to a financial Crisis*, Working Paper 17896, National Bureau of Economic Research.
21. **Borgy V, Clerc V, Renne J-P.** 2009. ‘*Asset-price boom-bust cycles and credit: what is the scope of macroprudential regulation*’, Banque de France Working Paper No 263.
22. **Borio, C.** (2009). *We are all macroprudentialists now*.
23. **Borio C., Furfine C., Lowe P.**, *Procyclicality of the Financial System and Financial Stability: Issues and Policy Options*, BIS Papers, n° 1, March, 2001.
24. **Borio C.**, *Implementing a macroprudential framework: blending boldness and realism*. Capitalism and Society 6(1) 2011.
25. **Borio C, Lowe P.** 2002. ‘*Asset prices, financial and monetary stability: exploring the nexus*’, BIS Working Paper No. 114.
26. **Borio C., Shim I.**, *What can (Macro-) prudential policy do to support monetary policy?*, BIS Working Papers, n° 242, December, 2007.
27. **Borio, C. and H. Zhu** (2008): “*Capital regulation, risk-taking and monetary policy: a missing link in the transmission mechanism?*” BIS Working Papers No 268.
28. **Borio, C., and A. Crockett** (2000). “*In search of anchors for financial and monetary stability*”, Greek Economic Review, 20(2).
29. **Borio, C., and P. Lowe** (2002). “*Assessing the risk of banking crises*”, BIS Quarterly Review, December 2004. Securing sustainable price stability. Should credit come back from the wilderness, BIS Working Papers, no.157.
30. **Borio, C.**, 2003, *Towards a Macroprudential Framework for Financial Supervision and Regulation*, CESifo Economic Studies 49.
31. **Brunnermeier, M, A Crockett, C Goodhart, A Persaud and H Shin** (2009), *The Fundamental Principles of Financial Regulation: 11th Geneva Report on the World Economy*, CEPR, London.
32. **Bruno V., Hyun Song Shin** Working Paper 19084, *Assessing Macroprudential Policies: Case Of Korea*, National Bureau Of Economic Research 1050, May 2013.
33. **Brzoza Brzezina M., M. Kolasa, K. Makarsky.** Working Paper Series no 1589/September 2013. *Macroprudential Policy instruments and economic imbalances in the euro area*.
34. **Calomiris, C. W.**, *Managing the risks of the new macro-prudential policy regime*, Columbia Business School, International Monetary Fund.

35. **Claessens S, Kose MA, Terrones ME.** 2011. 'How do business and financial cycles interact?', IMF Working Paper 11/88. Committee on the Global Financial System. 2010. 'Macroprudential instruments and frameworks: a stocktaking of issues and experiences', CGFS Publications no. 38.
36. **Cerna S.,** *Tintirea inflatiei: un bilant provizoriu*, Studii Financiare, Anul XIV – Serie noua– Vol.2 (48)/2010; Criza si redefinirea rolului bancilor centrale, *Oeconomica*, 4, 2010. Politica monetară în epoca postcriză.
37. **Costeiu, A. and Neagu, F.,** 2013. *Bridging the banking sector with the real economy. A financial stability perspective*, ECB Macroprudential Research Network paper.
38. **Crowe, C. W., G. Dell'Ariccia, D. Igan, and P. Rabanal.** 2011. "How to Deal with Real Estate Booms: Lessons from Country Experiences." Working Paper 11/91, International Monetary Fund, Washington, DC.
39. **Dell'Ariccia G, Igan D, Laeven L, Tong H, Bakker B,** 2012. 'Policies for macrofinancial stability: how to deal with credit booms', IMF Staff Discussion Notes No.12/06.
40. **Dell'Ariccia, Giovanni, and Robert Marquez,** 2006, *Lending Booms and Lending Standards*, Journal of Finance 61.
41. **Dell'Ariccia, Giovanni, Deniz Igan, Luc Laeven, and Hui Tong.** 2012. "Policies for Macrofinancial Stability: Options to Deal with Credit Booms." Staff Discussion Note 12/06, International Monetary Fund, Washington, DC.
42. **Dewatripont M., X. Freixas** (eds.), *The Crisis Aftermath, New Regulatory Paradigms*, CEPR.
43. **Drehmann M, Borio C, Gambacorta L, Jimenez G, Trucharte C.** 2010. 'Countercyclical capital buffers: exploring options', BIS Working Paper 317.
44. **Drehmann M, Borio C, Tsatsaronis K.** 2011. 'Anchoring countercyclical capital buffers: the role of credit aggregates', BIS Working.
45. **Drehmann, M., C. Borio, and K. Tsatsaronis** (2011). *Characterising the financial cycle: don't lose sight of the medium term!*, BIS Working Paper no. 380, June.
46. **Drehmann, Mathias, and Leonardo Gambacorta,** 2012, *The Effects of Countercyclical Capital Buffers on Bank Lending*, Applied Economics Letters 19.
47. ECB 2012, *Report on the first two years of the macro-prudential Research network*, october 2012.
48. **Edge R, Meisenzahl R.** 2011. *The unreliability of credit-to-GDP ratio gaps in real time: implications for countercyclical capital buffers*. International Journal of Central Banking 7(4).
49. Financial Stability Board, International Monetary Fund, Bank for International Settlements. 2011. 'Macroprudential policy tools and frameworks: progress report to G20', 27 October.
50. **Georgescu, F.,** *Reforma supravegherii bancare pentru asigurarea stabilitatii financiare si a cresterii economice durabile*, Bucuresti 18 iulie 2013.
51. **Giese, Julia, Henrik Andersen, Oliver Busha, Christian Castro, Marc Farag and Sujit Kapadia** Bank of England, *The credit-to-gdp gap and complementary indicators for macroprudential policy: evidence from the UK*.
52. **Goodhart, C** (2010), "The Changing Role of Central Banks", BIS Working Papers, 326, Bank for International Settlements, Basel.
53. **Gourinchas, Pierre-Olivier, and Maurice Obstfeld,** 2012, *Stories of the Twentieth Century for the Twenty-First*, American Economic Journal: Macroeconomics 4.
54. **Hahm J-H, Shin HS, Shin K.** 2012. 'Non-core bank liabilities and financial vulnerabilities'.
55. **Holmstrom, B., and J. TIROLE** (1997). "Financial intermediation, loanable funds and the real sector", Quarterly Journal of Economics, 112.



56. International Monetary Fund, *Assessing the Systemic Implications of Financial Linkages: Global Financial Stability Report*, April 2009.
57. International Monetary Fund. 2011. 'Macroprudential policy: an organising framework', March.
58. **Isarescu M.**, *Macroprudentialitatea. Reglementarea, crizele financiare si politica monetara*, Dizertatie cu ocazia decernarii titlului de Doctor Honoris Causa al Universitatii Romano-Americane, 30 iunie 2011.
59. **Issing, Otmar**: *Monetary and financial stability - is there a trade-off* - Speech by Professor Otmar Issing, Member of the Executive Board of the European Central Bank, at the Conference on "Monetary Stability, Financial Stability and the Business Cycle", Bank for International Settlements, Basel, 28-29 March 2003.
60. **Jiménez, G., and J. Saurina** (2006). "Credit Cycles, Credit Risk, and Prudential Regulation", *International Journal of Central Banking*, 2 (2).
61. **Jiménez, Gabriel, Steven Ongena, José-Luis Peydró, and Jesús Saurina**, 2012, *Credit Supply and Monetary Policy: Identifying the Bank Balance-Sheet Channel with Loan Applications*, *American Economic Review* 102.
62. **Jiménez, Gabriel, Steven R. G. Ongena, Jose -Luis Peydro, and Jesus Saurina Salas**. 2012. "Macroprudential Policy, Countercyclical Bank Capital Buffers and Credit Supply: Evidence from the Spanish Dynamic Provisioning Experiments." Discussion Paper 2012-011, European Banking Center.
63. **Jord, O., M. Schularick, and A. M. Taylor** (2010): "Financial Crises, Credit Booms, and External Imbalances: 140 Years of Lessons," NBER Working Paper No. 16567.
64. **Yellen, Janet L.**, 2011a, *Macroprudential Supervision and Monetary Policy in the Post-Crisis World*, *Business Economics* 46.
65. **Kaminsky, G., and C. Reinhart** (1999). "The twin crises: The causes of banking and balance of payments problems", *American Economic Review*, vol. 89, no. 3, June.
66. **Kiyotaki, Nobuhiro, and John Moore**, 1997, *Credit Cycles*, *Journal of Political Economy* 105.
67. **Kapadia, S., M. Drehmann, J. Elliott, and G. Sterne** (2013). "Liquidity risk, cash flow constraints, and systemic feedbacks", in J. G. Haubrich, and A. W. Lo (eds.), *Quantifying Systemic Risk*, University of Chicago Press.
68. **Kindleberger, C.** (1989). *Manias, Panics and Crashes: A History of Financial Crises*, New York, Basic Books.
69. **KOO, R.** (2008). *The Holy Grail of Macroeconomics: Lessons from Japan's Great Recession*, Wiley.
70. **Krugman P.**, *Întoarcerea economiei declinului și criza din 2008*, Publica, Bucuresti, 2009.
71. **Lambertini, Luisa, Caterina Mendicino, and Maria Teresa Punzi** (2013) 'Leaning against boom-bust cycles in credit and housing prices.' *Journal of Economic Dynamics and Control* 37(8).
72. **Larosièrè J.**, *Towards a New Framework for Monetary Policy*, *Central Banking*, vol. 20, n°3, 2010.
73. **Lim, C., Columba F., A. Costa, P. Kongsamut, A. Otani, M. Saiyid, T. Wezel, and X. Wu**, October 2011, *Macroprudential Policy: What Instruments and How to Use Them? Lessons from Country Experiences*, IMF Working Paper WP/11/238.
74. **Lowe, P.** (2002): "Credit risk measurement and procyclicality," BIS Working Paper no. 116.
75. **Jiménez, G., Steven Ongena, José-Luis Peydró, Jesús Saurina**. *Macroprudential Policy, Countercyclical Bank Capital Buffers and Credit Supply: Evidence from the Spanish Dynamic Provisioning Experiments*, 2013.
76. **Claessens, S., S. R. Ghosh, and R. Mihet**. 2013. "Macro-Prudential Policies to Mitigate Financial System Vulnerabilities." *Journal of International Money and Finance*.

77. **Minsky H.**, *Stabilizing an Unstable Economy*, Yale University Press, 1986.
78. **Minsky HP.** 1972. *Financial instability revisited: the economics of disaster*. Reappraisal of the Federal Reserve Discount Mechanism 3(1972).
79. **Mishkin, F.** (2008). "How should we respond to asset price bubbles", speech at the Wharton Financial Institutions Centre and Oliver Wyman Institute's Annual Financial Risk Roundtable, Philadelphia, Pennsylvania, May.
80. **Neagu, F. and Irina M.**, *Working Paper Series no.1591/September 2013 Sudden Stop of capital flows and the consequences for the banking sector and the real economy*.
81. **Osborne, M., A. M. Fuertes, and A. Milne**, 2012, *In Good Times and in Bad: Bank Capital Ratios and Lending Rates*, Mimeo UK Financial Services Authority.
82. **Popa, C.**, 2011. *Monetary policy challenges in the CESEE region the case of Romania*, Post- Crisis Growth and Integration in Europe. Catching-up Strategies in CESEE Economies, pp. 167-170, Edward Edgar Publishing Ltd.
83. **Puri, M., J. Rocholl, and S. Steffen**, 2011, *Global Retail Lending in the Aftermath of the US Financial Crisis: Distinguishing between Supply and Demand Effects*, Journal of Financial Economics 100.
84. Raportul Cross (ECSC, 1986) „Siguranța și eficiența sistemului financiar în sens larg și a sistemului de plăți”.
85. **Reinhart, C., and K. Rogoff** (2009). *This time is different: Eight Centuries of Financial Folly*, Princeton University Press. — (2011). "From Financial Crash to Debt Crisis", American Economic Review, 101.
86. **Reinhart C, Reinhart V.** 2008. 'Capital flow bonanzas: an encompassing view of the past and present', NBER Working Paper no. 14321.
87. **Reinhart, C. M., and K. S. Rogoff**, 2009, *The Aftermath of Financial Crises*, American Economic Review 99.
88. **Repullo, R., and J. Saurina** (2012). "The countercyclical capital buffer of Basel III: a critical assessment".
89. **Repullo, R., J. Saurina, and C. Trucharte**, 2010, *Mitigating the Pro-cyclicality of Basel II*, Economic Vol. 25, Issue 64, October.
90. **Salas, V., and J. Saurina** (2003). "Deregulation, market power and risk behavior in Spanish banks", European.
91. **Saurina, J.** (2009): "Dynamic Provisioning: The Experience of Spain, in *Crisis Response, Public Policy for the Private Sector*," Note No.7, The World Bank.
92. **Saurina, J.** (2009): "Loan Loss Provisions in Spain. A Working Macroprudential Tool," Working Paper.
93. **Sinha, A.**, Deputy Governor, Reserve Bank of India, Speech at Eleventh Annual International Seminar on Policy Challenges for the Financial Sector on "Seeing both the forest and the trees - Supervising Systemic Risk" co-hosted by the Board of Governors of the Federal Reserve System, The International Monetary Fund and The World Bank at Washington D.C., June 1-3 2011.
94. **Schularick, M., and A. M. Taylor**, 2012, *Credit Booms Gone Bust: Monetary Policy, Leverage Cycles, and Financial Crises, 1870–2008*, American Economic Review 102.
95. **Shin, H. S.**, 2011, *Macroprudential Policies Beyond Basel III*, Presentation on September 7 International Centre for Financial Regulation.
96. **Schoenmaker, D.**, *Central banks and macroprudential policy*. Some reflections from Coordination between the European and national level, 9 December 2012.
97. **Schoenmaker, D., and P. J. Wierds**. 2011. "Macroprudential Policy: The Need for a Coherent Policy Framework." Policy Paper 13, Duisenberg School of Finance, Amsterdam.



98. **Taylor J.**, *Discretion versus Policy Rules in Practice*, Carnegie-Rochester Conference Series on Public Policy, 39, 1993.
99. **Tinbergen, J** (1952), *On the Theory of Economic Policy*, North Holland, Amsterdam.
100. **Trichet, C.** (2005). *"Asset price bubbles and monetary policy"*, Speech at the Fifth MAS Lecture, Singapore.
101. **Van Norden S.** 2011. Discussion of *"The unreliability of credit-to-GDP ratio gaps in real time: implications for countercyclical capital buffers"*. International Journal of Central Banking 7(4).

## Leadership in technology. SMURD: a telemedicine case study

~ Ph. D. **Camelia Cojocaru** (*Faculty of Administration and Business, University of Bucharest, Romania*)

E-mail: [camelia.cojocaru@faa.ro](mailto:camelia.cojocaru@faa.ro)

~ Ph. D. **Silviu Cojocaru** (*Faculty of Administration and Business, University of Bucharest, Romania*)

E-mail: [silviu.cojocaru@faa.ro](mailto:silviu.cojocaru@faa.ro)

**Abstract:** The medical field is one of the most dynamic in Romania, regarding the adoption of IT. Dynamics is determined by two main factors. The first is related to the development of private health care market, and the second the benefits of using new technologies in medical processes. Telemedicine and advanced medical techniques are driven by new technologies. This paper aims to analyse the use of technology interoperability standards between applications and devices in medical institutions from Romania. Adoption of standards such as HL7 (Health Level 7), XML (eXtended Markup Language) and SOA (Service Oriented Architecture) can increase the quality of medical processes in Romania and can help reduce the cost of medical processes. In the article present a brief study on the use of new technologies in SMURD (Mobile Emergency Service for Resuscitation and Extrication). SMURD implementation is a clear proof of how technology could bring leadership in medical care.

**Key words:** HL7, XML SOA, interoperability, system integration, web services

**JEL Classification:** O33-Technological Change: Choices and Consequences; Diffusion Processes

## 1. Introduction

There is strong push for clinical leadership in the development and procurement of information technology in health care (Wyatt, 1995). The general presumption of specialists is that technology is of benefit to health care and should be wholeheartedly embraced. This view is supported by assertions such as that general practitioner computing is seen "an essential technology for healthcare," and the levels of spending on healthcare information technology should be highly increased (Dick, 1991).

Steps have been made during the last period, such as HL7. Health Level Seven (HL7) is a non-profit organization involved in the development of international interoperability standards for medical IT. "HL7" also refers to certain specific standards created by the organization. Together with its members, HL7 guarantees a framework of associated standards for information change, integration, share and transmission regarding e-Health. HL7 and other Internet technology-based standards allowed real time sending of medical information and the development of complex telemedicine systems.

It is the case with the SMURD emergency telemedicine project, one of the most complex of its kind achieved in Romania.

## 2. Literature review

Web services are a standardized way of distributing Internet applications and fundamental technologies that are at the basis of this network. Also, web services offer the possibility of interconnecting a wide range of applications, which are available on different platforms and in several worldwide locations. One could say that Web technologies

became an Esperanto of application communication, as the new technology opens the gate towards a new age dominated by intelligent applications that make smart decisions and Internet searches, as a basis for well-balanced decisions (Agosta, 2000).

Health Level 7 (HL7) is a standards-setting organization accredited by the American National Standards Institute (ANSI). They have developed communication protocols widely used in the United States, with growing international recognition and implementations. A vendor- and provider-supported organization, its mission is to provide standards for the exchange, management, and integration of data that support clinical patient care and the management, delivery, and evaluation of health care services. This encompasses the complete life cycle of a standards specification—development, adoption, market recognition, utilization, and adherence. The HL7 specifications are unified by shared reference models of the health care and technical domains. The HL7 version 2.4 messaging standard is currently in use, and version 3, which represents several fundamental changes to the HL7 messaging approach, is in an advanced stage of development. [Dolin, 2001]

Detailed specifications for expressing HL7 in SGML and XML have been developed. Some HL7 requirements are not readily expressed, while some ambiguous areas of the HL7 standard are made explicit in the SGML/XML representation. With the current design, an SGML/XML parser can extract any component of any data type from a message. SGML and XML can both serve as implementable message specifications for HL7 Version 2.3 and Version 3.0 messages. The ability to explicitly represent an HL7

requirement in SGML/XML confers the ability to validate that requirement with an SGML parser. The optimal message representation will be a balance of functional, technical, and practical requirements. (Dolin, 1998)

Telemedicine is the use of information and communications technology to provide health care services to individuals who are some distance from the health care provider. Rather than being a single technology, telemedicine is part of a wider process or chain of care. It has been assumed that telemedicine can improve this chain and thus enhance the quality and efficiency of health care. Telemedicine is also expected to increase the fairness and equality of the distribution of services, because the accessibility of health services, especially in remote areas, can be improved. Although the use of older approaches (telephone, fax) is commonplace, telemedicine applications increasingly use the latest innovations in computer and network technologies and other equipment (Roine, Ohinmaa, Hailey, 2001).

Although this definition includes medical uses of the telephone, facsimile, and distance education, telemedicine is increasingly being used as shorthand for remote electronic clinical consultation. Interest in the field has increased dramatically in the latest years. Around the world, state and private allocations for telemedicine and related technologies increased constantly. Many state and private organizations have begun telemedicine research and demonstration programs. Many states are using their own resources to build state-of-the-art telemedicine systems, some with large capital investments. Faith in this technology is not universal, however. Depending on one's viewpoint, telemedicine may be seen as a valuable tool for providing

badly needed specialty care services.

Telemedicine can be beneficial to patients living in isolated communities and remote regions, who can receive care from doctors or specialists far away without the patient having to travel to visit them. Recent developments in mobile collaboration technology can allow healthcare professionals in multiple locations to share information and discuss patient issues as if they were in the same place. Remote patient monitoring through mobile technology can reduce the need for outpatient visits and enable remote prescription verification and drug administration oversight, potentially significantly reducing the overall cost of medical care. Telemedicine can also facilitate medical education by allowing workers to observe experts in their fields and share best practices more easily.

Telemedicine also can eliminate the possible transmission of infectious diseases or parasites between patients and medical staff. Additionally, some patients who feel uncomfortable in a doctor's office may do better remotely. For example, white coat syndrome may be avoided. Patients who are homebound and would otherwise require an ambulance to move them to a clinic are also a consideration.

The downsides of telemedicine include the cost of telecommunication and data management equipment and of technical training for medical personnel who will employ it. Virtual medical treatment also entails potentially decreased human interaction between medical professionals and patients, an increased risk of error when medical services are delivered in the absence of a registered professional, and an increased risk that protected health information may be compromised

through electronic storage and transmission. There is also a concern that telemedicine may actually decrease time efficiency due to the difficulties of assessing and treating patients through virtual interactions; for example, it has been estimated that a tele dermatology consultation can take up to thirty minutes, whereas fifteen minutes is typical for a traditional consultation. Additionally, potentially poor quality of transmitted records, such as images or patient progress reports, and decreased access to relevant clinical information are quality assurance risks that can compromise the quality and continuity of patient care for the reporting doctor. Other obstacles to the implementation of telemedicine include unclear legal regulation for some tele medical practices and difficulty claiming reimbursement from insurers or government programs in some fields.

Another disadvantage of telemedicine is the inability to start treatment immediately. For example, a patient suffering from a bacterial infection might be given an antibiotic hypodermic injection in the clinic, and observed for any reaction, before that antibiotic is prescribed in pill form.

Roine and colleagues found the following forms of telemedicine to be valuable: "teleradiology, teleneurosurgery, telepsychiatry,

transmission of echocardiographic images, and the use of electronic referrals enabling email consultations and video conferencing between primary and secondary health care providers." (Roine, 2001) In general, cost savings were not impressive. This is not surprising, because such

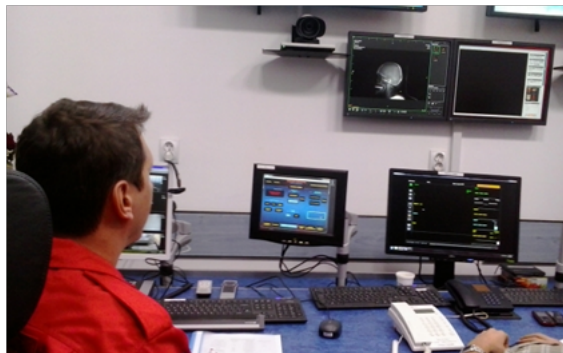
technology is expensive, especially to develop and support. However, the economic analyses that the authors reviewed did suggest that teleradiology, especially the transmission of CT images, could be cost-saving (Wallace, 2001).

The evaluation of the impact of telemedicine is difficult (Wallace, 2001). This is the reason that this paper is presenting a study case of successful implementation of telemedicine in Romania, in Tg. Mures.

### 3. SMURD Case Study

Established during 1991, SMURD (The Emergency, Reanimation and De-Caging Mobile Service) pushed forward, by means of professionalism, a new standard regarding the emergency services quality in Romania. SMURD is currently called upon for all emergencies where individual or multiple lives are in immediate danger.

*Fig. 1 – SMURD implementation in Tg Mures Hospital*



SMURD has recently finished a telemedicine project where the Tirgu-Mures based service can provide real time assistance for more than 40 hospitals in Romania. These hospitals do not have qualified personnel needed for emergency services. The IT solution has been developed based on the latest technologies from Microsoft. Included among these technologies is the latest Microsoft operating system – Windows 7.

Within Romanian small towns there are no qualified medical personnel able to provide emergency medical services. When emergencies occur within such hospitals, an ambulance or a helicopter is called for taking over the patient. The decision is taken by the doctor taking care of the patient, and no support can be provided as well as no case trial by the emergency unit. For most situations, the lack of specialized personnel results in inefficient use of resources.

*Fig. 2 – SMURD implementation: data transmission*



As those resources are limited (the medical emergency helicopter from SMURD Targus Mures and a certain number of ambulances), an eventual wrong resource allotting may even result in loss of lives.

Telemedicine allows distance transmitting of data related to patients. As such, vital signs, imagery exams and other analysis of such patients may be sent in real time. Our case study refers to a telemedicine project for medical emergencies. We connected the main regional hospital (the hospital in Targus Mures) with other 40 smaller hospitals, managed by the Targus Mures hospital and by the SMURD helicopter. These smaller hospitals do not benefit from all possible medical specialties and in most cases they do not have an emergency doctor, a radiologist or a doctor for critical situations.

The telemedicine system is compatible with all standards in the medical field, which are high due to demands related to interoperability and security. The Windows Communications Foundation (WCF) was used in order to integrate IT systems. It is a technology that generated important advantages in terms of application development process and alignment to medical standards.

The telemedicine solution centralizes vital sign flows received from monitored patients and shows them by means of a graphic interface based on Windows Presentation Foundation (WPF) technology. Doctors are thus able to manipulate relevant information for medical processes, especially the emergency ones. The monitoring devices are compatible with HL7 (Health Level 7) standard,

and the application and data management services are built according to HL7 Resources Location and Update Service. The database

used by the solution is Microsoft SQL Server 2008, and the solution fully meets all complex demands the medical field asks for.

*Fig. 3 – SMURD operations in Tg Mures Hospital*



Windows 7 OS has been integrated within the solution for vital signs sending and visualization, and this new Operating System allows the development of a flexible interface for this application.

The telemedicine system allows audio-video connections with all the smaller hospitals connected. More than that, the patient vital signs are real-time posted on monitors within SMURD Targus-Mures headquarters. This information helps the doctor with constant evaluation of the patient and in taking decisions on short notice. Besides that, the doctor is able to see how the patient reacts to treatment and to make useful and timely corrections.

The telemedicine solution contributed to the optimization of the way medical resources are used, generating an increase of the intervention speed and providing special medical cooperation opportunities.

Authentication and authorization are key demands for medical applications. The solution uses Windows Communication Foundation (WCF) and Web Services Security and Web Services Trust standards for security purposes. The WCF technology and these

standards provide full support for applications dedicated to the medical field, one of the best standardized in terms of security and interoperability.

The SMURD Targus Mures telemedicine system provided new opportunities in terms of performing the medical act, by improving communications and speed of sending medical information.

#### **4. Conclusions and implications**

According to Wallace (2001) we have moved well beyond the pioneering stages of telemedicine. Longer-term planning is required, and our health care budgets must incorporate telemedicine as part of regular operating expenses.

Emergency telemedicine system SMURD brought significant advantages in the development of medical processes in Romania. New technologies for interoperability - HL7 predilection - allow a wide integration of medical devices with other applications.

SMURD is successful in this regard. Although advanced medical technologies are




less spread to new telemedicine projects are quite rare in turn, develop a national emergency telemedicine project is a commendable

thing. Savings made by this project were significant and resulted in more judicious use of resources.

## REFERENCES:

1. **Agosta, L.** (2000). *"From data to insight: the critical path to data mining, a short history of data mining"*. PC/AI, Sept/Oct, 16-21.
2. **Airinei, D.** *Problemes concernant la generalisation des systems experts dans les activites financieres et comptables*, The Proceedings of the 2-nd International Symposium of EconomiInformatics, May, 1995.
3. **Alexander J., Hollis B.** (2002) - *Developing Web applications with Visual Basic .NET and ASP.NET*, John Wiley and Sons.
4. **Alter, S.** (2000) *"A taxonomy of Decision Support Systems"*. Sloan Management Review.
5. **Alter, S.** (2002) *Decision Support Systems; Current Practices and Continuing Challenges*. Addison - Wesley, Reading MA.
6. **Alschuler L, Dolin RH, Boyer S, Beebe C**, editors. *HL7 Clinical Document Architecture Framework*, Release 1.0. ANSI-approved HL7 Standard, Nov 2000. Ann Arbor, MI: Health Level Seven, Inc., 2000.
7. **Aamodt, A., and Plaza, E.** (1996). *Case-Based Reasoning: Foundational Issues, Methodological Variations and System Approaches*
8. **Dolin RH, Alschuler L, Boyer S, Beebe C, Behlen FM, Biron PV, Shabo A**, editors. *HL7 Clinical Document Architecture*, Release 2.0. ANSI-approved HL7 Standard, May 2005. Ann Arbor, MI: Health Level Seven, Inc., 2005.
9. **Dolin RH, Alschuler L, Beebe C, Biron PV, Boyer SL, Essin D, Kimber E, et al.** *The HL7 Clinical Document Architecture*. J Am Med Inform Assoc. 2001;8:552-69, <http://jamia.bmj.com/content/8/6/552.full>
10. **Dolin R. H., Rishel W., Biron P. V., Spinosa J., Mattison J. E.** (1998) *SGML and XML as interchange formats for HL7 messages* - <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC2232251/>
11. **Damsgaard, J. and True, D.** (2000). *Binary Trading Relations and the Limits of Edi Standards: The Procrustean Bed of Standards*. European Journal of Information Systems, 9 (3), 173-188.
12. **Dick RS, Steen EB**, editors. *The computer-based patient record: an essential technology for health care*. Washington DC: National Academy Press; 1991.
13. Forrester Research Inc. 2009. *"The Value of a Comprehensive Integration Solution."* Forrester Research Inc.
14. **Iyer, B., Freedman, J., Gaynor, M. and Wyner, G.** (2003). *Web Services: Enabling Dynamic Business Networks*. Communications of the AIS, 11, 525-554.
15. **Jacobides, M.G. and Billinger, S.** (2006). *Designing the Boundaries of the Firm: From "Make, Buy, or Ally" to the Dynamic Benefits of Vertical Architecture*. Organization Science, 17 (2), 249-261.
16. **Löwer, U.M.** (2005). *Interorganisational Standards: Managing Web Services Specifications for Flexible Supply Chains*. Physica-Verlag, Heidelberg.
17. **McAfee, A.** (2005). *Will Web Services Really Transform Collaboration?* MIT Sloan Management Review, 46 (2), 78-84.

18. **Roine R, Ohinmaa A, Hailey D.** *Assessing telemedicine: a systematic review of the literature.* CMAJ 2001;165(6):765-71. Available: [www.cma.ca/cmaj/vol-165/issue-6/0765.asp](http://www.cma.ca/cmaj/vol-165/issue-6/0765.asp)
  19. **Wallace, G,** *Information technology and telemedicine,* CMAJ, SEPT. 18, 2001; 165 (6) 777, <http://www.cmaj.ca/content/165/6/777.full.pdf+html>
  20. **Wyatt JC.** *Hospital information management: the need for clinical leadership.* BMJ. 1995;311:175–178.
- 

## Union banking a step towards achieving fiscal Union in the European Union

~ Ph. D. Student **Ionuț Marius Croitoru** (Romanian Academy, Bucharest, Romania)

E-mail: cionut08@gmail.com

**Abstract:** Introduction: Union policy needs in addition to the official language of four major components: a monetary union, a fiscal union, a union diplomatic and military union A stage in the Union is the Union banking tax.

Materials and Methods: Union Bank has three pillars: a single banking supervisor (single supervisory mechanism), the only mechanism of bank resolution and a single scheme of bank guarantees.

Results and conclusions: Union Bank, strengthen supervision is an inevitable process, and Romania will have to enroll in it. Option Romania is to be part of Romania deaorece bank Union can not remain outside the structures of decision as long as banks operating in Romania are predominantly Eurozone.

**Key words:** banking union, fiscal union, diplomatic union, monetary policy, the European Union

**JEL Classification:** E 58, E 59, E 62

**Monetary Policy, Central Banking, and the Supply of Money and Credit**

E58 - Central Banks and Their Policies

E59 - Other

**Macroeconomic - Aspects of Public Finance, Macroeconomic Policy, and General Outlook**

E62 - Fiscal Policy; Public Expenditures, Investment, and Finance; Taxation

## Introduction

EU leaders want to achieve a stable political Union in Europe. Union policy needs in addition to the official language of four major components: a monetary union, a fiscal union, a union diplomatic and military union.

Today Europe has only one components - monetary policy. The other three components are either in a study embryonic or absent altogether. Implacable logic of globalization will require, following fiscal union - when and if they will be - further integration diplomatic dimension (hereinafter the economy) and on the military dimension (the continuation of diplomatic). If Europe does not find the resources to take this road to the end, when financial markets are right to be skeptical and to rely on dismantling the eurozone.

Fiscal sovereignty is one fundamental sovereign rights of Member States in this area have only limited powers conferred Union. At EU level, fiscal policy is geared towards the smooth functioning of the single market impediments; EU efforts to further harmonization in this area focuses therefore mainly on indirect taxation. In parallel with these efforts, the EU is stepping up its fight against tax evasion and tax fraud, which constitutes a threat to fair competition and are the cause of a major budget deficit. Under the Treaty, the tax measures should be adopted by Member States unanimously. While fiscal policy is influenced largely by the European Court of Justice, the European Parliament has in this respect than the right to be consulted, except budgetary matters, where, as the authority budget Parliament shares their decision-making powers with the Council to the values predicted.

EU tax policy strategy is explained in the Commission Communication "Tax policy in

the European Union - Priorities for the years ahead" (COM (2001) 0260). Each Member State is free to choose the system of taxation which it considers most appropriate, provided they comply with EU rules. In this framework, the main priorities of EU tax policy are removing tax obstacles that hinder cross-border economic activity, combating harmful tax competition and promoting broad cooperation in the tax administrations to ensure control over fraud and to combat it. Greater coordination of fiscal policy should provide support EU policy objectives through wider fiscal policies of the Member States, according to the latest provisions of the Europe 2020 strategy for smart, sustainable and inclusive growth.

Euro can not exist long in its current form. At this time, the European project has practical choice between reintegration (at a much deeper) or (inevitably) to disintegrate. The signs of decay are many and visible to the naked eye. Increasingly fewer foreign investors hold Spanish or Italian bonds, which were purchased in mass domestic investors, budget deficits in the euro area countries are excessive, Spain borrow at interest rates close to the psychological threshold of 7% threshold at which Greece, Portugal and Ireland have asked for external funding, etc.

This is the context in which Germany seems to break the ice first. Offer small steps toward what many economists have considered it inevitable that the euro area does not explode: a **fiscal union**. Specifically, what serious economists have said for a long time: Although not easy, the euro area should take structural measures, fiscal union type and, ultimately, **political union**. However, because the whole construction to withstand time, it takes a lot more.

**Fiscal Union** should not mean a unification of all taxes. After all, the composition of US states are both local taxes (state and municipal) and federal taxes. Rather, **fiscal union** should involve allowing federal control over state budgets, as happens lately in Europe through initiatives such as the European Semester Six Pack legislation, etc. To be credible (thus differing from previous approaches) such checks should be accompanied by penalties that may be imposed by a majority (not unanimity) Member States' fiscal union.

A single monetary policy could not meet the needs of economy, this task returning fiscal policy. For a symmetric shock (such as the initial crisis has affected everyone) can become asymmetric (as happened, some countries have returned, some not). In such a context, fiscal policy would be to help national economies due to rebound. Only well as national fiscal policies not only stabilizing role played. Starting from the large budget deficits accumulated expansion, the only option was to reduce deficits when they ought to grow and help the economy, or is indebted beyond their capacity for repayment. If all this we add the lack of structural reforms in the economies concerned, we understand easily how to get where we are now. The current crisis has brought out such a **"defect management"** in the euro area, and this was caused by the absence of a common fiscal policy. Hence the urgent need to reform deep structural eurozone. It was clearly demonstrated that many national fiscal policies were poorly documented and implemented.

How can fiscal union for the euro zone solution. The main advantage of a fiscal union is that it eliminates the problem of national budget deficits that occur in some countries

with problems, plus all the negative externalities arising from here. Fiscal Union or some degree of fiscal union - the euro zone could be beneficial because it would allow automatic transfers to countries facing asymmetric shocks or symmetric shocks may become asymmetrical (such as those listed above). Countries that are unable to effectively manage its economy in the absence of exchange rate instrument. A centralized budget can function as a buffer against the potential shocks.

Fiscal Union can thus solve the problem of sovereign debt indirectly. There will be no need for a state to borrow to finance its budget deficit when in trouble. This would be done automatically by automatic transfers from central budget at European level.

Powerful states impose sanctions such behavior likely, strong monitoring performance of national fiscal processes. The major advantage of this solution is however to be solved national budget deficits and sovereign debt related. With all risk to the entire area here.

The eurozone and the entire Europe needs unity message, solidarity. European leaders will have to leave egos aside and understand that as long as the euro zone will be seen as a sum of states (sometimes individual interests) and not a single state (single purpose), the actual chances that she while withstanding very low. When markets will lend euro area as a whole, without interest differentiate interest for Germany to Greece, for example, then we can say that the Eurozone has long-term future. In other words, the risk premium (inevitable, moreover, in a free market) should be transferred from the markets (which charge any acts speculative and

alarms quickly) to decision makers in the euro area.

A step in the Fiscal Union is the Union Banking.

### Objectives and Methodology

The European debate on banking union was hot and there were altercations both Member States and the banking sector. However, after lengthy negotiations, architecture banking union was established.

Union Bank has three pillars:

1. **A single bank supervisor (single supervisory mechanism):** This will be the European Central Bank, which will be tasked to monitor the situation of euro area banks and the banking union acceding countries and the risks assumed by them and intervene when problems arise.

2. **The unique banking resolution:** If a bank is in trouble saving procedure for discharging -or even bankrupt - will be managed by settlement authority / resolution and financed by a fund of 55 billion euro not taxpayer money, but are contributions of euro area banks. Bank losses will be covered by the shareholders and bondholders.

3. **A single bank guarantee scheme:** introduce guarantees financed by banks for deposits up to 100,000 euros.

#### A. A new role for the ECB

The first step was single supervisory mechanism: European Central Bank began surveillance of the euro area banking system and will evaluate three steps to financial institutions, including stress tests to assess the potential risk which banks.

Supervision will be done in close cooperation with national supervisory authorities and may intervene if banks have problems. In contrast to the European Banking Authority,

which sets rules for banks operating across the EU, the ECB has the power to impose their views on national regulators.

Instead, the major banks in the euro area, 130 financial institutions deemed "systemically important", ie those whose assets are more than 30 billion, are directly supervised by the ECB will intervene if necessary

#### Capital subscription the capital of the ECB

The capital of the ECB comes from the national central banks (NCBs) of all EU Member States and amounts to €10,825,007,069.61.

The NCBs' shares in this capital are calculated using a key which reflects the respective country's share in the total population and gross domestic product of the EU. These two determinants have equal weighting. The ECB adjusts the shares every five years and whenever a new country joins the EU. The adjustment is made on the basis of data provided by the European Commission.

Since the start of Stage Three of Economic and Monetary Union on 1 January 1999 the capital key has changed six times: a five-yearly update was made on 1 January 2004, on 1 January 2009 and again on 1 January 2014; additional changes were made on 1 May 2004 (when the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia joined the EU), on 1 January 2007 (when Bulgaria and Romania joined the EU) and on 1 July 2013 (when Croatia joined the EU).

The fully paid-up subscriptions of euro area national central banks (NCBs) to the capital of the ECB amount to a total of €7,619,884,851.40 and break down as follows:

Euro area NCBs' contributions to the ECB's capital, updated on 1 January 2015:

Number	National central bank	Capital key %	Paid-up capital (€)
1.	Nationale Bank van België/Banque Nationale de Belgique (Belgium)	2.4778	268,222,025.17
2.	Deutsche Bundesbank (Germany)	17.9973	1,948,208,997.34
3.	Eesti Pank (Estonia)	0.1928	20,870,613.63
4.	Central Bank of Ireland (Ireland)	1.1607	125,645,857.06
5.	Bank of Greece (Greece)	2.0332	220,094,043.74
6.	Banco de España (Spain)	8.8409	957,028,050.02
7.	Banque de France (France)	14.1792	1,534,899,402.41
8.	Banca d'Italia (Italy)	12.3108	1,332,644,970.33
9.	Central Bank of Cyprus (Cyprus)	0.1513	16,378,235.70
10.	Latvijas Banka (Latvia)	0.2821	30,537,344.94
11.	Lietuvos bankas (Lithuania)	0.4132	44,728,929.21
12.	Banque centrale du Luxembourg (Luxembourg)	0.2030	21,974,764.35
13.	Central Bank of Malta (Malta)	0.0648	7,014,604.58
14.	De Nederlandsche Bank (The Netherlands)	4.0035	433,379,158.03
15.	Oesterreichische Nationalbank (Austria)	1.9631	212,505,713.78
16.	Banco de Portugal (Portugal)	1.7434	188,723,173.25
17.	Banka Slovenije (Slovenia)	0.3455	37,400,399.43
18.	Národná banka Slovenska (Slovakia)	0.7725	83,623,179.61
19.	Suomen Pankki – Finlands Bank (Finland)	1.2564	136,005,388.82
	<b>Total</b>	<b>70.3915</b>	<b>7,619,884,851.40</b>

The EU's nine non-euro area NCBs are required to contribute to the operational costs incurred by the ECB in relation to their participation in the European System of Central Banks by paying up a small percentage of their share in the ECB's subscribed capital.

Since 29 December 2010 their contributions have represented 3.75% of their total share in the subscribed capital. The capital paid to the ECB by the non-euro area NCBs amounts to €120,192,083.17 and breaks down as follows, updated on 1 January 2015:



Number	National central bank	Capital key %	Paid-up capital (€)
1.	Българска народна банка (Bulgarian National Bank) (Bulgaria)	0.8590	3,487,005.40
2.	Česká národní banka (Czech Republic)	1.6075	6,525,449.57
3.	Danmarks Nationalbank (Denmark)	1.4873	6,037,512.38
4.	Hrvatska narodna banka (Croatia)	0.6023	2,444,963.16
5.	Magyar Nemzeti Bank (Hungary)	1.3798	5,601,129.28
6.	Narodowy Bank Polski (Poland)	5.1230	20,796,191.71
7.	Banca Națională a României (Romania)	2.6024	10,564,124.40
8.	Sveriges Riksbank (Sweden)	2.2729	9,226,559.46
9.	Bank of England (United Kingdom)	13.6743	55,509,147.81
10.	Total	29.6085	120,192,083.17

### Missions and Tasks European Banking Authority (EBA)

"The European Banking Authority (EBA) is an independent EU Authority which works to ensure an effective and consistent level of prudential regulation and supervision across the European banking sector. Its overall objectives are to maintain financial stability in the EU and to ensure the integrity, efficiency and orderly functioning of the banking sector.

The EBA is part of the European System of Financial Supervision (ESFA) made up of three supervisory authorities: the European Securities and Markets Authorities (ESMA), the European Banking Authority (EBA) and the European Insurance and Occupational Pensions Authority (EIOPA). The system also comprises the European Systemic Risk Board (ESRB) as well as the Joint Committee of the European Supervisory Authorities and the national supervisory authorities.

The EBA is independent, but accountable to the European Parliament, the European Council of the European Union and the European Commission. Deși

autoritățile naționale de supraveghere (și, în viitorul apropiat, Banca Centrală Europeană pentru acele țări care participă la noul mecanism de supraveghere unic, un pilon-cheie al așa-numitei „uniuni bancare”) rămân responsabile pentru supravegherea instituțiilor financiare individuale, rolul ABE este de a îmbunătăți funcționarea pieței interne prin asigurarea supravegherii și reglementării europene adecvate, eficiente și armonizate.

Whilst the national supervisory authorities (and in the near future the European Central Bank for those countries participating in the new Single Supervisory Mechanism, a key pillar of the the so-called 'Banking Union') remain in charge of supervising individual financial institutions, the role of the EBA is to improve the functioning of the internal market by ensuring appropriate, efficient and harmonised European supervision and regulation.

The main task of the EBA is to contribute, through the adoption of Binding Technical Standards and Guidelines, to the creation of the European Single Rulebook in banking. The Single Rulebook aims at

providing a single set of harmonised prudential rules for financial institutions throughout the EU, helping create a level playing field and providing high protection to depositors, investors and consumers.

The Authority also plays an important role in promoting convergence of supervisory practices to ensure a harmonised application of prudential rules. The EBA is also mandated to assess risk and vulnerabilities in the EU banking sector through, in particular, regular risk assessment reports and pan-European Stress Tests.

Other tasks set out in the EBA's mandate include investigating insufficient application of EU law by national authorities, decision-making in emergency situations, mediating disagreements between competent authorities in cross-border situations, and acting as an independent advisory body to the European Parliament, the Council or the Commission..

### Organisation

The EBA is represented externally by its **Chairperson** whose role is also to prepare the work and to lead discussions at meetings of the Board of Supervisors. An Executive Director prepares the Management Board meetings and ensures the day-to-day operational work of the Authority.

The two governing bodies of the EBA are:

- The **Board of Supervisors** which is the main decision-making body of the Authority. It takes all policy decisions of the EBA, such as adopting draft Technical Standards, Guidelines, Opinions and Reports.

- The **Management Board** whose role is to ensure the Authority carries out its

mission and performs the tasks assigned to it. In this respect, it is entrusted with the power to propose, among other things, the annual work programme, the annual budget, the staff policy plan and the annual report.

The EBA works closely with the other European Supervisory Authorities (ESAs) in the framework of the Joint Committee on issues of cross-sectoral relevance. Finally, in order to effectively protect the rights of parties affected by decisions adopted by the EBA, a Board of Appeal has been set up.

### Working process

As part of ensuring that the EBA carries out its tasks and mandates in an effective and transparent way, all deliverables drafted by the Authority are discussed in technical working groups and standing committees where national authorities can provide inputs. The EBA also regularly cooperates with other bodies and institutions in the execution of its Mandate.

Open public consultations are conducted, where appropriate, on regulatory products (Technical Standards, Guidelines, etc.) to ensure stakeholders and all interested parties can provide inputs on future banking standards and Guidelines.

The Authority also seeks comments and advice from the Banking Stakeholders Group, a body established by the EBA Regulation to facilitate consultations with stakeholders. Finally, where appropriate, the EBA conducts a costs and benefits analysis on all proposals. Final products are adopted, after a vote, by the Board of Supervisors"

**B. A unique mechanism of resolution, a compromise between Member States and between the Community institutions**

The second pillar of establishing a **European banking union resolution, which will decide whether a bank should be saved or problems should enter into bankruptcy.** It was the most difficult aspect established interinstitutional both Community and Member State level.

The friction points were particularly during **the decision-making and the creation of a fund for the financing of the liquidation** of a bank.

The liquidation procedure is simple and consists of several steps:

- ECB will start the process that will determine whether a bank is bankrupt;
- A council will coordinate the orderly liquidation of the bank concerned. Decisions of the liquidation shall be taken in a limited format, which will include representatives of the European Commission and the ECB;
- The Commission will draw up the plan of liquidation scheme, and the Council will be involved only if the EC would ask this: is a procedure that will avoid national political pressures;
- In exceptional cases, the amounts at stake would exceed 5 billion, decisions will be made in plenary sessions, which will be represented each state;
- This mechanism Inter reached a compromise between the Council and the European Parliament;
- Germany wanted to grant a Member important role in decision making, but lawmakers have considered that the mechanism would be too slow and complex;

- Following negotiations, the role of states was reduced and simplified procedure so that in case of urgent problems of banks their fate to be decided at the weekend, when financial markets are closed.

**C. Once the liquidation decision taken and the money needed to finance this procedure.**

- It was decided to set up a fund of 55 billion euros to banks in difficulty and the period in which it will reach this amount is 8 years after it was initially proposed a period of 10 years. Parliament wanted the Fund to become fully operational within three years;
- Initially, it will be created such a fund in each Member State, to support domestic banks that operate them. After two years, they will be combined in a ratio of 60%, and after three years are cumulative 70% after three years;
- Calendar, 40% of the 55 billion will be allocated in the first year, 20% in the second, because in the next 6 years to reach the final amount;
- The Fund will be powered by euro area banks. A sensitive issue that remains to be determined is the calculation of banks' contributions to the fund, a matter of concern especially France and Germany;
- If funding needs will exceed the Fund, it will be able to borrow in financial markets;
- winding mechanism came into force on 1 January 2015, but will work in 2016.

## Romania and the Union Banking

Since the first discussions on the subject, the Romanian state has supported efforts to achieve European Banking Union. In December 2012, the Romanian Government adopted a memorandum containing a number of elements of Romania's position on proposals to strengthen the Economic and Monetary Union (EMU).

The document says that Romania supports efforts aimed at strengthening of the EU and creating a genuine banking union, fiscal and economic. "Romania supports the process of strengthening governance in the euro area, but considers that this process should not be detrimental to states outside the euro area and lead thus to the fragmentation of the Union" was the message of Victoria Palace.

Union Bank, strengthen supervision is an inevitable process, and Romania will have to enroll in it. Option Romania is to be part of Bank Union because can not remain outside the structures of decision as long as banks operating in Romania are predominantly Eurozone. Together with the European Stability Mechanism, development banking union Romania advantage because Achievements banking union leads to careful supervision of banks in the euro area and beyond.

### Organisational principles for the Eurosystem and the Single Supervisory Mechanism .

"For the Eurosystem, with due respect to the underlying principle of decentralisation:

#### 1.Participation

All members of the Eurosystem and the Single Supervisory Mechanism (SSM) will contribute strategically and operationally to their goals.

#### 2.Cooperation

All members of the Eurosystem and the SSM will perform all their functions in a spirit of cooperation and teamwork.

#### 3.Transparency and accountability

All members of the Eurosystem and the SSM will act transparently and be fully responsible and accountable for the effectiveness of all their functions.

#### 4.Distinguishing European and national activities

The European activities performed by national central banks and national competent authorities will be clearly identified and distinguished from those pertaining to national responsibilities.

#### 5.Cohesion and unity

While respecting the legal status of their members, the Eurosystem will act as cohesive and unified entity and the SSM as a cohesive and coordinated entity. They will each work as a team and speak with one voice, aiming to be close to the citizens of Europe.

#### 6.Exchange of resources

The members of the Eurosystem and the SSM will promote the exchange of personnel, know-how and experience.

#### 7.Effectiveness and efficiency in decision-making

All decision-making and deliberative processes of both the Eurosystem and the SSM will pursue effectiveness and efficiency. Decision-making will focus on analysis and arguments as well as the expression of a variety of views.

#### 8.Cost efficiency, measurement and methodology

The members of the Eurosystem and the SSM will manage all resources prudently and will promote effective and cost-efficient solutions in all their activities.

The Eurosystem and the SSM will develop control systems and performance indicators to measure the fulfilment of their functions and alignment with their objectives.

Comparable cost evaluation and cost-reporting methods will be further elaborated and utilised.

### **9. Exploit synergies and avoid duplications**

Within both the Eurosystem and the SSM, while fully respecting the separation between monetary policy and supervisory tasks, potential synergies and economies of scale will be identified and exploited to the extent feasible.

Unnecessary duplication of work and resources and excessive and inefficient coordination will be avoided. To this end, organisational options that ensure effectiveness, efficiency and prompt action, taking advantage of the experience available through intensified use of existing resources will be energetically pursued.

The outsourcing of Eurosystem support functions and activities will be considered against the same criteria and will take security aspects into account”.

### **Conclusions**

Making Banking Union, the legal and institutional architecture shown above is a prerequisite for the development of a European banking sector safe, responsible and generator of economic progress. Union Bank is part of an integrated financial framework has been conceptualized when it became clear that reform is needed to address the shortcomings in regulation and supervision.

The Unique mechanism of resolution (MUR) is explained by the very high cost

of bank rescue packages granted by public funds (by allocating in 592 bn. € or 4.6% of EU GDP in 2012, from October 2008 - December 2012 measures to support the capitalization and other 906 bn. € or 7.8% of EU GDP in 2012 by safeguards and other forms of liquidity support). Using public funds for this purpose, although it was considered necessary, is not sustainable in the future because of the fragile position of the public sector in most EU countries (public debt as a percentage of GDP significant budget deficits at relatively high levels).

Therefore aim to create a Community legal framework integrated unitary and coherent and credible measures on appropriate tools for financial crisis management in order to:

- ensuring the continuity of critical functions of financial institutions;
- minimizing the risks of contamination;
- reducing moral hazard;
- protection of public finances by interrupting the vicious spiral of sovereign risk and financing costs of credit institutions;
- protection of depositors;
- exit from the market ordered institutions in difficulty, without affecting financial stability.

In terms of time, MUR involves partial entry into force on 1 January 2015 and full entry into force on 1 January 2016 (including provisions for bail-in). The moment at which an EU member enters the MUR is determined either by membership of the euro area or of entry into MUS - adherence to automatic and requires the adoption of MUR.

Union Bank topic captures the attention of more and more stakeholders in our

country, be it about authorities, representatives of credit institutions or supranational reale. Construcția the economy designed to ensure better coordination of the European banking system is viewed with great interest nationally. This interest is normal for at least two reasons: the strong presence of foreign capital in the domestic banking system and our authorities wish Romania to be part of the Union Bank.

Accession to the Union Banking before adopting the euro is a preferable option because decisions are reflected in the MUS anyway Romanian banking system, given the presence of high capital structure of euro area credit institutions, Romanian legal persons.

Accession to the Union Banking is a landmark in the course of the single currency because, strengthens financial stability,

including regional contagion risk mitigation and removal of a stimulant of deleveraging by banks with foreign capital. Also facilitates the recovery of lending on a path consistent with sustainable development of economic activity in tandem with economic resources released by structural reforms leading to an increase in the real convergence process likely to achieve a sustainable fulfillment of criteria for joining the euro area.

### Acknowledgements

This paper is supported by the Sectorial Operational Programme Human Resources Development (SOP HRD), financed from the European Social Fund and by the Romanian Government under the contract number SOP HRD/159/1.5/S/136077.

### REFERENCES:

1. **Stelian Scăunaș** - *Uniunea Europeană*, Editura C.H. Beck, București 2008
2. **Daniela Antonescu** - *Dezvoltarea regională: tendințe mecanisme*, instituții, Editura Top Form, București 2011
3. **Petre Brezeanu, Ilie Șimon, Sorin Celea** - *Fiscalitate europeană*, Editura Economică, București 2005
4. **Petre Brezeanu** - *Finanțe europene*, Editura C.H. Beck, București 2007
5. **Tofan Mihaela** - *Integrarea României în structurile Uniunii Monetare Europene*, Editura C.H.Beck, București 2008
6. **Dragoș Pătroi, Gabriel Biriș** - *Controverse actuale în fiscalitate*, Editura CH Beck, București, 2011
7. **Eugen Nicolaescu** - *Fiscalitate comparată*, Editura Pro Universitaria, București, 2012
8. Site-ul Uniunii Europene: <http://ec.europa.eu>
9. Eurostat <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home>
10. [https://www.ecb.europa.eu/ecb/orga/escb/html/mission\\_eurosys.en.html](https://www.ecb.europa.eu/ecb/orga/escb/html/mission_eurosys.en.html)
11. <http://www.eba.europa.eu>
12. Banca Mondială <http://data.worldbank.org/topic> ;
13. Tratatului privind Uniunea Europeană (Tratatul de la Roma 1957)
14. Tratatului privind funcționarea Unuiunii Europene
15. Tratatului de guvernare fiscală



# Analysis of the growth poles in esthetic dentistry

~ Ph. D. Assistant **Andreea Dana Tudose** (Faculty of Dentistry Titu Maiorescu Bucharest)

E-mail: [Andreea.Dana.Tudose@gmail.com](mailto:Andreea.Dana.Tudose@gmail.com)

**Abstract:** Growth poles are considered dynamic elements of economic growth, responsible for economical, technological, ideological, spiritual and moral integration.

Bioeconomy is currently an area of great and mighty power development. High complexity of this field is to combine the use of technologies that use biological resources in the range of human values involved.

This study requires that objective SWOT analysis applied in dental esthetics with strict reference to the quality of work in relation to aesthetic and functional effectiveness of the treatment, the life, the method of reconstruction, working technique, the degree of invasiveness of treatment in relation to conservation dental tissues, execution costs, costs of resources used in dental anterior segment reconstruction and economic analysis of the modalities of treatment techniques reported the need and level of understanding of patients on treatment aesthetic-functional complexity. As material and method took into account the interaction of four factors: Strengths-Weaknesses-Opportunities-Hazards. In group "**Strengths**" we have included successful treatment aesthetic-functional execution moderate cost, short time working on the seat, which shows limited use of natural resources. In group "**Weaknesses**" I included invasiveness of biological treatment, increased during execution of the work, aesthetic-functional failure, lack of training practitioners in dental aesthetics, lack of existent cabinets to promote interest in aesthetic dental medicine. "**Opportunities**" referred to the minimally invasive treatment of dental tissue in existing clinical context with predictable results, as higher interest of patients for dental esthetics, raising the standard of care inter-



nationally. In group “**Risks**” (threats) I listed: low resistance while works (weak predictability), decreasing purchasing power, changing customer preferences, increase service quality standards.

In the second chapter we presented a report on the economic analysis - term labor - cost - average degree of patient satisfaction . In order to establish an economic plan to make a technical report of treatment ( labor) - price, average duration, satisfaction, relative to direct restoration techniques versus indirect techniques .

In conclusion, SWOT analysis can be successfully applied to a better targeting of treatments, applying a plan lines for management in dental treatment units. None of direct techniques can not fit the bioeconomy principles (saves time, money, dental tissue) in the short term. All maneuvers efficient in terms of functional aesthetics dentistry win at time saving and lost tooth structure chapter to the cost issue. In the long run costs can be amortized, especially since the restoration increases predictability.

**Key words:** bioeconomy, aesthetic and functional dental tissue, cosmetic dentistry, minimally invasive.

### 1.1. Introduction

Maintaining good oral health is closely related to the financial possibilities of the patient. It is important to analyze the economic and social capacity to purchase these services.

Bioeconomy is currently an area of great and mighty power development. High complexity of this field is to combine the use of technologies that use biological resources in the range of human values involved. Following this economic area of interest for early assessment of technologies, both in business and in the area of social perspective.

Bio-principles in dental aesthetics are respected not only by the minimum sacrifice of hard tooth substance, and by conducting functional aesthetic treatments of high quality, durability as extended time so as to reduce the amount of resources possible used to achieve these esthetic restorations.

SWOT analysis is a technique that can identify strengths and weaknesses and the opportunities and threats can examine a project of an action or of a person and can be used as part of achieving balance [4, 7, 8, 9].

In general, there are two ways that can be used SWOT analysis: professional or

personal purposes. For personal, SWOT analysis can be used to monitor a person's career, noting the skills and problems that it has. In a professional context, SWOT analysis can be used to measure the profitability of a business or a project [3, 10, 11, 12].

### 1.2. Objectives:

1.SWOT analysis in aesthetic dentistry with strict reference to the quality of work in relation to aesthetic-functional treatment efficiency, lifetime, method of reconstruction, working technique, the degree of invasiveness of treatment in relation to conservation dental tissue, execution costs, costs of resources used in dental anterior segment reconstruction.

2.Analysis of economically the modalities of treatment techniques reported the need and level of understanding of the complexity of patients' aesthetic treatment.

### 1.3. SWOT analysis

#### Materials and methods:

The SWOT analysis took into account the interaction of four factors : Strengths-Weaknesses-Opportunities-Risks ( fig.1.1 ) .

Fig.1.1 The SWOT Analysis



In Group I included **Strengths**:

- Successful treatment aesthetic-functional (no appearance of carious processes, microleakage, texture and color retention, marginal gingival tissue biointegrated correctly without inflammatory processes, preserving anatomical shape);

- Moderate execution costs;

- Short time working on the seat, which shows limited use of natural resources. All these elements are advantages in the current socio-economic context .

In Group I included **Weaknesses**:

- Invasiveness of biological treatment;

- Increased during execution of the work;

- Failure aesthetic functional( metallosis appearance at gingival inflammation, color and textural aesthetic degraded inadequacy maxillary complex dynamics);

- Lack of training practitioners in dental aesthetics;

- Lack of existence cabinets to promote interest in aesthetic dental medicine .

**Opportunities:**

- Minimally invasive treatment of dental tissue in existing clinical context with predictable results;

- Bigger interest of patients for dental esthetics;

- Raising the standard treatment internationally.

**Risks (threats):**

- Low resistance while works (weak predictability);

- Reducing purchasing power;

- Changing customer preferences;

- Increasing the service quality standards.

**Results:**

The first analysis includes direct and indirect veneer treatments (Table 1.I).

Tabel.1.I

Treatment aesthetic	Strengths	Weaknesses	Opportunities	Threats
Direct Veneers	<ul style="list-style-type: none"> <li>- for fast execution;</li> <li>- Good aesthetics</li> <li>- Are subject to change by the practitioner;</li> <li>- Does not involve costs and collaboration with dental laboratory;</li> <li>- Moderately priced.</li> </ul>	<ul style="list-style-type: none"> <li>- 4-5 years - predictability by color degradation, microleakage.</li> </ul>	<ul style="list-style-type: none"> <li>- Minimally invasive preparation;</li> <li>- Can be a pre-diagnostic mock-up for indirect;</li> <li>- Bigger interest of patients for dental esthetics.</li> </ul>	<ul style="list-style-type: none"> <li>- Low resistance.</li> </ul>
Indirect Veneers	<ul style="list-style-type: none"> <li>- excellent aesthetics;</li> <li>- Predictability 8-9 years old;</li> <li>- Elimination phase of finishing and polishing;</li> <li>- Good resistance.</li> </ul>	<ul style="list-style-type: none"> <li>- High cost;</li> <li>- Execution in 2-3 sessions;</li> <li>- Collaboration with the dental team.</li> </ul>	<ul style="list-style-type: none"> <li>- Minimally invasive technique of preparation;</li> <li>- Developing an aesthetic ideal (natural);</li> <li>- Customized aesthetic treatments;</li> <li>- Bigger interest of patients for dental esthetics</li> </ul>	<ul style="list-style-type: none"> <li>- Reducing purchasing power;</li> <li>- Lack of training practitioners in dental aesthetics;</li> <li>- Lack of information to patients</li> </ul>

A second analysis includes crown restorations made with composite nanohybrid which will be analyzed in terms of dental

tissue preservation, working technique, execution time, predictability and costs (Table 1.II).

Tabel.1.II

Treatment aesthetic	Strengths	Weaknesses	Opportunities	Threats
Crown restorations performed with classical technique	<ul style="list-style-type: none"> <li>- low-cost;</li> <li>- Knowledge of classical techniques of execution</li> </ul>	<ul style="list-style-type: none"> <li>- Predictability 4-5 years;</li> <li>- Laborious technique of execution of composite stratification;</li> <li>- Finishing and polishing laborious;</li> <li>- Bordered infiltration;</li> </ul>	<ul style="list-style-type: none"> <li>- Reduction of polymerization shrinkage factor C;</li> <li>- Materials, more efficient techniques.</li> </ul>	<ul style="list-style-type: none"> <li>- Occurrence of polymerization shrinkage;</li> <li>- Increasing the service quality standards</li> </ul>

Crown restorations made with vibratory technique	<ul style="list-style-type: none"> <li>- excellent aesthetics</li> <li>- Minimum working time by reducing maneuver finishing and polishing;</li> <li>- Top marginal adaptation.</li> </ul>	<ul style="list-style-type: none"> <li>- The investment in the professional instrumentation.</li> </ul>	<ul style="list-style-type: none"> <li>- Predictability 7-8 years</li> </ul>	<ul style="list-style-type: none"> <li>- reducing purchasing power;</li> <li>- Lack of training practitioners in dental aesthetics;</li> <li>- Lack of public information to esthetic dentistry.</li> </ul>
--	--	---	--	---

A third analysis refers to indirect restorations made of aesthetic works, considered in terms of fingerprinting, execution time,

methods of implementation, cost and predictability (Table 1.III).

Tabel.1.III

Jointly aesthetic dentures	Strengths	Weaknesses	Opportunities	Threats
Classic Impression	moderately low cost	<ul style="list-style-type: none"> <li>- 2-3 working session;</li> <li>- Changes in impression materials;</li> <li>- Implementing many stages of work in the laboratory that can give errors;</li> <li>- Insufficient visibility of elements on field work</li> <li>- Labor sometimes difficult for the patient;</li> <li>- Hygiene problems.</li> </ul>	<ul style="list-style-type: none"> <li>- Increasing the service quality standards.</li> </ul>	<ul style="list-style-type: none"> <li>- Errors due to the use of inappropriate materials;</li> <li>- Increasing the service quality standards.</li> </ul>
Digital fingerprinting CAD / CAM	<ul style="list-style-type: none"> <li>- working time reduced to a meeting;</li> <li>- Extremely low error;</li> <li>- Achieving adaptation occlusal computer;</li> <li>- Not involving the use of virtual ELEMENTS costs and no damage.</li> </ul>	<ul style="list-style-type: none"> <li>- Costs slightly raised;</li> <li>- The investment in the instrumentary..</li> </ul>	<ul style="list-style-type: none"> <li>- Promoting widespread techniques fingerprints;</li> <li>- Increasing service quality standards;</li> <li>- Raising the standard treatment internationally.</li> </ul>	<ul style="list-style-type: none"> <li>- Return on investment in a long time;</li> <li>- Reducing purchasing power.</li> </ul>

## Discussions

SWOT analysis shows that the main risks are related to dental esthetics diminishing purchasing power and changing customer preferences. Strengths were related esthetic results obtained in relatively short time and with minimal sacrifice of dental tissue.

Weaknesses were consistent classical techniques, or the high costs of the investments required.

Opportunities corresponded bigger interest of patients for dental esthetics, raising the standard treatment internationally, increasing service quality standards.

Offering new services is an excellent way to develop dental practice and attract new clients, especially in an economy whose evolution is slower. The challenge is to find those services that not only improve patient care but generate extra income and can easily be incorporated into existing systems of practice for a long time. Dentistry has traditionally been an area which provided mainly a limited set of services. The economic downturn has caused a change so that it became imperative to increase practical opportunities by expanding clinical service packages.

For dentists and dental practice core mission remains to promote and maintain excellent oral health, regardless of economic status.

One of the best opportunities to expand dental services is to implement customized aesthetic treatments.

Today, esthetic dentistry has to answer the following questions:

1.What does the ideal treatment for patients?

2.What are the implications if a patient does not accept the recommendation ideal?

3.Acceptance of optional services are ideal treatment or simply a luxury?

Physicians should provide the ideal treatment for patients based on a comprehensive assessment of their immediate requirements and ensure long-term oral health. Before determining whether patients will be interested or have the financial ability to accept treatment, should be developed and presented ideal treatment plan. In this trial, patients must understand that the dentist has the vision of their interest in aesthetics and health. Presentation ideal treatment also serves to educate patients on raising awareness of the patient on the treatment recommended to establish an order of priority for completion of the procedures recommended.

### 1.4. Economic analysis on labor-value ratio-term average level of patient satisfaction.

#### Material and methods:

In order to establish an economic plan was made a technical report of treatment (labor) - price, average duration, satisfaction, relative to direct restoration techniques versus indirect techniques. It is quite hard to out in terms of prices, because we talk about treatment plan executed in a given clinical context, however we will analyze comparative prices reported only maneuvers that can support this comparison.

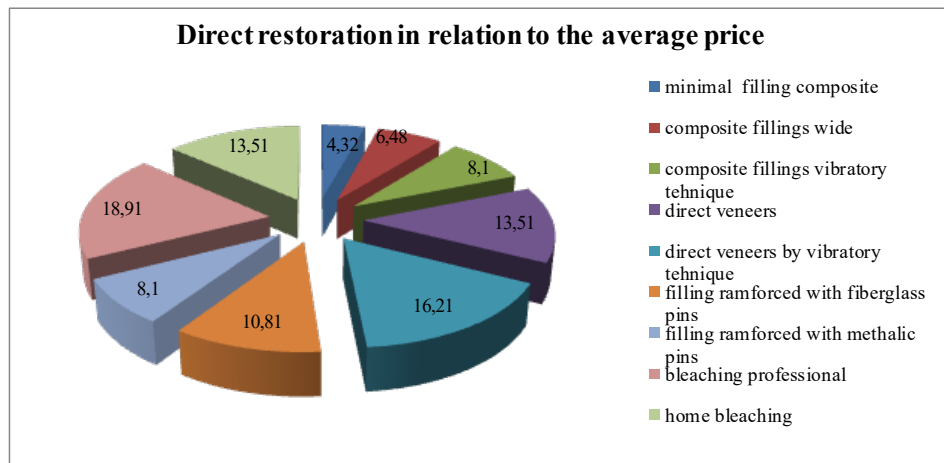
#### Results:

Data was entered in the following tables (Tables 1.IV, 1.V, Fig.1.2, 1.3).

DIRECT RESTORATION- Table 1.IV

WORKMANSHIP	AVERAGE PRICE	AVERAGE DURATION	SATISFACTION DEGREE		
			S	M	R
<i>Composite filling small</i>	80 lei	4-5 years		*	
<i>Composite fillings extended</i>	120 lei	4-5 years		*	
<i>Composite obturation technique vibratory</i>	150 lei	7-8 years			*
<i>Veneers</i>	250 lei	4-5 years		*	
<i>Veneering technique vibratory</i>	300 lei	7-8 years			*
<i>Armed aesthetic fillings</i>	200 lei	5-6 years			*
<i>Reinforced with metal fillings</i>	150 lei	4-5 years	*		
<i>Whitening cabinet</i>	350 lei	1-2 years			*
<i>Whitening ambulatory</i>	250 lei	1 year			*

Fig.1.2 Direct treatment value



Of direct maneuvers executed in the most expensive aesthetic therapies are performed in office whitening ( 18.91 %) and direct facets vibratory technique ( 16.21 %). In contrast, the lowest prices are those for conventional composite restorations.

By reporting price-term average shows that there is not always a proportionality between these two parts. Example clearly refers to bleaching techniques that are top in terms of price but the last places, the average length of persistence. However, patients

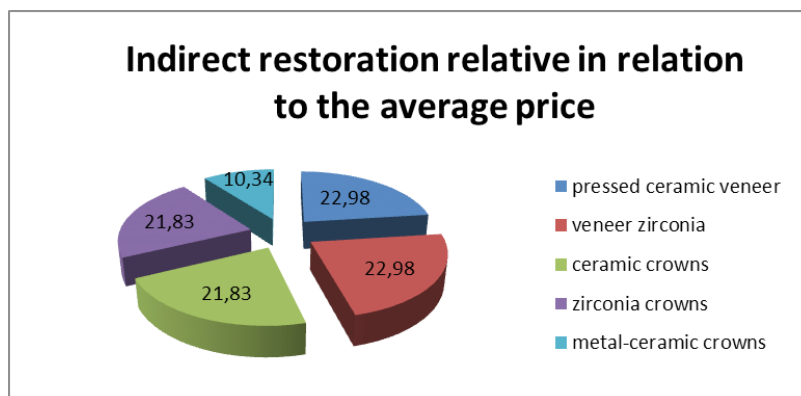
are satisfied in terms of aesthetics, which is a major element in the choice of dental therapy. Technical application of the composite vibration corresponds in terms of value for

money medium term increased price is justified by both aesthetically satisfying the most demanding patients and increased average duration of 7-8 years.

INDIRECT RESTAURATION- Table 1.V

WORKMANSHIP	average price	average duration	SATISFACTION DEGREE		
			Low	Med	High
<i>Veneers pressed ceramic</i>	1000 lei	10-11 years			*
<i>Zirconiaceramic veneering</i>	1000 lei	10-11 years		*	
<i>Ceramic crowns</i>	950 lei	11-12 years			*
<i>zirconia crowns</i>	950 lei	11-12- years			*
<i>Metalo-ceramic crowns</i>	450 lei	10-11 years	*		

Fig.1.3 Indirect treatment value



Among the most expensive treatments are indirect veneers and zirconia ceramic veneers (1, 5), followed very small differences ceramic crowns (2, 6).

Veneers are an investment with increased price because they are considered aestheticization treatment, but not always necessary when you want an image

enhancement. It also can be done in any event. But coverage crowns are often necessary and can be used in more complex situations functional restoration and reintegration dental articular system.

Prices are high but justified ceramics by high patient satisfaction, so aesthetics at the highest standard and median of 10 years.



## Discussions

There are two main reasons that may prevent a patient to accept a cosmetic treatment: cost and fear of being prepared natural teeth, translated by fear of the dentist, which is an invasive treatment.

The average cost of an indirect facets is about 9000-1000 lei and in most cases, patients require a minimum of 8 to 10 facets for a pleasing result. The result is a total cost of about 72000-10000 lei for these services, an amount that is unthinkable for many patients. It is difficult for them to understand that this cost, for the most part, is the time to make stool obstruction to other more laborious techniques and less invasive.

The composite restorations price difference is the time spent on nationalization and finishing direct restorations. They are still cheaper, involving fewer sessions and have additional dental baskets. Costs vary between 300-400 lei per side, so a complete treatment would facets 8-10 2400 lei- 4000 lei. In addition, fear of grinding is low, as the preparations for facets are minimal or lacking in clinical situations that allow their application without preparation.

## 1.5 Conclusions:

1. SWOT analysis can be successfully applied to a better targeting of treatments, applying a plan lines for management in dental treatment units.

2. None of the direct techniques can not fit the bio-economy principles (saves time, money, dental tissue) in the short term. All effective maneuvers that wins aesthetically Chapter saves time and lost tooth structure to the cost issue. In the long run costs can be amortized, especially since the restoration increases predictability.

3. From the aesthetic point of view, relative to the average income of the population, faces technical executives by vibration is a viable solution.

4. Clinical situations that require complex prosthetic treatment can be solved by metal-ceramic works, given the predictability of revenues and treatments.

5. It is strictly necessary to understand the complexity of aesthetic treatment, the positive role of this type of treatment parallels the physical appearance and social, so his acceptance in terms of health, social aspect to be fully financially satisfactory.

6. SWOT analysis can be successfully applied to a better targeting of treatments, applying a plan lines for management in dental treatment units.

7. None of the direct techniques can not fit the bio-economy principles (saves time, money, dental tissue) in the short term. All effective maneuvers that wins aesthetically, saves time and lost tooth structure loses to the cost issue. In the long run costs can be amortized, especially since the restoration increases predictability.

---

## REFERENCES:

1. Bergman M. (2000) *Side-effects of dental materials reported in Scandinavian countries*. Dent Mater J 19: 1-9;
2. Bergman M. (1990) *Side-effects of amalgam and its alternative: local, systemic and environmental*. Int Dent J 40: 4-10;

3. <http://dx.doi.org/10.1016/j.ins.2007.01.001>;
4. <http://dx.doi.org/10.1111/1467-8616.00253>;
5. [http://ec.europa.eu/research/bioeconomy/pdf/201202\\_innovating\\_sustainable\\_growth\\_ro.pdf](http://ec.europa.eu/research/bioeconomy/pdf/201202_innovating_sustainable_growth_ro.pdf);
6. **Freedman M, Quinn F, Sullivan M.** *Single unit CAD/DAM restorations: a literature review.* J Irish Dent Assoc 2007; 53:38-45;
7. **Novicevic, M.M., Harvey, M., Autry, C.W., & Bond III, E.U.** (2004). *Dual-perspective SWOT: a synthesis of marketing intelligence and planning.* Marketing Intelligence & Planning, 22(1), 84-94;
8. OECD. (2009), *The Bioeconomy to 2030. Designing a policy agenda.* Paris;
9. **Panagiotou, G.** (2003). *Bringing SWOT into focus.* Business Strategy Review, 14(2), 8-10;
10. Tropical Animal Health Production, 43,141–152. <http://dx.doi.org/10.1007/s11250-010-9666-3>.
11. **215 Wasike, C. B., Magothe, T. M., Kahi, A. K., & Peters, K. J.** (2011). *Factors that influence the efficiency of beef and dairy cattle recording system in Kenya: A SWOT–AHP analysis*;
12. **222 Yuksel, I., & Dagdeviren, M.** (2007). *Using the analytic network process (ANP) in a SWOT analysis – A case studyfor a textile firm.* Information Sciences, 177, 3364–3382.



## Unconventional Leadership

~ Ph. D. Professor **Paul Marinescu** (*Faculty of Business and Administration - University of Bucharest, Romania*)

E-mail: paulmarinescu1@gmail.com

~ Ph. D. Professor **Sorin-George Toma** (*Faculty of Business and Administration - University of Bucharest, Romania*)

E-mail: tomagsorin62@yahoo.com

**Abstract:** *From the perspective of leadership change symbolizes the existence of the organization. Most assuredly, this is not a matter of change at all costs, but rather of increasing organizational performance and training people. As leadership is a creative activity, in this paper, we aim to show that the unconventional is closely connected to creativity. From the perspective of interpersonal relationships the leader has to continually create contexts in which people can express themselves. On the one hand, the success of leaders is contingent on the moment the development of their personal career starts. On the other hand, the team is thus given the opportunity to develop. In order for people in an organization to acknowledge a leader's point of view, it is essential that the latter be compelling. From our point of view, most unconventional leaders possess an informal educational component which allows them to reveal their true potential without any constraints. When we talk about potential we have the native constituent in mind, whence we can adduce a few terms that define realities such as: multiple intelligence, emotional intelligence, social intelligence, adaptive intelligence, spiritual intelligence. The examples that we share in this paper, regarding the development of projects and organizational systems, state the ways in which unconventional leadership can occur. The unconventional leader will be ingenious, innovative, creative, charismatic, a finalizer and an example in the eyes of the team.*

**Key words:** unconventional, creativity, leadership, innovation, network.

**JEL classification:** M100 Business Administration; General

## Introduction

Leadership suggests a constant concern for modern organizations. According to some researchers, leadership is not an ability that we are born with, therefore it is something that we acquire and later develop. However, others are of the opinion that it is a native ability. Leadership has to be the perfect combination between vision, motivation and passion. Landsberg claims that change is triggered by and diffuses from leadership (Landsberg, 2008, pp. 9-10). According to him, leadership uses creativity, thus generating innovative ideas, produces a fundamental change in interpersonal relationships, contends with unfavorable opinions by embracing proposals that are helpful to the system and is aware of propitious moments to strengthen and refine the team, the organization and oneself. The present article seeks to point out the important role played by the unconventional in the expression of leadership. The unconventional leadership becomes a way of identifying opportunities in contexts in which one would get poor results if the classical leading modes were used. The unconventional may surprise, and yet, it does not stand for anarchy. It is rather a happy combination of rigor and creativity. The examples that we provide in this paper are related to our own experiences and they put forward projects where manifestations of leadership can be found and in which creativity and innovation are constantly used. The projects that illustrate the way in which the unconventional leadership manifests are as follows: Team Work (Professional Association of Students, University of Bucharest), COSLUB (Centre of Organizational Strategies and Leadership, University of Bucharest) AERS (Scientific Centre of Business, Ethics and

Social Responsibility), CARO and CAEN (MA programmes in Business Consulting, with teaching conducted in Romanian and English, respectively), SPHER-AA (experimental education system. Chris Guillebeau proves in his paper "Happiness of pursuit" (Guillebeau 2014, pp. 11-12) that the main-spring of innovation, that is, that of unconventional leadership, lies in the passion of "delving" into reality. He argues that "Many quests lead to an alchemy-like transformation, either with respect to the quest itself or to the person undertaking it. Once you start down the road to adventure, you don't always know where you'll end up." All the examples that he puts forward refer to operating modes that are connected, and to the striking positioning of the one leading in connection to reality. This constant change in positioning gives one the opportunity to analyze a context from different angles. In point of fact, the unconventional does not entail relinquishing the conventional altogether, but aims to detect forms of manifestation of the system outside the rules, however not losing touch with the rules. In addition to that, the unconventional leadership brings about a change in mentalities, which could lead to certain risks, conflicting states and punctual costs. It is essential that one should not dispense with classical models altogether.

The aims of our paper are to briefly present the theoretical framework of unconventional leadership and to exemplify the case of the Faculty of Administration and Business, University of Bucharest. To the extent that the unconventional represents a form of proper leadership we aim to put forth some methods that can be useful in the training of future managers. The methods will be based upon the experiences that will be discussed in the paper.

Unconventional leadership: the case of the Faculty of Administration and Business, University of Bucharest

The exercise of power does not constitute only a form of leadership manifestation at the highest level. The purpose of leadership in great organizations is to produce leaders, networks of individuals and systems. The different perspectives of members of the organization may define, by fusing them together, a reaction that might prevent making a risky decision.

In his paper "Simply Effective", Ron Ashkensas states that one of the highest difficulties a manager will encounter is setting objectives that ensure maximum performance, and that this generates an unnecessary complexity (Ashkensas, 2010, p. 124-127). In this respect he identifies a series of common mistakes that tend to occur in the process of setting objectives and these mistakes will arise even in the best of organizations: "back away from expectations"- setting bold objectives without constantly monitoring them; "engage in charades"- tacit acceptance of the fact that the objectives may not be achieved; "accept seesaw trades"- lack of determination when dealing with employees, regarding prioritization of activities; "set vague or distant goals"- focusing on long-term objectives which are not clearly defined, thus hindering their fulfillment; "don't establish consequences"- not sanctioning those who have not succeeded in fulfilling the objective leads to mistakes such as these not being taken seriously in the future; "set too many goals"- setting so many objectives that each employee can take on any responsibility they choose; "allow deflection to preparations and studies"- delay in the pursuit of objectives in order to collect further data and information.

Given that such problems do not occur (only) in "underachieving" organizations, but also in the ones that are generally considered examples, it becomes clear that the problem is systematic rather than punctual.

We believe therefore that it is important for leaders to become more open to using unconventional methods. Leadership can highlight the power of diversity, the potential of autonomous teams, the authority willing to "orchestrate" the various interests and the capacity of the unconventional to provide great and productive solutions. As organizations heavily rely on new ideas and methods, unconventional leadership plays a key role in today's business world.

From the perspective of practical experiences, we have developed this approach within the Team Work system (Marinescu and Toma, 2012). Ever since the day we founded this association of students (<http://www.teamwork.org.ro>), 13 years ago, we have decided to form future leaders for all fields of activity (economic, social, cultural, political). We have always sought to give emphasis to the potential of diversity. Therefore, we have brought into this association students from all 20 faculties within the University of Bucharest. The students have been working together on various projects, each providing unique insights specific to their expertise and area of specialization. In the process of recruitment and selection of students who have blossomed within this organization we endeavored to identify the specific skills of individuals who have the potential to become a volunteer, a leader, or an entrepreneur. In the diagram below one can see the network in which Team Work has developed, as well as how the association represents a meeting point between different

environments (academic, family, state institutions, businesses, etc.), each devising their own visions, priorities and abilities.

The challenges that the business environment but also the world in general face nowadays, do not accept anymore solutions generated by comfortable and conventional explanations. As a consequence, it becomes important to answer a question about our attitude towards logic: "are we willing to defy logic?". It is clear that by asking ourselves that, we do not purport to support the removal of this type of thinking from the decision-making process and we do not intend to diminish its importance. We simply wish to point out the fact that there is a danger, that of the "trodden path", that most companies, organizations and groups appear to be taking for the sole reason it is the logical thing to do.

It is essential that we reinvent management practices and in order to that it is necessary that we change the methods used to prepare future managers. In the SPHER-AA system developed within the Faculty of Business and Administration, the University of Bucharest, we have focused mainly on informal training. Assuming that some of the skills that enable the unconventional leaders to excel, have been acquired through experiences that are not part of the formal training, we propose that the necessary contexts that have facilitated the acquisition of these skills have been produced by atypical situations encountered within the family or the socio-economic environments. The educational concept SPHER-AA aims to become a laboratory in which the experiments conducted will appeal to the potential of the participant. Building on the principle of the educational "round", several classes have

been introduced, such as: music, dance, drama (diction, oratory, gestural communication) and media education for businesses. They are foregrounded in both the formal and the informal framework.

The notion of nonconventional starts to become uncomfortable from the very moment we try to define it. The individual's natural reflex is to be conventional and therefore take into account the customs, collective wisdom, procedures and the generally accepted good procedures. On the other hand, the nonconventional individual will have the tendency to leave this comfortable space of existential restrictions and embark on an uncharted territory where he will be able to experiment, adapt and risk and, in so doing, he may sometimes find exceptional solutions.

Nonetheless, this does not mean that a nonconventional individual will lose contact with reality; on the contrary, he evolves perpetually at the interface between the real and the virtual. There is a danger that by taking these steps, one might no longer be able to draw a clear distinction between the unconventional and anarchy, and this leads to hazardous decisions. In order to give meaning to our own perception of the unconventional and its use within a modern successful organization (company, NGO, scientific circle, etc.), we will be building upon on the conclusions drawn by two authors, Gary Hamel and Bill Breen (Hamel and Breen, 2010, pp. 244-248), referring to a series of traits that a successful unconventional leadership infuses wherever it is present:

- willingness to consider unconventional views of team members regardless of hierarchical level;



To start with, we should point out that “research on organizational effectiveness clearly shows that in order for groups to take effective decisions, they need information, knowledge, power, rewards that incentivize them and they also need opportunities to be able to fulfill their tasks.” (Brown et al., 2008, p. 168). As such, we have to acknowledge that the challenges we will be subjected to in the future, cannot be solved individually. This requires the contribution of a team whose members occupy different positions in the organizational structure. Furthermore, we should mention the experience gained in the AERS system (Business, Ethics and Social Responsibility), where the views of each participant on subjects of their own choice, have been promoted. Hence, several projects have been conducted in partnership with organizations or NGOs. Moreover, we have carried out projects in a school with 700 children with disabilities. Other projects were aimed precisely at aiding and supporting terminally ill children (partnership with Pavel Foundation), creating and developing a business incubator (partnership with a parish in which we have developed projects in order to support community members with financial and educational difficulties), and designing and organizing events with a view to supporting communities facing various problems. The AERS system endorses the unconventional views of its members, on the presumption that the unconventional leadership has to yield unconventional leaders. In the experiment herein presented, team members are likewise selected with respect to criteria that are related to the unconventional (creativity, adaptability, resourcefulness).

- Ability to improve the creativity of employees on a superior level

Creativity/Creative thinking is a mental and social process involving the development of new and unprecedented ideas or concepts. Likewise, it is a process that pushes the creative mind to forge new connections between already existing ideas or concepts.

Creative thinking is a multidimensional concept that emerges in several fields of activity. In designing this concept we must keep in mind the interdisciplinary components of psychology, management, economics, artificial intelligence, cognitive science, philosophy, art, etc.

According to Ellis Paul Torrance, Creative Thinking is a process that seeks out surprising and unforeseen solutions to unexpected problems, identifies ways to fill knowledge gaps, unravels disharmonies that lead to problems, evaluates hypotheses again and again, and disseminates results (Torrance, 1966).

The surveys carried out using contexts of creative thinking, establish that there are three factors that impinge upon individual creativity: expertise, creative thinking skills, motivation. As a result, we cannot solve problems if we do not have substantial knowledge of a domain in which we wish to provide creative solutions. On the other hand, creative thinking skills denote imagination, ingenuity and flexibility, all of which are influenced by personal traits (tolerance, risk acceptance, independence, and ability to generate revolutionary ideas by combining previous experiences). In truth, we are talking about a clearly defined component (foundation) which is linked to expertise, and a mobile component linked to creative thinking. In this regard, a multitude of alternatives for construction can be done on a



solid footing. For any creative solution there is the need of motivation. This said, we have to put a special highlight on self-motivation, as well as on the inherent interest in developing a project (the subject of creation) and the extrinsic motivation (recognition, rewards). Ergo, there is a strong link between the aforementioned factors that bear upon creative thinking.

Researchers have always been concerned with quantifying the impact of creative thinking on the individual performance and the organizational one and this has led to the emergence of indicators of creativity. We will now refer to the indicator proposed by Richard Florida, an indicator composed of three indices: Technology, Talent and Tolerance (the theory of the three Ts) (Florida, 2002).

R. Sternberg's research in "Handbook of Creativity" highlighted the fact that there is a close relationship between the components that influence creativity (synthetic ability, analytical ability and practical ability) and human intelligence (multiple, emotional, social, adaptive and spiritual).

Generating new ideas suitable for a specific task is a feature of the synthetic (creative) ability, therefore having an impact on divergent thinking. This type of thinking encourages the intuitive way of redefining problems and finding outstanding solutions. Ideas need to be filtered by defining the strengths and weaknesses of each individual in terms of analytical ability which requires critical thinking. Implementing creative ideas and promoting them within communities are ingredients of practical activity. In reality it can be demonstrated that there are dependencies between synthetic, analytical and practical skills that lead to those spectacular

solutions. Blending the three types of skills may at times require the use of benchmarking and synergy as operating modes within reality.

Creativity workshops that allow participants to put into practice these skills in familiar and comfortable contexts have been organized over time (within the MA Programme in Business Consulting and Conferences held under the aegis of CSOL-UB).

- Eagerness to invest in the future by accelerating the transfer of capital and talent;

In most organizations there is competition in the process of resource allocation between long-term and short-term goals. Even though all leaders recognize the importance of strategic objectives and that of clearly defining that strategic approach of an organization, in practical work, more often than not, most of their energy moves towards solving immediate challenges, "fires" that have to be "put out". In such a context we are likely to overlook valuable ideas that might generate significant long-term competitive advantages. It is therefore requisite that leadership manage to find a balance, a "middle path", that allows members to allot some of that energy to sift out ideas that are likely to fail at solving "the problems of the future".

Within Team Work and AERS members are encouraged to devote a part of their activity to personal projects that engage their interest, and which they will subsequently "sell" to their co-workers. The most valuable projects will get the necessary resources to materialize.

Moreover, these organizations offer their members the opportunity to attend

training courses conducted with the support of specialists from consulting firms and the academic community.

The necessary conditions for “investment in the future” are thus created and forms of transfer of human capital towards organizational contexts that add value to it are configured.

- identifying the “collective wisdom” and using it in order to make important decisions;

One of the problems that today’s followers of pyramid organizational structures often encounter is generated by the exponential growth in environmental complexity. We must bear in mind that decision-making responsibilities lie in the hands of very few people, and so, they are made increasingly vulnerable to “blind spots”. Inasmuch as no person can store all the information to address the challenges nowadays, and yet decisions are generally concentrated in the hands of a person or a small group of people, intrinsic errors can have huge consequences on the entire organization. One of the essential features of unconventional leadership is therefore the building of a climate of trust and safety where each member of the organization should be encouraged to state their views. If this were the case, each member would feel encouraged, and even though decisions lied in the hands of one person, leaders would be compelled to pay heed to the views of each member. Richard Hackman argues that his approach creates advantages for both leaders and team members: “one of the great benefits of a challenging team purpose is that it frees leaders from the temptation to rely on their personal charisma [...]

Motivation that derives from a challenging purpose, by contrast, can become self-sustaining as members work together to achieve it.”(Hackman, 2011, p. 71).

Ever since the day we started designing CSOL-UB our aim has been to create a forum for stakeholders in different fields (academia, business, NGOs, public institutions, international experts, etc.) on the evolution of leadership in Romanian higher education (Marinescu, 2012), starting from the idea that each part of a system has its own point of view on the directions to be followed and that the optimal solution most likely lies at the intersection of these visions.

- power to remove the old mental models;

Despite the fact that it is beneficial for an organization to establish an environment for dialogue where different viewpoints converge, it is toxic that the organization stay anchored in “universal truths”, those generally accepted truths that nobody dares to call into question as it would be deemed to be heretical. Even though they used to be generally accepted and some organizations still embrace them today, it is not mandatory that they be the only alternatives. There are countless organizations that have been successful especially because they questioned such truths, or even tore them apart. The main problem entailed by this approach, however, is human nature itself. People are accustomed to that comfort-giving concurrence, and “diverters” are almost always sanctioned by the general opinion, at least until they become geniuses, billionaires, visionaries respectively. The courage to step out of the ordinary and think differently is a trait that most leaders

share. Nonetheless, training programs that are supposed to train future leaders, hardly ever teach them to do that. By virtue of this finding, Team Work organizes Summer schools (national and international) annually where students are encouraged to think unconventionally by taking turns training (the participation of students from diverse cultural backgrounds has made this possible). We have created the premises for developing other mental models starting from cultural diversity.

- transition from a community of subjects to a team of volunteers;

The very notion of leadership is based on that of the follower, the leader leads, the follower follows orders. It has been like this since the beginning of time, regardless of the type of organization. Surely the degree of authority or autonomy varies depending on the type of organization, historical period, the prevailing tide of opinion in the literature, etc. It is generally agreed that leaders cannot exist without followers, nor can followers exist without leaders. People need to be motivated, controlled, and organized. The success of structures such as Linux or Wikipedia has led to a revolution that proves the fact that the idea of voluntarism is viable and helps the community. The capacity of the leadership process to collect and manage the intelligence of thousands of people on the internet is great due to the fact that the network can gather more ideas than a traditional organization. We offer people the chance to join us voluntarily and they will give their best to help the organization. We will have to move from “establishing” to “choosing” duties. This way of thinking

will produce new system architectures that will give rise to great products and services that no one would have considered producible. In this case, we can refer to the relation between the virtual and reality. A virtuality might encompass several realities. Group decision can define realities that might change radically the world of tomorrow. On the basis of the results of the analysis carried out on the evolution of Linux, we determine that the lack of a central authority has its advantages. Prejudices regarding the education of those who contribute to the construction of the system dissolve. Thus, we have the possibility of coming upon “the right person at the right time and place”.

If the number of such network organizations will grow (presumably this will happen), the challenge we will be facing is how to prepare the members (or employees). In line with the new paradigm of decision making we must redefine the term “efficiency”. What will the costs of bureaucracy be? Perhaps they will drop significantly. The relation between effect/efficacy and effort should be analyzed and we must consider both enthusiastic employees and those who are indifferent; it is apparent that enthusiastic individuals will be the perfect fit with these organizations, their enthusiasm being what motivates them to choose and follow objectives. The major problem will be the second category. These individuals will make no effort to assert themselves. We believe this will be one of the main tasks of future leaders, especially those from the academic community. Given that creativity and innovation are essential to the future, we agree with Praveen Gupta who argues that “such demand for innovative solutions will mean we need to transform the field of innovation from an art

to a science.” (Gupta, 2009)

With these findings in mind, we have created an experimental educational model (Spher-AA) that aims to propel the development of such networks that engage in the upstream integration of the pre-university education system by means of partnerships with high schools in the country, as well as in the downstream integration of the business environment which is the main user of competencies and skills that students develop and which could have an important say on the directions they consider a priority – due to the activities organized by CSOL-UB. The tasks are diverse and allow each individual within the network to position themselves in relation to the competencies and the time available, however still being at liberty to satisfy their needs and offer opportunities to other members. Owing to the contribution of the members, networks such as these are original and it is very likely that they will be reconfigured taking into account the needs of the members and those of beneficiaries of services and projects they make. The innovators become the main catalysts for these networks; they “apply their craft to bring step-improvements to products, processes and the human condition” (McCaughlin, 2009). Projects come to life due to the initiatives taken by members and they are the ones who can observe the problems that affect them and their colleagues. A state of emulation is thus created, which leads to the recruitment of volunteers that will add value to the network.

Through the work of Team Work and AERS, in collaboration with students and Business Consulting graduates, we urge the creation of a cooperative learning process and personal development, in which

undergraduate and postgraduate students will share both their formal and informal experiences. The role of the leader is, in this scenario, to positively expedite the creativity of participants and the innovations that may result.

## Conclusions

The main purpose of this paper has been to ascertain that the challenges that leaders face nowadays emerge from restrictions laid down by classical models of leadership. It is indisputable that classical models had a beneficial role in the development of organizations, but in a globalized world, these models ought to be reassessed. It would be erroneous to believe that what worked yesterday, still works today and will work tomorrow. We have to get used to the idea that leaders are required to consider not only failures, but also successes, because sometimes successes are incidental. The unconventional behavior of leaders may place a strain on the political, legal, cultural, social, economic, educational society leading to behavior change, rethinking of the legislation, and reconfiguration of systems.

Organizations with an unconventional leadership that support voluntarism can provide solutions to those organizations that use a traditional leadership.

The analysis introduced and our experience in the development of the systems we have put forward bring us to the conclusion that future leaders have to adapt quickly to environmental challenges but, at the same time, they have to create constituents of reality and fuse them with other individuals. The idea of “designer of contexts” will thus take on a new meaning and generate

new opportunities, because risk and initiative become the necessary ingredients for the successful creation of networks. The unconventional does not mean lack of responsibility but knowledge, intuition and assumption.

We believe that the experimental models developed within the Faculty of Business and Administration, University of Bucharest: Team Work (Professional Association of Students at the University of Bucharest), CSOL-UB (Organizational

Strategy and Leadership Center of the University of Bucharest), AERS (Business, Ethics and Social Responsibility scientific Circle), CARO and CAEN (MA programs in Business Consulting with teaching conducted in English, and Romanian respectively), SPHER-AA (experimental educational system) can be a valuable starting point on the role of unconventional leadership in the development of networks with a changing architecture.

## REFERENCES:

1. **Askenas, R. N.**, *Simply Effective: how to cut through complexity in your organization and get things done*, Harvard Business School Publishing, Boston, 2010
2. **Brown, T., Crainer, S., Dearlove D., Rodriguez, J., N.** (trad: Brumar, D.), *Business minds*, Publica, Bucharest, 2008
3. **Florida, R.**, *The Rise of the Creative Class*, Basic Books, New York, 2002
4. **Guillebeau, C.**, *Happiness of pursuit*, Crown Publishing, New York, 2014
5. **Gupta, P.**, *The future of innovation is the Science of evolution*, in Von Stamm, B., Trifilova, A., *The future of innovation*, Gower Publishing Limited, England, 2009 (p. 146-147)
6. **Hackman, J. R.**, *Collaborative Intelligence: using teams to solve hard problems*, Berrett-Koehler Publishers, San Francisco, 2011
7. **Hamel, G., Breem, B.**, (trad: Henegar, I.), *Viitorul managementului*, Publica, Bucharest, 2010
8. **Landsberg, M.**, (trad: Bors, A.), *Leadership: viziune, motivatie, elan*, Curtea Veche, Bucharest, 2008
9. **Marinescu, P., Toma, S. G.**, *Information and Knowledge - Catalysts of Organizational Environments. Case Study - Team Work Association*, Ovidius University Annals, Economic Sciences Series, vol. XII, issue 1/2012, p. 1027-1030, Ovidius University Press, Constanța, 2012
10. **Marinescu, P., Toma, S. G., Săseanu A.**, *Intelligence and leadership in education*, Studia Universitatis „Vasile Goldiș” Arad, Științe Economice Series Anul 21/2011, p. 423-430, Arad, 2011
11. **Marinescu, P.**, *Designing Centre for Leadership of the University of Bucharest (CL-UB)*, The International Conference on Administration and Business, ICEA - FAA 2012, Faculty of Business and Administration, 8 – June 9, 2012, p. 312-316, University of Bucharest publishing house, Bucharest, 2012
12. **McLaughlin, P.**, *The future of Innovation is a Swaw Perspective*, in Von Stamm, B., Trifilova, A., *The future of innovation*, Gower Publishing Limited, England, 2009 (p. 84-85)
13. *Le grand ROBERT de la langue française*, 2ème édition, 1996
14. **Sternberg, R.J.**, 1999 (Ed.), *Handbook of Creativity*, 1999, Cambridge University Press, 502 p.
15. **Torrance, E.P.**, *The Torrance Tests of Creative Thinking-Norms-Technical Manual Research Edition*, Princeton NJ: Personnel Press, 1996

## Strategy and Change

~ Ph. D. Professor **Sorin-George Toma** (*Faculty of Business and Administration - University of Bucharest, Romania*)

E-mail: tomagsorin62@yahoo.com

~ Ph. D. Professor **Paul Marinescu** (*Faculty of Business and Administration - University of Bucharest, Romania*)

E-mail: paulmarinescu1@gmail.com

**Abstract:** *In the age of uncertainty change represents one of the most important challenges for all types of organizations. Changeability constitutes today a key competitiveness factor for any company. The aim of our paper is to show that strategy and change are two related concepts in the business literature. The methodological approach is literature review. As companies around the world are facing hyper-competition in all industries and markets, they often initiate strategic changes in order to improve their competitiveness.*

**Key words:** strategy, change, strategic change, company, competitiveness

**JEL Classification:** L1, M1



## 1. Introduction

After the fall of the European communist regimes the global business environment has evolved very rapidly in an unpredictable way. In the age of uncertainty change represents one of the most important challenges for all types of organizations. Change occurs often daily and either the organization keeps up with it or becomes obsolete and doesn't survive (Palmer et al., 2008). In fact, 'the pace of change has never been greater than in the current business environment, affecting all organizations in all industries' (Fenton, 2007, p. 104). This is why 'competitiveness of enterprises in hard international competition depends on ability to react and adapt to changes in close and wider environment' (Sujova and Rajnoha, 2012, p. 1286). In other words, changeability constitutes today a key competitiveness factor for any company. As companies around the world are facing hyper-competition in all industries and markets, they often initiate strategic changes in order to improve their competitiveness.

The aim of our paper is to show that strategy and change are two related concepts in the business literature. The methodological approach is literature review.

Our paper is divided in four main sections. The next section deals with the literature review. The definitions of strategy and change are presented in the third section of the paper. The fourth section outlines the relationship between the two above mentioned concepts. Our paper ends with conclusions.

## 2. Literature review

There are several studies in the business literature regarding the relationship between strategy and change. As today's companies

are facing a multitude of changes (e.g., political, economical, social, technological, environmental, legal) they cope with increasing uncertainty. In this respect, 'underestimating uncertainty can lead to strategies that neither defend a company against the threats nor take advantage of the opportunities that higher levels of uncertainty provide' (Courtney et al., 2000, p. 1).

Companies have to have 'the ability to drive and sustain large-scale change and to anticipate and adapt to an increasingly volatile environment' (Bhalla et al., 2011, p. 3). As maintaining its competitiveness in the market environment outlines a continuous pressure on permanent adaptation, the company needs to design and implement strategic changes within its processes and activities. This is why 'sustainable competitiveness can be achieved only if changes in enterprises are ahead of the changes in environment and reactions of competitors' (Sujova and Rajnoha, 2012, p. 1286). This means that 'whatever form of strategy is adopted, it will require the organization to achieve a fit between its external environment and internal structures, culture and practices' (Burnes, 2004, p. 245).

## 3. Defining strategy and change

The importance of the concepts of strategy and change is generally accepted all over the world in the business environment. There are many definitions of them, but none is universally valid.

The English word 'strategy' derives from the Greek word 'strategia', meaning generalship. Strategy:

- 'is the means by which individuals or organizations achieve their objectives' (Grant, 2013, p. 15).



- 'is the system of value creation that underlies a company's competitive position and uniqueness' (Montgomery, 2012, p. 4).

- 'describes the way in which the firm will accomplish the vision it has established and... is the theme incorporated in a set of strategic decisions' (Fitzroy et al., 2012, p. 28).

- 'is concerned with the establishment of a clear direction for the organization and for every business, product and service, and a means for getting there which requires the creation of strong competitive positions' (Thompson and Martin, 2010, p. 13).

- 'outlines the means by which a firm intends to create unique value for customers and other important stakeholders' (Carpenter and Sanders, 2009, p. 10).

These definitions reveal that strategy is a multidimensional and complex concept that evokes the relationships of an organization with both its internal and external environment.

On its turn, the English term 'change' derives from the Latin word 'cambiare'. Change:

- 'is an alteration of the way something is done or of the way work is carried out' (Collin, 2007, p. 60).

- 'is the way people talk about the event in which something appears to become, or turn into, something else, where the something else is seen as a result or outcome'

(Ford and Ford, 1994, p. 759).

- is 'making or becoming different' (Swannell, p. 85).

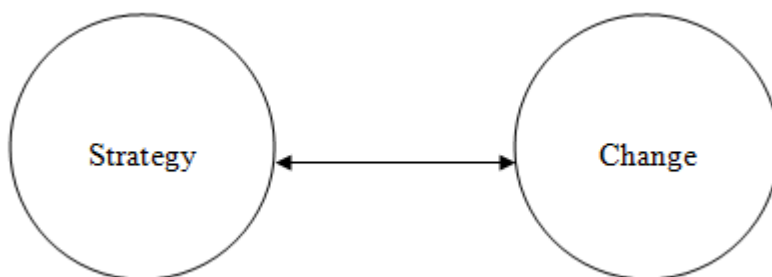
- 'involves the crystallization of new action possibilities (new policies, new behaviours, new patterns, new methodologies, new products, or new market ideas) based on the reconceptualized patterns in the organization' (Kanter, 1984, p. 279).

Therefore, the concept of change expresses the idea of something different.

#### 4. From strategy and change to strategic change

As change is mandatory in today's business world, it is seen as a feature of companies at all their organizational levels (e.g., strategic, operational). It is said that 'the fruitfulness of changes can be conceptualized as a function of two dimensions: (1) the degree to which the change enhances competitiveness and (2) the extent of commitment the change is likely to receive from key stakeholders such as customers, employees, and suppliers' (Pangarkar, 2015, p. 298). Without any doubt the company's ability to identify, adapt to and manage change is essential in order to survive and succeed in the age of uncertainty. Thus, strategy cannot be separated from change and vice versa (Scheme 1).

*Scheme 1. Strategy and change: two interconnected concepts*



There are a multitude of forces driving change within all types of companies, including both the external and internal environment. Some of the main external change drivers are the following:

- globalization,
- advances in technology,
- political events,
- economic and financial crises,
- government laws and regulations,
- pressure groups (e.g., ecologists),
- demographic growth,
- hyper-competition,
- new customer demands,
- fluctuations in trade,
- developments in transport, etc.,

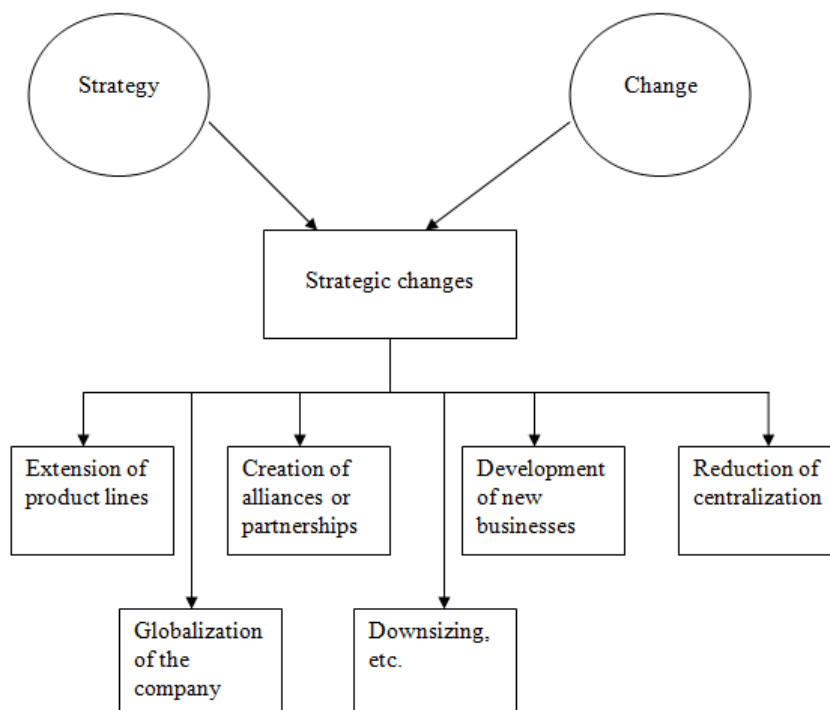
and some of the main internal change drivers are the following:

- organizational growth or decline,
- new management initiatives,

- lack of financial resources,
- new leadership,
- organisational culture,
- use of outsourcing,
- search for innovation,
- new administrative structures,
- personnel fluctuation, etc.

All these changes lead to the emergence of a need for continual improvement that means that an important task of the strategic management of a company is 'to introduce as much change as the firm can stand' (Fitzroy et al., 2012, p. 459). Consequently, strategy involves a 'set of analytical tools to frame organizational change' (Jaynes, 2015, p. 97). Only by connecting strategy with change the management of the companies achieve its objectives through various strategic changes (Scheme 2).

*Scheme 2. Types of strategic changes*



In essence, as a dynamic process, strategic change occurs within the company as a result of the managers' analysis of external and internal events (Dominguez CC et al., 2015). That is why in order to design and implement strategic changes managers need to use strategic methods and techniques such as benchmarking, SWOT analysis, or PESTLE analysis.

## Conclusions

In the last decades, strategy and change has become two debated concepts in the business literature. Our paper shows that they are two interconnected concepts that lead to the initiation of strategic changes by the management of a company. In a highly competitive business world where change is the only certainty, strategic changes have become more necessary than ever before. They allow companies to adapt to an evolving environment and may enhance their competitiveness.

---

## REFERENCES:

1. Bhalla, V., Caye, J.-M., Dyer, A., Dymond, L., Morieux, Y., Orlander, P. (2011) *High-Performance Organizations*, Boston Consulting Group. Available at: <https://www.bcg.com/documents/file84953.pdf>. (retrieved 10 March 2015).
2. Burnes, B. (2004) *Managing Change: A Strategic Approach to Organisational Dynamics*, New Jersey: Pearson Education.
3. Carpenter, M. A., Sanders, Wm. G. (2009) *Strategic Management: A Dynamic Perspective*, New Jersey: Pearson Prentice Hall.
4. Collin, P. H. (2007) *Dictionary of Business*, London: A&C Black.
5. Courtney, H. G., Kirkland, J., Viguerie, S. P. (2000) *Strategy under uncertainty*, McKinsey Quarterly, June 2000. Available at: [http://www.mckinsey.com/insights/managing\\_in\\_uncertainty/strategy\\_under\\_uncertainty?cid=other-eml-clc-mip-mck-oth-1505](http://www.mckinsey.com/insights/managing_in_uncertainty/strategy_under_uncertainty?cid=other-eml-clc-mip-mck-oth-1505) (retrieved 29 March 2015).
6. Dominguez CC, M., Galan-Gonzalez, J.-L., Barroso, M. (2015) *Patterns of strategic change*, Journal of Organizational Change Management, 28 (3): 411-431.
7. Fenton, E. M. (2007) *Visualising Strategic Change: The Role and Impact of Process Maps as Boundary Objects in Reorganisation*, European Management Journal, 25 (2): 104-117.
8. Fitzroy, P., Hulbert, J. M., Ghobadian, A. (2012) *Strategic Management*, second edition, New York: Routledge.
9. Ford, J. D., Ford, L. W. (1994) *Logics of identity, contradiction, and attraction in change*, Academy of Management Review, 19: 756-785.
10. Grant, R. M. (2013) *Contemporary Strategy Analysis*, eighth edition, Chichester: Wiley.
11. Jaynes, S. (2015) *Making strategic change: a critical discourse analysis*, Journal of Organizational Change, 28 (1): 97-116. Available at: <http://www.emeraldinsight.com/doi/pdfplus/10.1108/JOCM-04-2013-0053> (retrieved 19 April 2015).
12. Kanter, R. M. (1984) *The change masters*, New York: Touchstone.
13. Montgomery, C. A. (2012) *The Strategist*, London: Collins.

14. **Palmer, I., Dunford, R., Akin, G.** (2008) *Managing Organisational Change: A Multiple Perspectives Approach*, second edition, New York: McGraw-Hill/Irwin.
15. **Pangarkar, N.** (2015) *Performance implications of strategic changes: An integrative framework*, *Business Horizons*, 58: 295-304.
16. **Sujova, A., Rajnoha, R.** (2012) *The management model of strategic change based on process principles*, *Social and Behavioral Sciences*, 62: 1286-1291.
17. **Swannell, J.** (ed.) *The Little Oxford Dictionary*, sixth edition, Oxford: Clarendon Press
18. **Thompson, J., Martin, F.** (2010) *Strategic Management: Awareness and Change*, sixth edition, Singapore: South-Western Cengage Learning.



# An organisational approach to simultaneously prove high autonomy and high alignment

~ Ph. D. Student **Mihai Constandel Mircea** (EXELO Training & Development)

E-mail: [mircea.mihai@exelo.ro](mailto:mircea.mihai@exelo.ro)

~ Ph. D. Student **Zeininger Luise** (EXELO Training & Development)

E-mail: [luise@acta.ro](mailto:luise@acta.ro)

**Abstract:** The reality in different countries (and what we are experiencing in Romania shows the same), is that the majority of the organisational players are placing great emphasis on alignment and autonomy. This article analyses the reality of the actual global market, identifies some critical aspects around the performing organization and suggests some useful solutions to transform organizations in more successful players. The challenge of the 21st century is that, in order to survive, the companies must prove at the same time a high degree of autonomy - which helps them to rapidly respond to market demands, and a high level of alignment - which helps them build synergies. We will have a look at how the 'ideal company' would look like and will go through some examples of ways to cover the gaps between the current status and the status of "Directed Opportunism". At the end, we will identify areas of improvement and potential solutions to grow organizational competitiveness.

**Key words:** autonomy, global market, succesful players, organizational competitiveness

## 1.Introduction and justification

In today's business world, which is driven by high dynamics and change, every

organisation needs to prove great agility in order to survive and gain success on its market. The approaches to growth that have worked 20 or 10 years ago will currently bring just a very

limited amount of the results they used to bring before, and this should be of no surprise to any organisation regardless of its size, domain and years of being on the market.

What are successful organisations? These are mainly those who have found a clear and relevant differentiator, bringing them the trust of their customers and placing them at the top of their choices, therefore out-running competitors. Or at least, this is what business books a decade ago were teaching us. And it still is right – though when looking at this today, we should consider it from the perspective of the rapid pace of evolution currently defining the business environment – and see where this leads us.

When it comes to what ‘their most important asset’ is, many companies say it’s their people. When it comes to what is it at the base of their competitive advantage, there aren’t too many companies today that will answer the same thing. And still, since information is travelling so fast, when technology and know-how may equally be accessed by every player in the economy (assuming similar level of resources) – it becomes clear that the difference will sooner than we know be in the ‘how’, and no longer in the ‘what’. And while the ‘what’ can easily be put in patterns and routines that are easy to execute and control, the ‘how’ is about living systems – ‘alive’ organisations that breathe the air of their environment and make meaningful informational exchanges with these. Therefore – it is about the people that make the businesses.

The ability to communicate in a meaningful manner with the environment isn’t just the responsibility of one of the functions within the organisation – being it the market research or any other one. Exchanging

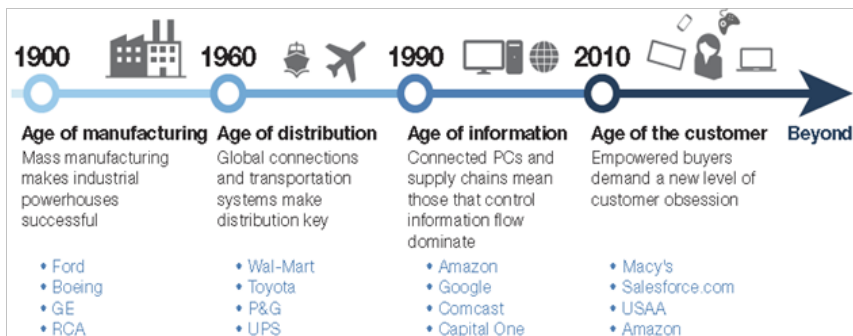
information at key moments with the world outside, and processing it in a manner and at a speed that can bring an organization one step ahead of the competition can only be done if the entire living system functions as one, by improving flexibility of its processes. For an organisation to really act in an intelligent way means no other than to enable people to work in their most intelligent way: allow them to make their own decisions at their levels, feel confident to take action and move ahead with minimal supervision, and more important – to be willing and motivated to do it.

So the fact that today it is more difficult than ever for companies to maintain their market positions, translates into: it is more important than ever to make ‘best use’ of the human capital – that is, enable people to contribute in a manner that is beyond the old practices of roles which are fixed and tasks which are assigned in a one-way, top-down manner.

In the current global market, the power the clients hold is significantly rising and the diversity of their needs no longer knows limits. It is truly the Age of the Customer the one we have entered:

“While companies have always, to a greater or lesser extent, called themselves “customer-centric”, this is different. This is not about “customer-centric” thinking or “the customer is always right.” Instead, the new power of customers means that a focus on the customer now matters more than any other strategic imperative”.

Figure 1: We Have Entered The Age Of The Customer; Source: Forrester Research, Inc.



Therefore, being agile and flexible may be the only enabler of success on the long run. But what exactly would being flexible mean?

To answer this question, let's see what some of the strategies of the most customer-oriented organizations should look like:

- Building real-time data systems that will improve customer intelligence;
- Offering contextualized experiences to customers, after having conducted specific behavior analysis;
- Engaging with the customer along the entire value creation cycle; improve focus on post-selling;
- Investing more in developing content rather than in efforts of advertising [also based on the article of David M. Cooperstein]

When planning to implement such strategies, an organization should check whether several prerequisites are met, such as:

- Being in close contact with the customers, building relationships and mechanisms that would allow detailed communication at all key points in time along experiencing the company's services and products;
- Using this information within relevant time frames, towards building relevant market responses;
- This ability to act quickly and focus on what's relevant would mean that a

company would value the results it generates, rather than the internal structures, ways of working, processes, etc.

While everyone knows what's needed to be done and achieved, a few organizations really make it there – to the top of gaining their customers trust over and over again, to being one step ahead of anticipating their needs and offering them what they want along the entire selling cycle, or even before it has started. The most common issues the organizations are facing are:

- "We know what we want but to do, but we are not able to do it"
- "Lots is happening, but are the things happening the right ones?"
- "We are very busy – but are we effective as well?"

The organizations capable of solving this type of issues, are the ones acting in the light of the principles of the 'directed opportunism' – as it was described by Stephen Bungay in its book: "The Art of Action – Leadership that Closes the Gaps between Plans, Actions and Results".

To make his point, Stephen Bungay builds his argumentation around 3 gaps:

- the knowledge gap, from analyzing past outcomes to accordingly adjusting the current goals;



- the alignment gap – from the current goals to actually taking action towards these goals;
- the effect gap – from what we expect to achieve through our actions to what we actually achieve

While the most common answers usually revolve around adding more information, more instructions or more controls, the right response would actually aim at the following:

- to address the knowledge gap: organizations should limit the directions they give to only defining and communicating the intent;
- to address the alignment gap: to allow each level to define how they will achieve the intent of the next level up, and 'backbrief'
- to give individuals freedom to adjust their actions in the line with the intent.

Similar conclusions were also drawn by Torben Rick in his article "Organisational alignment is the glue for achieving better performance" with the most powerful conclusion being: 'Culture eats strategy for breakfast, lunch and dinner'. This is pointing out to the fact that many organizations focus almost all their efforts on preparing and executing their strategy, sometimes forgetting to focus on building a culture that would support this as well.

Supporting figures to these ideas are shown in a report issued by Pricewaterhouse Coopers, with 81% of the companies participating to the survey saying they agree that their organizations have the right strategy, purpose, vision, and ambition to reach their full potential; however, only 46% considered that their organizations were executing their strategies well. The article cited Steve Vamos, President of Society for Knowledge

Economics, saying : "The one thing that high performing organizations consistently do better than the rest is aligning the organization to achieve clarity and unity around the purpose) and strategy" .

With current best practices in mostly all of the organizations being to cascade objectives and keep everyone at all layers in the organization informed about the vision and strategic imperatives, with all the intentions being around empowering people and involving them in decision making, what is it that happens actually that prevents effective alignment?

Stephen Bungay spots the following example that may support the answer: "In Hewlett Packard, Yoji Akao devised what he calls the Hoshin method for aligning managers up and down and across the hierarchy behind a single goal. With its roots in the total quality and lean manufacturing movements, it is a systematic engineering approach toward executing complex projects, and has also been deployed outside HP".

This has similarities to a practice rooted in the military field that is basically at the base of how successful organizations do better than their competitors in obtaining alignment. Because what they understand by alignment and the way they reach this goal isn't the same as the common, widely-spread practices mentioned above. Instead of cascading – telling people what their tasks are and establishing methods to control people do what they are told, the winning organizations actually just give people the wider image of the 'why', and then lets them decide on the 'how', each for themselves, at their levels.

Bungay's book, which is a great source of inspiration because it really addresses some very practical and most credible

ways of enabling organisational effectiveness, is based on a concept that has its roots in the military field – and which is called *Auftragstaktik*. The theory behind this was put up by Helmuth von Moltke the Elder and it revolved around the cause of independent action of the subordinates as a matter or principle. That was because he spotted that two of the main issues in organizing an army were ‘the lack of direction from above and the independent actions of the lower levels of command’, and the way in which he saw that this could be fixed was by imposing new levels of intellectual discipline to the ones having more senior roles, instead of imposing more control on junior roles. This would help encouraging initiative while steering it the right direction at the same time, with the condition of everyone understanding well enough the intentions of the two layers above them in order to allow them fulfill the goals.

## **2. Directed opportunism into in the context of the Romanian business environment**

The Romanian economy changed radically in the last 25 years, on its way to

capitalism. To survive on the local market, companies should prove more skills than on a typical mature and stable market. Learning how to run businesses while moving from an almost entirely state owned economy to private own companies takes time and it can only start with the basics, before moving to the more sophisticated organisational models and principles.

So basically the struggle to survive on the market while it transforms radically and it's being influenced by so many external evolving factors (social, technological, economic, political, etc.) brings up to the table issues than challenge any current way of running a business. Organisations are on their way to improving their awareness and perspective on their strengths and weaknesses.

While all the organizations try to improve this, either by using know-how based and structured analysis or more empirical, ‘learn-as-you-go’ in-house built methods, the reality of the business environment looks as follows :

Year	2008	2009	2010	2011	2012
Registrations	144.239	111.832	119.048	132.069	125.603
Suspensions	12.019	134.441	66.428	21.086	24.078
Dissolutions	3.762	30.105	8.191	11.660	22.500
Deregistration	17.676	43.713	171.146	73.244	71.746
In/Out ratio	4,31	0,54	0,48	1,25	1,06

Source: ONRC Statistics, 2008 - 2012

If in 2008, for every fourth newly registered firm another one was exiting the market; in 2009 and 2010 for each newly registered firm, 2 were exiting, and in 2012,

while one entered, another one exited. Sure, this variation was as well highly influenced by the crisis affecting all industries.

Year	SMEs	Large enterprises	Total enterprises	% SMEs in total
2010	436.508	1.527	438.035	99,6%
2011	437.042	1.588	438.630	99,6%

When looking at the weight of the SMEs in total number of enterprises operating in Romania, there is an overwhelming majority of SMEs, and the evolution of this number is aligned to the trend in the EU. This shows that the role the SMEs are playing continues to be a significant characteristic of the private sector development in all states which are members of the EU, both in mature and emerging economies. Another argument to sustain the importance of the role of SMEs is the fact that this sector in Romania contributes up to 58% of the total turnover in the non-financial economy.

With this image in sight now, it appears more clearly that there is a strong need for SMEs to take the lead of their development and to actively search for ways of improving their practices and strategy. The large enterprises – such as corporations – may bring some best practices and role model them; the business education can be now accessed more easily than before, but all these potential sources of improvement can only influence the current evolution of SMEs if these prove to be open to development, willing, and focused.

What are the prospects for the Romanian organizations to adopt the philosophy of directed opportunism? With a history of being part of a communist regime and with generations like 'Baby Boomers' starting up many of the SMEs with limited knowledge of administering businesses or of the industry, with 'Gen X-ers' still very much relying on

a directive managerial approach rather than a consultative one, there may be still a while before SMEs would be able to look into closing the three gaps of knowledge, alignment and effect.

### 3. Enablers of directed opportunism in Romanian organisations

Some Romanian organizations however seem to have already found their way to using directed opportunism with clear results. eMAG is the leader of online commerce in Central and Eastern Europe. Launched as an IT online retailer, the company practically founded the e-commerce in Romania. Recently the South African giant Naspers acquired a 70% majority stake in the most spectacular transaction on the local segment. Dubbed to be the transaction of the year, it certified the international value and stature of eMAG. With an unparalleled portfolio of services and over 60,000 products available on eMAG.ro, the company is currently investing in the regional expansion. One of the most appraised brands on the Romanian market, eMAG is gaining market share each year, based on their portfolio extensions: books, movies, music, insurances, DIY products, and products for children and many more. With a turnover of 150 million EUR, the company is aiming a double digit increase each year. (<http://antonescupr.com/portfolio/emag-22.html>).

Initially operating in Romania, Emag expanded first to Bulgaria, than to Hungary, and at the beginning of 2015, to Poland.

"This expansion is part of our long term strategy to consolidate our position in the region", Sorin Ionescu, international development director at Dante International said. "Presently, because of the three markets where we are already active in – Romania, Bulgaria and Hungary – we can access a base of 36 million clients. Now we are entering a huge country in the region, with 39 million inhabitants, an online retail market of 4 billion euros and a huge potential for growth."

Also called 'the Amazon of Romania', Emag gained its success by strongly connecting with its customers. At the end of 2009, the online electronic and IT store was visited by 30% of the population having internet access, although these products only weighted 3% of their total spending. The company positioned in such a way that the customers won't only perceive them as electronic and IT resellers, but having a broader range of product offering. Thus customers were increasingly turning to them for on-line purchases, which ultimately allowed the company to expand the range of products to books, insurance, travel, and many more.

That proves how Emag managed to close the three gaps of knowledge, alignment and effects and evolved at the same time with the evolving demand from customers:

- closing the gap of knowledge – the organization focused on planning only what could be planned. They took one step at a time, seized opportunities and realigned their strategy according to these, keeping a flexible approach, rather than starting with an aim in mind to broad or too ambitious according to their initial capacity,

- closing the gap of alignment – being initially a small company helped get everyone clear on the bigger purpose; the organization also started with low hierarchy, facilitating communication of goals being cascaded and of shared understanding of these;

- closing the gap of effect – being led by young entrepreneurs, the organization found somehow natural to use work values like encouraging individual initiative, self-discipline of responsibility, allowing people to fail and learn from their mistakes.

If we were to have a look on what could enable the philosophy of directed opportunism at a broader scale in Romania, than the following would probably need to be considered:

- Young generations are less and less influenced by the old ways of thinking and practices that were used more than 25 years ago; they tend to be more open to diversity, to experiencing and learning, to taking on more risk; to set for themselves bigger, more ambitious goals, to be more confident in their chances of achieving success;

- An increasing number of the 'millennials' consider that they should be aiming at founding their own companies rather than on being employed by corporations;

- Those who choose to get hired are very determined to communicate their expectations rather than accepting what's being imposed on to them;

- They appreciate organisational cultures such as those of Apple or Google: open, transparent, involving everyone at their levels into making decisions, empowering people, etc.

- Like Emag, more and more companies owned by younger, more creative, risk-taking entrepreneurs prove good results thus

creating a precedent for even more to confidently embark to similar initiatives.

#### 4. Stages and obstacles

Shifting focus from the current approaches to the principles of directed opportunism requires to slowly move apart from the traditional ways of developing businesses. Some of the most common approaches that are being extensively used currently, are:

- Diversifying the offer to the current client portfolio (in an effort to answer to the customers very specific needs)
- Attracting new clients

While organizations focused on these, something happened meanwhile: the customers realized that in order to prove their competitiveness, the organizations accepted the idea of having to accept restrictive conditions, thus they have exploited this vulnerable spot in several ways.

Let's take the example of the adult education industry.

As with the financial crisis started in 2009, a significant amount of education projects were put on hold or even blocked completely, while no other new ones appeared. Moreover, plenty of big industry players faced issues adapting their structure and strategy to the new context.

This led on one hand to the leeway of the big players in the educational field, and on the other hand, to the birth of new players who had more flexible structures and which were able to keep things going with low indirect costs.

Many of these new players appeared as a consequence of two main factors:

- They relied on pools of customers – small pools to which they had connections and existing promises for future contracts
- The competencies of the partners founding the firms relied in the respective necessary areas of expertise.

This led to things to function on short term (with some minor variations to the initial plans). Then the issues started to arise after the first contracts they relied on at the beginning finished. The opportunities decreased significantly, both from quantitative and qualitative perspectives. In this new context, the reactions of the small players (generated to a great extent by the concerns associated to how things will evolve in the nearer future) were to:

- 1) Diversify excessively (and assume the lack of alignment brought by this)
- 2) Accept the terms and conditions imposed by clients (thus accepting to offer their services at unbearable small prices).

Although on the short term many of them believed that they found the way out of difficulties, on medium term, the reality showed that the reverse side of the coin was losing identity and not being able to sustain their operations.

And their decisions and actions not only affected their own results, but also cause the market to become unbalanced because of practicing dumping prices and compromising on quality.

### 5. Conclusions – some sustainable ways of growth and alignment of medium and small organisations

An aspect worth mentioned is that the model of directed opportunism referenced throughout this article resides in the military practices around a century ago. There were armies of significant war experience which decided that a limited amount of control was not only acceptable, but most effective in order to have a well-oiled mechanism allowing succeeding in executing their strategy. They have also decided to involve people at all layers in making decisions or even in challenging orders, when and if the case. They trained their people to know when to challenge direct orders and trusted them to do that. They trusted them to make errors, and in return, they gained people who would take initiative and add real value from their roles, apart from just executing what they've been asked to.

Coming back to nowadays, if one of the most powerful armies that ever existed, were able to approach their internal culture like this, why can't business organizations today adopt similar principles? Since most of the organizations know where they should be heading to, and have a very clear picture of 'how it should be', what is it that blocks evolution?

To answer this, we are usually tempted to assess whether the following conditions are met:

- Whether the organization understands the benefits of making this shift
- Whether it is committed to make the efforts for the shift
- Whether the employees trust the organisation's vision and is aligned to its culture and values, so that they would support the change and transition

And the reality is that most of these conditions are met by the organizations committed to make the shift. The issues begin to occur when they start to actually do the work towards their initial plans. The clarity of the vision and commitment at the beginning aren't enough to guarantee success.

"Strategy had to be understood as a system of options since only the beginning of a military operation was plannable" . - Moltke's main thesis on the theory of war.

The key resides in how disciplined a company is able to prove itself to be, to carry on the great, on-going effort on continuously addressing the three gaps (knowledge, alignments and effect), as they go. When we talk about directed opportunism, excelling at executing the strategy isn't just about execution. Because it is here, in the execution stage, when reality actually happens; when the organization and its people have the biggest chances to prove leadership, alignment and ambition.

The key word above is 'discipline'. Not in the way of 'know your place and behave' type of discipline, no. But in the mature, logical understanding of one's role and chance to make a real difference in the context. The self-discipline of responsibility.

And discipline is something everyone and every organization must learn. You're not simply born with it or not - you must develop it, through years of practice and commitment. And it's not for all – that's why although everyone knows it in theory, just a few are able to apply it gracefully.

Having said this, here we are to our purpose with this article – to point out to some ways to embed alignment in organizations.

Having a methodological approach to managing enterprises can support assessing



the behaviors in organizations, in the idea of keeping and developing those bringing benefits, and also of gradually giving up to the ones blocking evolution. This is something to which everyone in the organization could contribute, as defining healthy, viable methodologies to work throughout an entire organization can only be done with the input of the employees at all levels, who can design, roll-out and test processes so that these would feed into each other.

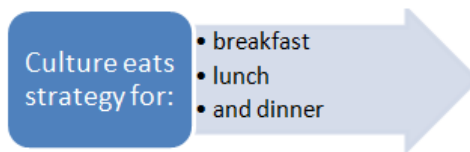
Some of the behaviors that could benefit from being considered under methodologies:

- Downwards communicating of intent

- Real-time gathering and communication of relevant data regarding customers' needs and expectations

- Upwards communicating
- Taking initiative and calculated risks
- Making decisions

This could help organizations clarify how they want to work and could lead to everyone being aligned to the same principles of carrying their responsibilities in the wider context. And the importance of gaining this alignment is as important as Peter Drucker concluded in this quote: "Culture eats strategy for breakfast" – and as well for lunch and dinner, may there be added:



## REFERENCES:

1. *Competitive Strategy In the Age of the Customer*, by **David M. Cooperstein**, October 10, 2013 [http://solutions.forrester.com/Global/FileLib/Reports/Competitive\\_Strategy\\_In\\_The\\_Age\\_Of\\_The\\_Customer.pdf](http://solutions.forrester.com/Global/FileLib/Reports/Competitive_Strategy_In_The_Age_Of_The_Customer.pdf)
2. <http://www.torbenrick.eu/blog/performance-management/organisational-alignment-is-the-glue/>
3. **Bungay S.** - *The Art of Action: "How Leaders Close the Gaps between Plans, Actions, and Results"* - Nicholas Brealey Publishing, Feb 16
4. <http://www.pwc.com.au/consulting/assets/publications/High-performing-realise-potential-Jun12.pdf>
5. <http://www.esimplu.ro/resurse-de-afaceri/documente/finish/257/2615>
6. <http://ecommercenews.eu/romanian-online-retailer-emag-expands-poland/>
7. [http://en.wikipedia.org/wiki/Helmuth\\_von\\_Moltke\\_the\\_Elder](http://en.wikipedia.org/wiki/Helmuth_von_Moltke_the_Elder)



## How To Build a Leader?

~ Ph. D. Associate Professor **Adrian Majuru** (University of Bucharest, Faculty of Business and Administration, Romania)

E-mail: [adimajuru@gmail.com](mailto:adimajuru@gmail.com)

~ Ph. D. Associate Professor **Ana Maria Grigore** (University of Bucharest, Faculty of Business and Administration, Romania)

E-mail: [ana.grigore@faa.unibuc.ro](mailto:ana.grigore@faa.unibuc.ro); [anagrig27@gmail.com](mailto:anagrig27@gmail.com)

**Abstract:** Romania lacks a "map of the future". This chart of the future depends just on the human factor. More specifically, on the continuous investment in the human factor. During the last 2 decades of freedom of attitude, very few positive and sustained steps have been taken through solid arguments, with clear reference points and stages that have to be followed .

It is absolutely compulsory to rebuild with new tools, as a surprise for the opponents and as an optimal solution for the supporters. This would be a new, superior creation, with an invincible astonishing result. This new tool means an effort of retraining, with a view to getting better, professional skills.

This study proposes a comparative analysis, 80 years later, following the physiognomy, the attitudes and examples of good practice regarding the social mechanism through which a youngster could be calibrated into a leader of his generation, as well as finding the obstacles of the present social system. Besides the historical, social and cultural perspective of this analysis, we would take into account elements of social ethology and anthropology, and the whole thing would be built and based on an analysis with a prognosis effect for the next generation, starting from the history of the last 30 years and discussing the effects this history has had upon the very present.

**Key words :** leader, reconstruction, professionalization, education, values

**JEL Classification:** Z13, O10, A20

## 1. Introduction

In today's world, the thing we miss the most is leaders who can transmit vision.

One of the reasons for which visionary leadership is so little developed today is determined by the value that our society grants a certain kind of capital: material capital.

The Noble prize laureate for economy, Joseph Stiglitz (2010) says in his book, "In freefall" that "an imminent death experience forces one to reevaluate one's priorities and values. Global economy has just been through such an experience. The crisis has brought forth not only the flaws in the predominant economic model, but also the flaws in our society". And he underlines the fact that: "too little has been written about the fundamental <<moral deficit>> that has been brought to the surface – a deficit that could be more serious and even harder to correct."

In his own turn, Stephan Young (2008) asserts that this obsession of the material gain has led to the short term thinking and to the narrow following of one's own interests. The contemporary man is dominated by the desire to possess, not by ideals.

Leaders and managers must raise their eyes beyond their own interests and must be able to regard their role as the one of determining the company or society to have moral goals and values, not just profit. They must take responsibility for the world in which they operate and in which they create their wealth. Leaders can give anything up, but responsibility. John D. Rockefeller Jr said: "I believe any right brings with it a responsibility, each favorable opportunity, an obligation; each possession, a debt".

Fry and Slocum (2008) argue that one of the biggest challenges that leaders are nowadays facing is the need of developing new business models that would emphasize

ethical leadership, employee welfare, sustainability and social responsibility without sacrificing profitability, profit growth and other financial performance indicators. There is an ever higher need for leaders that are able to maximize at the same time the so called triple crucial factor: "people, planet, profit".

The present paper is structured, after the introduction, in two important sections: the first one aims to comparatively analyze, at a distance of centuries, gestures and examples of good practice regarding the social mechanism by means of which a young person might be calibrated into a leader of his / her generation and to discuss the breaks of the current social system. Beyond the social, historical, cultural perspective, it includes elements of ethology and social anthropology, and the approach will also be built on an analysis which will constitute itself in a prognosis for the future generation, starting from the history of the last 30 years and covering its effects in the present. The second section presents several performance models that, according to the authors' opinion, may contribute to the development of those leaders that society needs so much.

The most important problem the present approach faces is the lack of specialized bibliography regarding the formation of a leader, something else and in some other area than the politics. The approach is built on complementary works and precise examples offered by history and circumstances that have required rapid interventions in the equation of power.

## 2. Comparative Analysis between Civilizations and Generations

Every leader has and develops a double reaction capacity. One is determined by the

cultural heritage of the social framework in which they are formed and the other is represented by the potential of building up the level of one's received knowledge. We can offer comparative examples between civilizations which are technologically competing against each other. One of the most inventive societies in history was the Medieval Europe which, until 1800 was under Asia's counterpart economic strength. But what worked here more was the urban particularity of this civilization and within it, the freedom of choice, the right of innovation and the access to power through merit and performance. A first example: the paper travelled for nearly half a globe, but the first culture which managed to produce it mechanically was the European one. The second example: the improvement of time measurement. The city needed to thoroughly organize its activities in order to develop, to innovate and to survive its competition.

Time rationalization meant something new at the time: one hour to wake up, to go to work, to open the market (later even the stock exchange), to leave work, to then put the fires off and to go to bed. This is the reason why every city invested in one clock placed in the public market. Beyond the city, the Church imposed the nature clock. And until later, in the 18th century, it has rejected this urban and protestant invention, the clock, as being an unnecessary social attribute. Outside Europe there were, of course, very big and dynamic cities, but every Chinese emperor or Indian mogul had his own celestial time and, of course, his own calendar, which was reinvented for every new rule.

Returning to the urban Europe, we also have an example which proves the force of innovation: the glasses. An apparently trivial

object, the invention of glasses and their widespread use meant the saving of twenty years for each professional, that is, the age period between 40 and 60 years of age, the peak of skill, performance and strength for each generation of professionals. The increase in the professional lifespan meant for Europe the reality of another detail: the perfecting of the clock and its series production and this led to the development of precision mechanics. Until the 20th century, Europe has held the monopoly for clocks manufacturing and a result of this monopoly towards the rest of the world is the sad memory of Russian soldiers which, arriving in Romanian cities after 1944, were especially robbing pocket and hand watches.

These simple examples prove the force of the social framework that the European city had in the forming of its leaders. This was the world in which they were developing and these were the information and the competencies that they had access to for their improvement. From one generation of performers to the next, after the 16th century, Europe experienced the explosion of the industrial revolution. The standards that the 19th century Western European society had reached, had several corollaries, according to David S. Landes (2013): a society based on geographical and social mobility, people being able to move depending on opportunities; a society that prizes and capitalizes the new not the old, the youth, which relies not on experience, but on change, on risk instead of on safety. Talents being unequal, the society itself is not one of equal quotas, but it has a tendency towards a more fair allocation of income than in the case of privilege and advantage we could meet in more rural, patriarchal societies, which are poorly urbanized

and industrialized but strongly ideologized. The middle class would be a lot more widespread and professionally diversified, and this equality within it would result in a more homogenous dress code and more relaxed manners between classes. This happened in Western Europe whereas in the East, people were getting used to poverty and they had no idea of what was going on abroad, and the peoples living in the Balkan states are now blaming for their poverty their exploitation by more wealthy economies in Western Europe, which makes them feel better.

The problem is a very simple one: societies that have invested in technology through education, culture, the development of skills and performance manage to offer each generation the best framework for competition and for the social calibration of new leaders. Wealth means education, expertise, technology and, ultimately, knowledge. And the latter is cultivated through leaders.

From now on, the future belongs to those who have brain, hands and character.

### 3. Performance Models

#### • Value-Based Education

In our opinion, education is the strongest and the safest long-term way of solving this fundamental problem of our time. It is necessary for us to introduce moral values in the curriculum. Education is an effective weapon. School must lose the mentality of emphasizing the individualism and the efficiency at all cost. It must return to the appreciation of values and behaviours of respect for others, for other cultures and for the environment. A solution could be a complex, humanistic approach to the individual and the attempt of developing all forms of

intelligence that the human being possesses, not only the rational one.

In his book, *The 8th habit*, Stephen Covey (2006) argues that there are four types of intelligence, namely: mental intelligence (IQ), physical or corporeal intelligence (PQ), emotional intelligence (EQ) and spiritual intelligence (SQ). The Spiritual Intelligence is the most important of all, because it becomes the source of orientation and guidance for the other three types of intelligence. "The spiritual intelligence is the ability to access meanings, values and higher long-term purposes and unconscious aspects of the self and the ability to use these meanings, values and purposes with the aim of living a fuller and more creative life. It was the intelligence that guided men and women such as: Churchill, Ghandi, Nelson Mandela, Martin Luther King Jr. and Mother Teresa. The secret to their leadership was their ability of inspiring people, of giving them the feeling of something worth fighting for." (Covey, 2006)

The highest forms of manifestation these four kinds of intelligence have are: for the mental intelligence – vision; for the physical intelligence – discipline; for the emotional intelligence – passion; for the spiritual intelligence – conscience. "The moral sense, or conscience is part of a human being as much as a hand or a leg. All are being given it to a higher or a less extent. Conscience can only be strengthened through exercise" – Thomas Jefferson.

John Maxwell (1999) believes that "people don't care how much you know when they realize how much you care. The act of leadership begins in the soul, not in the mind. It blooms with significant relationships, not with more regulations".

Theoretically, at present, there is more "Education" than it has ever been, but there

is also more degradation, more greed, selfishness, a lack of sincerity and of integrity. Unfortunately, education nowadays doesn't represent emancipation, refining and evolution anymore.

The educational system is heading into a wrong direction – instead of developing a person as a human being, the educational system is directed towards shallow, surface acquisitions.

Education needs to be enriched with values. Value-based education helps us develop in youths values such as: character, good conduct, moral integrity, self-discipline, compassion, love for every living thing, responsibility and many other positive qualities. So what do we need?

There is an urgent need for change – changing what we are with what we need to become. We need for the education system to understand the value of education and that of further education. We need a metamorphosis of education – from a cocoon there should come out a butterfly. The improvement will not give us a butterfly, but only a faster caterpillar.

But where does value-based education fit in the curriculum? Anywhere.

Thanks to memory, imagination and reason, intelligence can find all solutions and can solve all problems. We should, hence, cultivate the character besides the intellect and we should develop the teamwork spirit besides the strength of personality. Thus, Călin Georgescu (2012) argues: “the future will belong to the brain and the mind, if we want to survive. We need the mind to be free, critical and independent. For Romania, my philosophy is simple and it will certainly work: we need to hire the best young minds, to give them all the support they need and

the intellectual freedom to allow them to work and to succeed in their own country. Brains must be put to use.”

The same Călin Georgescu (2012), says that “Romania is about to lose its strategic thinking nucleus and to destroy its own future. If only the weakly trained stay here, how can one develop a country? There is no way to do it. Only the obsequious are staying, those who have no other ambition but to please their boss. There is no need for smart people, for people who ask questions, the obedient are needed. Do you know what the problem is? Loyalty for the party leaders is confused with and it's more appreciated than loyalty for one's country. There are people who are prepared to serve their country, to help it, to surrender their own life for it. This has nothing in common with the daily demagoguery. But I sometimes wonder what can the people who spend daily four or five hours on TV talk shows and other five-seven hours in meetings know or understand?”

#### • From a Country Project to How We Build a Leader

Using the same comparative method, we offer an example calibration of a leader produced in different cultures and civilizations, but ones that have gone through a similar crisis. At the beginning of the 1st century, CE, the ancient Rome was on the edge of the abyss again, and the Senate decided to grant power to the eldest among them: Nerva Antoninus. This was the model of the leader. Age and experience. He was over 90 years old. He, not having children, imposed a novel method, placing in opposition age and experience with the ability to bring in the new and professional performance. This method was used to adopt the best representative of

the next generation in order to make him emperor. The perfect military. Having a completely formed character. The visionary and the strategist at the same time. Nerva adopted the provincial Ulpius Traianus as his son, granting him the power under the same condition: adopting the best in the next generation. Trajan in his turn, adopted Hadrian. The latter adopted Antoninus Pius, and the last adopted Marcus Aurelius. It was an unmatched state machine with a maximum social gain.

Aurelius, however, surrendered to his feelings and chose his son, Commodus as his successor, and the state was back in crisis, in less than a generation. In the modern and contemporary times, the developed countries offer a similar model. In the big companies and the big family businesses, the leaders associate themselves with people with top competences, people tested by time, not necessarily involving family members, unless they truly perform. The new leader, however, rejoins the ranks of the "adoptive" family, even in Japan, such a conservative country. In the Romanian pre-modern market town and city there is a similar model for the forming of a leader. The Hagi Tudorache case, who was himself adopted by marriage with the daughter of his former employer. But here we are talking about his son, Costache, who, between 7 and 14 years of age was a shop boy, working just as the other shop boys. When he was 14, he was sent to the Commercial School in Vienna to bring a plus of value to his family investment. But the best part of this value stays at home. That is, his former shop mates become his associates due to the guild camaraderie that had connected them during the common years of their apprenticeship. Costache and his associates will set up

the first Romanian bank in the neighborhood of Lipscani, during Cuza's reign.

A country project can only be achieved with a healthy, educated and well informed population, "for only in this way it can be master of its own fate and it can become immune to any action of intoxication or manipulation." Still education is the one to offer the coherence of a long-term vision built on anticipation. And not on decrees or party directives. But currently we have no country project, because we lack the map of the future. For Călin Georgescu (2012), the country project "should be based on at least a few things. Firstly, one should combine the short and medium-term thinking with the long-term thinking. One must know where you are heading and which are your niches. Then, whatever we do, must be analyzed on the cost / benefit dimension. Last, but not least, we must substantiate what we have disregarded with great recklessness in the last years, that is, investing in people. This is the most important thing that Romania has neglected in the last years"

Poverty brings about many shortcomings in the destiny of many of the younger generations. In their case, grown-ups are the ones who make decisions, and in most cases these decisions cause the future grown up to become a social failure. In the most important years in their lives for their education and school training, they are being redirected by the grown-ups raising them towards illegal subterfuge, in a ruthless exploitation. In 1994, 37.6% of all Romanian children "were living below the lowest poverty line (taking into account the family income), in other words, the degree of poverty is twice as much for children as it is for the adult population" Poverty endangers the attention needed for the basic



needs of children and youths, while “malnutrition underlies the high rate of infant mortality in Romania, and a third of the potential pupils in the country are being affected by the exceedingly low quality of secondary education and by the low school attendance in the rural areas.” Exploitation of children through work, either in their parents’ household or, even worse, by being rented to their relatives or for very small sums of money, doesn’t mean a good start in life for those who survive in infancy, and this harms their future. (Warren Corwther,1998).

At present, Romania is quartered in “the position of a rural picturesque periphery, with a confused identity and a modest contribution in an European context”. What is needed is “a sustained professionalization and a change in the mindset of the whole society in relation to the requirements and responsibilities which are inherent to being an European Union member, having as a political focus for a long-lasting development the stake on research, cutting-edge technologies, culture, continuous interdisciplinary education, cultivating harmonious relations between man and nature” ( Călin Georgescu, 2012).

We can be aided in our search by a text from Mihail Manoilescu (1942): “Raising sheep corresponds culturally to illiteracy, agriculture to primary school, commerce and industry to middle school and, respectively, high school. Industry develops intellectual abilities such as resistance and discipline. The machine creates a superior form of discipline; because of it, time becomes precious, measurable in minutes and seconds”.

Stephan Young (2008) believes that “in emerging countries such as Romania, the Communist regime has had a minimal

contribution to the system of values. The values imposed by the Communism were either rejected, or in time they became uninteresting, for lack of supporters. In the emerging countries, one of the consequences of this reality was the fact that, amid the fall of the Communist regime, the collapse of the system of values has not been followed by the adoption of a new set of sound values. People have been deprived of values to relate to, their behaviour and decisions being guided in most cases by their own material interests. Such countries have fallen into a sort of nihilistic behaviour, into a value crisis.

Consequently, Romania today is welcoming a return to the values and traditions that existed before the Communist regime. All that someday gave people force and confidence may again become valid today, giving people the landmarks they need to make decisions in their dealing on the free market”.

#### • Reconstruction through professionalism / professionalization

This is the problem, but what could be its solution? The reconstruction operation must be started with a new tool, one that will prove disheartening for the adversaries. And optimizing for the partisans. This operation of reconstruction has already been present in our modern history and it was successful. It happened between 1860 and 1914, during two active generations. Thus, “in a country that relied on quacks and healing ladies, there appear pioneers in the Romanian medicine, such as Victor Babeş, Ion Cantacuzino, Mina and Nicolae Minovici, Fr.Rainer, George Severeanu etc. In a country in which the main transportation was the bull-driven cart, there appear plane builders and designers, such as Traian Vuia and Aurel Vlaicu. Later even



Henri Coandă. In a country which used to import the industrial machines together with their operators, as the Assan family did when they brought their famous mill in 1860, there appear genius engineers, such as Anghel Saligny. In a culture of immobility, there appear great explorers, such as Emil Racoviță and Grigore Antipa, talented sailors and aviators, such as the admirals Vasile Urseanu and Nicolae Păiș or pilot Băzu Cantacuzino. "The Romanian painters, sculptors, writers, scientists and engineers have proved, between 1860 and 1914 that they represent the true value of the Romanian nation. (...) The Romanian bourgeoisie and intelligentsia is due the existence of the unitary state, the setting up of the national industry, Romania's contributions to the culture and science of the whole world. But these results have been too feeble to develop a civic spirit, to spread the culture and civilization among the masses, to replace the oriental spiritual heritage with a modern, Western thinking" (Călin Georgescu, 2010).

Deprofessionalization is also supported by older generations, who have led moderate lives and without involvement and who become aggressive when their comfort of laziness and degradation is being threatened. What is even worse, the public authorities, instead of supporting the professionalization, which they claim to represent in the eyes of the voters, actually support the reports of the lazy and of the fallen, at the expense of those who are making the effort to innovate, to change.

What truly matters at present is work, prudence, honesty, patience, tenacity. For the people who are plagued by poverty and famine, or for those used to "it works well enough", this could amount to selfish

indifference. This is the reason why the people who live for work represent a lucky and very small elite. It is, however, an elite open to the newcomers, to the self-appointed, the kind of people who are emphasizing the positive aspects. In this world, the optimists usually prevail, not because they are always right, but because they are thinking positively. Even when they are wrong, they think positively, and this is the way towards accomplishment, redress, improvement and success. The educated optimism, the conscious one, is worth it; pessimism can only offer the empty consolation of having been right." (Landes, 2013).

The future's problem is very simple: whoever will invest in this elite, made of people who work with perseverance, will save themselves. The nations which have developed such elites are wealthy and will continue to get even wealthier, whereas the countries which will delay the investment will continue, possibly for hundreds of years, in the same poverty that will increase with each generation. Because the former will generate technology and absorb performers from everywhere, whereas the latter will consume technology and export workforce.

At the antipodes, there is a pragmatic reality: the fact that the 21st century will be marked by the one who knows best to take full advantage of science, to anticipate and use a minimum of resources for obtaining maximum results.

## Conclusion

We have seen the danger. The question that we need to ask ourselves is: will we take advantage of this opportunity of getting out of this moral and ethical confusion that we

are in the middle of at present, will we get back our sense of balance between individualism and community, between means and

goals, and, most importantly, will we educate individuals who are decided to live up to the common ideals and values?

---

#### REFERENCES:

1. **Corwther, W.**, *Eliberarea de sărăcie – un drept al omului, Sărăcia și drepturile omului*, Tipografia „DAG P.A.C.” SRL, București, 1998
2. **Covey, S.**, *The 8th Habit. From Effectiveness to Greatness*, Allfa Publisher, 2006
3. **Fry, W., L., Slocum Jr., J.**, *Maximizing the Triple Bottom Line through Spiritual Leadership*, Journal of Business Ethics, 2008
4. **Georgescu, C.**, *Pentru un ideal comun*, Compania, 2012
5. **Georgescu, C. apud Mircea Malița(coord)**, *România după criză. Reprofesionalizarea*, Compania, 2010
6. **Landes D., S.**, *Avuția și sărăcia națiunilor*, Polirom, 2013
7. **Maxwell, J. C.**, *Dezvolta liderul din tine*, Editura Amaltea, 1999
8. **Young St.**, *Capitalism moral – o reconciliere a interesului privat cu binele public*, Editura Curtea Veche, 2009
9. **Stiglitz, J.**, *In cadere libera, America, Piața liberă și Prăbusirea economiei mondiale*, Editura Publică, 2010

## Tangible and Intangible Within The Organization's Potential

~ Ph. D. Student **Cătălin Grădinaru** (University of Bucharest, Faculty of Business and Administration, Romania)

E-mail: [gradinarubusiness@gmail.com](mailto:gradinarubusiness@gmail.com)

**Abstract:** The organization (firm, enterprise, school, joint company etc) means the basic unit of the human activity. It concentrates, organizes and materializes in products, cognitions and affects all people's efforts, finally getting to represent the main way of life in society for the human being. The organization gathers, with a view to a unitary action, bearing the same vector, people, tools, vehicles, and financial resources, cognitions and projects. Even if it always acts unitary, according to a plan derived from putting into practice some policies, strategies, this composition made up of people, money, materials and vehicles is just an agglutination of tangible and intangible, from which may result either a coherent, performing action, and therefore efficient or an incoherent and not performing action which means the destruction or abolishment of that organization. Between these two extremes, somewhere around tangible and intangible, the human being imagines, builds and creates endless possible things and ideals that are to be changed into material things.

**Key words:** organization, resources, tangible, intangible, equilibrium, dynamism, complexity.

## Introduction

The organization of the society based on knowledge just like the one from the previous stage of such a society, has to be much more flexible and dynamic than the organization of the post-industrial society and even more than the one generated by the consumerism society. Indeed, the consumerism society, having changed the man into a permanent consumer and making him completely dependent of consumable or utility products has destroyed the older order and introduced a dynamic never seen before, facilitated by the new philosophy and new network physiognomy.

The pressures over the organization have grown up enormously, as well as the expansive possibilities and of transfer which have also multiplied. From the specific mechanism of the industry era and its continuation, as a wise form in the post-industry era, we have moved fast (through destruction or change of the older ones or the apparition of some completely new ones) to a generation and even the prevalence of the dynamic and complex systems, and very flexible, where the equilibriums and imbalances as well have combined and paradoxically have reciprocally amplified. This kind of dynamic based irregularities was supposed to lead firstly to instability, uncertainty and even chaos (understood as a lack of organization with a view to a new organization), a fact which somehow has happened.

But the offsprings and uncertain slope has rapidly been compensated by the access to the new horizons. The cognition and new technologies have permitted and even have imposed this trend. The strategic games with a zero sum on the market and in life (I win, you lose, you win, I lose) have given place to

complexity, complex dynamism (we win and lose on every scale at the same dependant on the concrete conditions, on the variation of the initial conditions and of many other factors more or less disruptive, but fluid and ever-present).

Taken by surprise, some of the systems have collapsed, and lack of uniformity generated a slide towards uncertainty, but most of the times they adapted to the new trend. The market offensive has given satisfaction to non-interventionists (within their opinion the market is the only one remarkable reality and the single objective controller), while the "keynesists" and "neo-keynesists" reminded the world that a market without clear horizons, without roads and solid resistance structures, tends, like every restructured or self destroyed system to chaos. The chaos has been produced at the same time with the crisis of suppress on the Wall Street, when the Americans were forced to invest over 800 billion US Dollars (public money) for these private bank entities collapsed, which after a reasonable time prevented the catastrophe, but the financial crisis extended to Europe and worldwide. The organizations which managed to survive all this time in front of this financial tsunami have understood that their single way to exist amidst this huge volcano, sometimes calm and some other times belching, comes not from wealth or rigid structure but from wisdom.

## Tangible and intangible

Inter-completeness soft-hard, that is physical resources – non-physical resources, exceeds the rigid determinism, equalitarian or pre-established and imposes another kind of determinism another type of concept.

From the flux of crises and wars that have changed the world, the real art of organization is appearing the art of existence and of survival within a predominantly hostile environment, with very hard pressures and where the clash of forces are mainly gusty and most of the time are very hard to control or to counter.

Of course, the physical resources of the organization – infrastructures tools, vehicles, production lines etc. as well as other financial actives, deposits, goods etc. – are perishable goods. They are fixed or replaced according to their tear. Even the people - who are not part of this kind of resources – can be replaced with other people when necessary, when their abilities are lower or it's time to be retired.

What we can never replace is the non-physical resource, the organizational culture that is the values patrimony, thesaurus knowledge, intelligence, ideas, creations, innovations, abilities, skills, human capabilities. All these represent the non-tangible resource, the non-degradable potential, imperishable generating what we call, with a word that seems to me not so adequate: intellectual capital. This is the most precious capital of the organization, it is its spring which raises and lowers when the management understands (or not) the incommensurable value of the process generating cognition.

Adrian Curaj, the one who studied from within the intrinsic relation, necessary and comprehensive knowledge – intellectual capital, as a vital point of the economy based on knowledge, cites many ways and of course different (Edvinsson and Malone 1997, Roos and others, 1997, Stewart 1997) to define the intellectual capital, but which meet within their essence into several vital points:

invisibility (intangibility); the close relations with the knowledge, abilities, skills, and patrimony of experience of the employees with the clients and technologies the organization effectively makes use of; the causative and structural relationship between the intellectual of the intellectual capital of the organization and its future success<sup>1</sup>.

The intellectual capital is not a simple notion, and not even degrading for the human being or for the human potential in the sense of its association with the financial capital.

The intellectual capital is actually the educated human potential, operated and thesaurised, (under a reunited, joint or mixed form) and used into a productive activity, a human action within an organization. Through investment of knowledge into action, the human potential is capitalized, becomes a way to produce utility value and at the same time a cognitive value. But the human capital is not an abstract notion and not even individualized or personalized. It cumulates within the same concept and the same vector the human capital (resulting from the real human potential, *hic et nunc*, from the knowledge, abilities, skills, and man's possibilities), the structural capital (defined as a support of the human capital, a support made up from results of the intellectual activity of people : data bases, innovation patents, documentaries, algorithms, methodologies etc.) and the clients capital which is a relational capital. This classification belongs to Edvinsson and Malone (1957), but the complex of this notion is far from being exhausted or saturated through definitions and classifications.

<sup>1</sup> Adrian Curaj, Capital intelectual, București, 2011-2012, p. 12. <http://www.slideshare.net/andreeacalin77/capital-intelectual-15384059>

From the tens of such definitions, we have selected only one aforementioned by A. Curaj as well and which seems simple and suggestive enough. But the real problem which shall always be raised at the same level of intensity and within the same spectrum of insufficiency is that which has to do with the generation and regeneration of this capital.

### **How is this capital generated and regenerated?**

The intellectual capital of an organization is not an intrinsic one, not endogen, even if every organization has the tendency to monopolize, to secrecy and even to seal its most precious capital. As a rule the access to resources and sources of intellectual capital of every organization are open just until the entrance to that organization, and from there they usually become classified. Why? Simply, because such a resource is the only one which can make from machines, and other activities a profitable business. That's why the openness of the organization to the educational systems which generate a qualified human personnel and even more with postgraduate studies are leading to a single direction: everything which is necessary is coming in and accepted and only what comes out are the requests.

Even for a society based on knowledge, as long as competition means the essential quality of the market, not even an organization shall develop its projects and resources to generate intellectual capital its most precious capital.

Which is actually the measurable value of this capital? One of the persons who has thought of this question is Leif Edvinsson as

A. Curaj states who remarked that if we take from the market value of one organization the financial capital, what remains is actually the intellectual capital.

The market value of a company is given by the exchange value of the action multiplied with the number of actions issued by the company (obviously if it is listed on the exchange) or as its price on the market. This is the so-called model Navigator.

Moore (1996) proposes another model, a model of a value chain Enterprise Value Chain (EVC), composed of four sub systems: Management, Client, People, Operations, connected through three value determiners: *Basic competences, Consumer's preference, and the transferred value of the stockholders*<sup>2</sup>. This model takes into account the fact that organizations are dynamic, and the conditions and chaining also follow this pattern.

Of course the models are numerous, and the conclusions deriving from the analysis take into account the fact that every organization is interested to evaluate efficiently the intellectual capital's contribution to the raise of performance.

But in our opinion this cannot be done only statistically, we have to take into account at least two elements of the intellectual capital: the chain or the system (process) of initial and further generation and the role of cognition transfer and its impact over the productive processes. A simple idea of an employee or just a small detail applied at the right moment can produce a revolution for a whole process. For many situations, the further performance was born from such sparks of intelligence.

That's why we appreciate that no matter how imperious and necessary image could

<sup>2</sup> Adrian Curaj, Ibidem, p. 14.

be over the intellectual capital for the raise of the managerial performance and of the productive one it is very hard to draw conclusions, algorithms and universal assessments.

The intellectual capital has as a main source the educational system, the processes (formal, non-formal and informal) for education to which we add the talents, skills, motivation and others, the thesauruses intellectual capital, simply stated the intellectual and managerial coherence, the value of what they know, can do, make and respect towards what they have done as a source and pattern for the future.

### Instead of conclusion

People are not machines. And machines are not people. But all the time the people

shall operate the machines, following precise rules, and shall meditate over these rules shall create other new and more rapid ones and more performing and shall always look for ideas in data bases, others experience, relations with the clients, the huge deposits of intelligence, within the patrimony values, the academic environment, and the university one anywhere they could find cognition and the necessary scientific support and practical one they may need to create today something much better than they have done in before.

The main source to raise the intellectual capital lies in the people's quality, in their need to improve, their strong motivation, the educational system and respect towards the act of learning as a continuous resource which generates the intellectual potential and from this the intellectual capital.

---

### REFERENCES:

1. BECKER, Gary, *Comportamentul uman o abordare economică*, Editura ALL, București, 1994.
2. BECKER, Gary, *Capitalul uman. O analiză economică și empirică cu referire specială la educație*, Editura ALL, București, 1997.
3. BOTERF, Le Guy., *Construire les competences individuelles et collectives*, Les Editions d'organisation, Paris, 2000-2006.
4. BROOKING, Annie, *Intellectual Capital: Core Asset for the Third Millennium Enterprise*, International Thomson Business Press, London, 1998.
5. CORNESCU, Viorel, DRUICĂ, Elena, *Întreprindere, management, profit*, Editura All Beck, București, 2005.
6. IANCU, Ștefan, *Organizația economică modernă și cultura consacrată creșterii cunoașterii*, Noema, Vol. VII, 2008.
7. STANCIU, Ștefan, *Managementul resurselor umane*, Editura Economică București, 2001.



## Cognitive Evolution and Revolution

~ Ph. D. Student **Cătălin Grădinaru** (University of Bucharest, Faculty of Business and Administration, Romania)

E-mail: [gradinarubusiness@gmail.com](mailto:gradinarubusiness@gmail.com)

**Abstract:** The generator of the accelerated progress and durable development depends on the human daily ability and capability to project, construct and reconstruct the own condition.

Cognition is the essence of the human condition. Knowledge is not only assimilation and accommodation, but it is also a huge resource permanently generating intellectual potential. Such kind of potential is connecting the physical space with the virtual one, is maintaining the cognitive value, is providing innovation, creation, storage and transfer. Knowledge is always the avant-garde and watch. Practically, it is generating the ultimate dimension of the human being. But, by reaching a summum of consumer's society, top technology and IT, in the cognitive space a real revolution began and it certainly will change the world.

**Key words:** knowledge, cognition, cognitive product, cognitive effect, cognitive revolution

## Introduction

More and more and profoundly people live in an environment where at the ground of all things there is no more the individual human being neither his production by hard working in the fields or in the plant, but his main quality which practically makes him an inexhaustible potential and an unattainable resource: the knowledge

Even if the knowledge itself is a product of the human activity it becomes today a cause of creative potential generation and an unattainable resource of the efficient human action. The information, cognition and idea are situated today in the core of reasons for any progress as the society as quickly as an energetic transfer is going through the distance from the human being – the slave of the work to the human being – the uncontracted creator of its tools and processes. That's why the today but especially the tomorrow society is not any more a society of production, neither a consumer's one, but simply a knowledge society. It is a society situated over the former ones dominating, correcting and transforming them all. Everything existing from now on in the world will carry the gene regenerated by such type of society. The economy will be an *economy based on knowledge or epistemic economy*<sup>1</sup>, the information will be the monad of cognition, and the culture itself, with its huge systems of values, will little by little pass to a culture concerned on treasuring the effects of knowledge, generating in its turn, a sound support for the new cognitive civilization.

## Employee, manager and firm

Yesterday, a graduate from a higher education institution according to a vocation, an ideal or a need was hired by a firm (enterprise, company, etc.) where, on the basis of his knowledges accumulated during the forming educational process, started the work. The most of employees remained almost at this stage. They did conscientiously their jobs, consolidated certain habits, formed certain skills and abilities and tired out after work they arriving home they were not able to do anything else. They needed to rest for the next day to start again. At that stage (which still exists today in many firms), the employee was simply a man-servant of the tools or of the predefined algorithms the only thing he could do was to comply with them. His part of creativity within this kind of production was the ability, the capability to keep the tools at the maximum of efficiency or possibly from the Classic School to partly improve the algorithms. Almost all performant management studies and theories (Taylor, Fayol, Weber) to the School of human relations (Mayo, Maslow, Herzberg, Mac Gregory) and to Toyotism, from the X and Y theories to Z theory (interiorizing the firm objectives by culture) – do nothing else but to centre the management effort on one component or another, having in view only the efficiency i.e. to grow the labour productivity. The styles of managing – from the weak administration to the autocratic style, from the free time style to the middle style or the integrating (most performant) one – also emphasize in a newer or older formula one or another of the components or, in the case of the integrating style to put them under holistic strategies the whole meaning more than the sum of its parts.

<sup>1</sup> Adrian Curaj, Capital intelectual, București, 2011-2012, p. 2

All these things are important by all means – some of them are useful even today –, but they are not corresponding any more to the features of the new society as well as almost none of the former concepts are not coherent with the new constructive trends bringing not only a new dimension but also a new paradigm both of them based almost exclusively on knowledge.

Without realizing the knowledge continuing to be a *modus cognoscendi*, specific for people and their communities became, *nolens, volens*, a real *modus vivendi* too. People learn how to know and know even more profoundly how to learn in order to get those cognitive performances providing them not only the conditioned existence but also the effective conditioning of their existence. Somewhere, in a very large area the ontology meets gnoseology and together bring the man closer to his own essence which depends on cognition. The human being really is knowledge. Knowledge, as I stated, more and more becomes from an effect a cause and from a cause an essential environment of growing, living, protecting the nature and making the planet more human. Only by knowledge the human being becomes really to be the measure of all things as the sophists<sup>2</sup> asserted.

These are only several of premises we start from in understanding the new type of society. They show that the times dramatically changed that the new type of society exceeds the yesterday patterns and at least in this constructive stage little by little reduces the entropic level of the human world and outlines the first expectations (not at all

optimistic) in the process of globalization. But till then there is a plenty of time. For the moment people try to understand why instead of harmony they have conflicts and instead of ideals –frustration, fears, interdependencies without precise determinations and a lot of insecurity.

Indeed, in their greatest part the firms and enterprises became more supple, smaller and more flexible and their organization culture- as an effect of the knowledge, experience and more or less long activity- passes from traditional systems of values provided by a long history to a cognitive type of culture much more supple and dynamic. It counts very much the image, the recognized quality of production, management, information and communication. The brand itself during this transitional stage is more supple, especially depends on image, cognition and certainly on the quality of products not only upon the long existence or the former legends.

The employee is not any more what he use to be. If he knows and knows what to do he is accepted. If he is not bringing something new in the fortress „to know” nor in the fortress „to know how to do”, after several cycles of production he has to look for another place of work. The firm needs people able to innovate even within the standardized areas to bring a plus of that cognition stored within the goal of the firm by giving a substance to be on one hand personalized and on the other ennobled. The market economy means stiff competition but the real winners are those who bring a plus of intelligence and innovation not only in the object to be sold but also in the processes of its production and in the management generating and co-ordinating the process of production.

The manager must equate three essential variable: knowledge generating knowledge,

<sup>2</sup> David Boucher, Paul Kelly, Mari gânditori politici, de la Socrate până astăzi, Editura ALL, 2008, p. 26

the only resource which is not degradable, financial and material resources and the market. But the only one bringing cognitive surplus value is obviously the human resource. The old schools of economic thought use to have in view this priority but within a closed register, in a limited to the firm area. This priority ment in the greatest part to take care of people, better salaries, incentives, better inter-human relations, to optimize the team composition, to notice and stimulate compatibilities, to motivate, etc. All of them ways of stimulating or accelerating the existing stored potential. This was equal to irrational exploitation some time up to the exhaustion of the human resources. The economy on the basis of knowledge as an economic engine of the knowledge society is not any more based upon such management. Even if it was sometime performant, in the new circumstances such a management leads to a rapid exhaustion of the human resource, to the need to frequently replace it with new forces. It seems to be suitable. All over the world an excess of labour exists and that's why the firms (especially those in the developed countries) have a plenty of labour and of brains. On the contrary for ones of them appears a competition. The powerful firms especially those in the countries with long traditions in performant economy and not only take care of providing irresistible attractions for brains all over the world by a very favourable salarial, social, cultural, etc offer. Especially in the American companies, research units, work many specialists arrived here from all meridians.

These brains bring a plus of knowledge and innovation that makes the existing huge difference among firms, companies, etc in the world. But such practices will lead again to a huge economic and technological polarization, poor countries become even more poor and the rich countries even more rich.

### **The new knowledge amplifier and its effects**

The big break took place when the network appeared. In few years a big part of the humankind but especially the zones loaded with IT and high technology benefited from the access to information in a real time which has changed the world. Suddenly the zones with resources, markets, the main energetic resources, transportation, the big geo-economic platforms, etc have been positioned under the magnifying glass of the big powers consumers of energy and creators of technology. In few years practically there is no unsupervised place on the planet day by day, hour by hour from the stellite, from all kind of sensors carriers and other technical and human catchers of data and information. Seemingly this revolution did not produce victims but on the contrary it offered to the humankind the chance to see the world show, to communicate, to get video information in real time and to be ..supervised also in real time. The enormous high tide of information and data amplified by the enormous power of the network suffocated for a while the cognitive systems and algorithms but immediately the advantage became huge. The data bases, the communication by Internet and by all kind of other nets appeared so that nobody could make the so necessary distinction between net managers, the big beneficiary of the net (according their capabilities to administrate) and the rest of the world. The rest of the world came immediately out at sight of the world with enough complicated effects. The interested parts, by all possible means, from the financial to military from the image to the cognitive ones hit the vulnerable points and realized equally quickly the devices of a possible world cognitive system. The

order based on states couldn't prevent from this cognitive offensive nor from preemptive or post factum preventive actions and reactions. Suddenly the planet became visible in all its spectrum, controllable, easy to manipulate and obviously vulnerable. The big powers went on with armament in the top ten of the military powers counts the former ones (USA, Russia, China, India, England, Turkey, France, South Korea, Japan and Germany), as a sign that the effects of the World War Two passed, the emergent economies sprang, and the surprised economic units tried to get out from self-isolation and opened up to the market.

As I asserted above the management of the firms understood that without going out from his ideal of integrality it is absolutely needed to re-centre its efforts on recrudescence of cognition by re-connecting with the big universities and putting in work together new policies and strategies of cognition, innovation and technology transfer through the labour market or a direct relation. The process is still developing and improving itself but the problems are extremely difficult and pressing as long as the firm in order to survive and possibly to thrive within

the knowledge society and within the economy based on knowledge needs an intense co-operation with an university head, an academician and the university in order to be useful and to renew its brand needs the experience, practices and dynamics of the firm. University brings to the firm that cognitive support making possible the common generation for the firm benefit the plus of innovative and creative intelligence meant to bring managerial and productive performance on the market and in production.

### Conclusion

Without outsourcing the cognitive processes generating performance the firm in order to survive within the cognitive revolution must join its forces with the University and the University if intends to become performant in the education must connect its forces, means and knowledge with the firm, the net supports and the networks themselves generating a new type of management that we shall name complex network management, useful connection management or the relational University-firm management.

---

### REFERENCES:

1. **Adrian Curaj**, *Capital intelectual*, București, 2011-2012, <http://www.slideshare.net/andreeacalin77/capital-intelectual-15384059>
2. **David Boucher, Paul Kelly**, *Mari gânditori politici, de la Socrate până astăzi*, Editura ALL, 2008
3. **Gheorghe Crețoiu, Viorel Cornescu, Ion Bucur**, *Economie*, Ed. III, Editura C.H. Beck, 2011
4. **Viorel Cornescu, Elena Druică**, *Întreprindere, Management, Profit*, Editura All, Beck
5. **Daniel Andriessen**, *Making Sense of Intellectual Capital: Designing a Method for the Valuation of Intangibles*, Routledge, New York, 2011
6. **Michel Barot**, *Les fondement de la connaissance économique*, 2010

# Leadership vs. Management

## From Competitive Intelligence Perspective

~ Ph. D. **Valeriu Ivan** (University of Bucharest, Faculty of Business and Administration, Romania)

E-mail: [valeriu.ivan@faa.ro](mailto:valeriu.ivan@faa.ro)

**Abstract:** This paper brings into attention a less studied topic: the analysis and intelligence production specificity – as competitive intelligence process stage – given that the beneficiary is practicing classic management or leadership. The contextualization of the issue imposed us to separate the two concepts from the current debates perspective regarding the relationship between management and leadership. We did this in respect of the competition and competitiveness. Although that report is not clearly and definitively established, we tried to identify the main characteristics and essential differences in the approach of the actionable information needs. The obtained results were correlated with the competitive intelligence cycle stages, in order to identify the approach similarities and differences for each stage. Subsequently, we suggested models of possible approaches in the information analysis and intelligence production activity in order for the resulted informational product to fulfil their role as decision support in competitiveness augmenting.

**Key words:** competitive intelligence, competitiveness, management, leadership, intelligence analysis

**JEL Classification:** L25



## Introduction

Most of the ones that lead private economic agents<sup>1</sup> permanently look at competition with concern. They know that it is everywhere and there is no way to avoid it. They also know that if they want to survive they have to cope with it, and if they want to perform they need to dominate it. Also, they understand that the advantages mix that make an economic agent competitive is hard or impossible to replicate. The solution seems to be the identification of their own available competitive advantages, as well as a song made up of musical notes and the correct interpretation of this "song". Thus, how the competition is known and understood defines the choices regarding the way in which the economic agent is positioning itself in relation with other competitors.

For managers<sup>2</sup>, the battle to be the best is the competition essence itself. It is a conception supported by numerous analogies, taken mainly from the military or sport areas. Renowned managers, management papers authors, but also many leaders who are trying to inspire their people, are drawn by these analogies because they are unique and easy to remember. They contain emotion and drama, giving "face" to the business environment competition. However, analogies can easily mislead us, managing to highlight the similarities and to blur the differences.

<sup>1</sup> By „economic agent“, for the purpose of this paper, we mean companies, firms and other private entities that act on a market segment in order to make profit.

<sup>2</sup> By "manager", for the purpose of this paper, we understand the definition of the New Romanian Language Dictionary: "person who has the required knowledge and skills in order to profitably capitalize the human, financial and material resources of a company, organization etc.".

Often, taking over the military paradigm, as a synonymous for "competition" it is used "combat". In war, however, there is only one winner. To win means to disable or annihilate your enemy. In business you can win without destroying your competition, the coexistence of winners having as source rather the satisfaction of close, but not similar, needs, others than the "destruction" of rivals.

The analogies taken from sports also produce confusion. It is true that athletes compete to get the best performances, but this happens on a single field, with a single set of rules and there can only be one winner. Business competition is complex, open and multidimensional. It is complex by content and by its permanent amending, open by accepting new competitors "in the game" during the game and multidimensional through the identified and unidentified levels on which confrontation occurs. The dimensions contain a wide and still vaguely determined range of components that can ensure success. Within an industry there can be many competitions, usually related to the group of customers to be served and their needs to be fulfilled.

A misconception is always difficult to abandon and it is even harder for those who do not realize they have it. Competition nature is considered self-evident and, in principle, the approach reduces to "being the best", but we can easily overturn this approach by trying to answer questions like: is there a product or service that can be "the best" and overshadow everything else?

The purpose of competition from the management perspective is not, ultimately, to defeat your opponent and neither is winning a client. The purpose of the management is profit, and the competition for profit



is a confrontation involving many players – not necessarily rivals – the stake being a bigger “piece” of what can produce profit in a specific industry. It is known that economic agents compete with rivals for profit. However, as shown by Porter (2008), the equation also involves the clients – who always prefer to pay less and get more – the suppliers – who prefer to charge more for their products – the manufacturers of similar (not identical) products – that might be able to produce goods that will include the functions of our products.

Managing relationships with those who aim the created profit by an industry means decisions. The decision of the economic agent, seen from the perspective brought by Mitchell, Agle and Wood (1997), means prioritizing the stakeholders’ legitimate needs satisfaction, as a result of the value analysis for three indicators: power – held by the one owning the means to impose itself in a relationship; legitimacy – owned by the one invoking or being able to invoke a socially accepted and expected circumstance determining a certain behaviour; emergency – the claim to which the association of the time factor is important or critical. The model through which an interested party fits with the increased values for one or more of the above indicators seems rational and somehow quantitative, but a closer look reveals its intrinsic subjectivity. The three indicators are directly related to evaluator’s perception and may have different values for different people. In addition, these indicators can be properly appreciated only if accurate and appropriate information is accessible, offering the possibility of close to reality assessments. The Mitchell, Agle and Wood model – of decision-making based on the three criteria

applied to the stakeholders – reveal the importance of knowing the environment in which the economic agent works, the industry and its profit potential, as well as the market actors: partners or rivals.

Decisions are good and justified when taken under minimal uncertainty conditions. Competitive intelligence is a tool that helps managers in this endeavour, appropriate and qualitative information being an important competitive advantage if used correctly.

### Competitiveness

The company is an open system for the environment; therefore the decision-making efficiency is subject to complex knowledge not only of internal realities, but also of the economic environment in which it operates. Environmental analysis involves a major trends study in order to determine the external opportunities and threats, to identify and assess key success factors.

Environmental approach, in an economic logic, requires knowledge of consumer needs and demand trends, of potential developments in the economic agent’s sector, of actual and potential competition. To assess the competitors’ and industry’s strength, we resort to external information: statistical yearbooks, media, competitors’ balance sheets and profit and loss accounts, market research developed by specialized institutions, information from various central agencies (Popescu, 2012:67).

Circumscribed to the general economic environment, the competitive environment is difficult to define from the operational, palpable perspective. Essentially, it includes organizational structures (administrative, of demand, of supply, etc.), institutional

structures (norms, rules), instruments (fiscal, monetary, budgetary), legal norms (related to property, competitions, entry barriers) and other market functioning factors. The competitive environment is a social creation – in the sense that it is a social convention, accepted by the participants –, has a concrete determination – is the result of the competing factors, public policies, customs and other cultural factors intersection – and a historical evolution. It is the result of internal and national actions but also of bilateral and multilateral arrangements.

In a fair competitive environment, through its levers and structures, the discriminations and abuses between market participants are eliminated, the fairness of the market functions is ensured and the consumers are protected, their state being undamaged by bidders unilateral actions. An economic agent's competitiveness can be topic of discussion only in the case of a fair competitive environment which, in addition to ensuring equality before the law, enables and supports the community's social needs. Thus, the competitive environment creation and evolution involves (Gavrilă & Gavrilă, 2008: 106):

- Clear, transparent and monitored rules, followed by operative sanctions of their breach;
- Public-private cooperation, on transparency principles, coupled with the international conventions the state is a part of;
- Permanent cooperation and collaboration with other states, primarily those from the community space;
- Provision of public goods needed by the market (education, health, scientific research, information, etc.) and by those in need (elderly, sick, poor).

Economic competitiveness can be defined as the ability of an economic agent, correctly operating in a competitive environment, to combine the factors of production (classical and new factors) more efficiently than its competitors. Thus, competitiveness expresses a complex and changing state with many sources – in fact, factors of production combinations – and multiple expression ways. The common element is economic success.

By studying the supply and consumption structure, it can be noticed that there are a number of companies able to impose on the market for long periods (e.g. Coca Cola, IBM, Mercedes etc.). They are competitive for relatively long periods of time because they manage to create and maintain competitive advantages that ensure the success perpetuation. If a company has a real competitive advantage it means that, compared with its rivals, is either operating with lower costs, successfully obtaining better prices or both. These are the only ways through which a company can exceed the performance of another.

### Competitive Intelligence (CI)

#### - Concept

The need to anticipate is a deep human need. Since ancient times, people tried, with the help of the tools known at that time, to know the future. The decrease of uncertainty creates comfort and, why not, if deftly managed it can bring profit. The information on predicting competition's movement was, is, and, most likely, will be treasured by those who perform well in the economy.

CI represents a business perspective approach increasingly widespread. It is

practiced for many years in countries such as Japan, Germany, UK, USA and China<sup>3</sup>. It is not just a fashionable phenomenon, but, as the concept of “quality control” was in the 80s, it is viewed by many with reluctance. This reluctance deprives the prior knowledge of the business environment and increases the risk for their competitiveness. In a rapidly globalizing economy, information collection and analysis ensures a durable competitive advantage<sup>4</sup>.

The need for intelligence has emerged as a result of continuous contraction of the decisional process allocated time interval and of the need of alternative courses of action, based on scenarios as close to reality as possible. Knowing the business environment and the analysis, in real time, of its implications, requires the implementation of complex and fast correlations. Regarded to as a competitiveness increase tool, CI contributes to the continuous improvement of products, services and solutions offered by companies. On the other hand, CI plays an important role in the innovation level enhancing.

Opportunities for obtaining the advantage on competitors are created if it is known how and where the opponent will improve every business activity they perform, when will a new product be launched or a new technology used by adversaries, before this

<sup>3</sup> An interesting material regarding the development of Competitive Intelligence in China was published by Xinzhou Xie and Xuehui Jin (Science and Technology Academy Beijing), in 2011: *The Evolution of Competitive Intelligence in China*, Journal of Intelligence Studies in Business 1, 2011, p.61-75, accessible at: <https://ojs.hh.se/index.php/JISIB/article/viewFile/15/pdf> (accessed on 4.04.2015).

<sup>4</sup> Guide pratique pour les PME, Cercle d'Intelligence Economique du MEDEF, Paris, 2006, p.5.

information becomes public. What is the role and place of information in formulating a firm's competitive strategy? How can companies develop those specific skills in order to turn information into strategic resource and to put in place a mechanism of continuous management of one of the most important assets – information? Answers to these questions can be given by a specific information management, based on procedures, tools, methodologies and tested skills – in order words through a CI process.

CI professionals talk about the creation of capabilities and skills in the sense that this tool is already seen as a capital itself, an intangible asset, and not as a simple consulting or training tool. Its role is to create added value to the business processes and functions. Thus, the intelligence acts as a key element in the strategy design, by reducing uncertainty still in the phase of collecting and validating the information that serves as input in its formulation. CI provides, thus, a realistic foundation and dynamic decision-making processes at operational, tactical and strategic level.

According to Strategic and Competitive Intelligence Professionals<sup>5</sup> (SCIP), CI is the “ethical and moral method of collection, analysis and distribution of information regarding the competitive environment, the opportunities, weaknesses and intentions of the business competitors”. Education in CI improves the ability of managers to face the risks, to resolve competition threats, to anticipate market opportunities, to gain or sustain a competitive advantage. Sharp (2009:214) says that CI “is the opposite of bad news. It is the best information that you may can

<sup>5</sup> <http://www.scip.org/> (restricted access – accessed on 24.04.2014).

have, even if it fits or not with the company's direction, because it represents reality and, therefore, offers opportunities".

The main reasons the company's management turns to CI are:

- The avoidance of unnecessary expenses – by having a concrete perspective on business, the CI team provides a competitor initiatives image so that their expected activities don't have the desired effect on the market and may be cancelled or offset in real time. For example, a company that provides financial services is preparing for a major upgrade of its solutions for the Customer Relationship Management (CRM) market. The CI department identifies an important competitor on the market who was preparing to launch a similar service, superior, however, regarding the applications and simplicity of use. Based on the provided intelligence, the company takes the decision to postpone the launch of its own product in order to be able to provide one with similar characteristics, while avoiding unnecessary expenses and the loss of prospective customers;

- Revenue increase – by anticipating possible movements of competitors, the CI team can help your company develop those market efficiency increase strategies. For example, The CI team from Merck pharmaceutical company has developed a response strategy for the competition's expected product launches, which, over the course of about two years, has enabled the company to anticipate and outperform the competition;

- The maximization of investment efficiency – sometimes CI is an important decision support in order to improve the allocation of company resources. CI support regarding the implementation of marketing strategies on medium and long term is the

one related to the launch of new products. As an example of this, a benchmarking study, conducted in 24 aviation companies in the US in the period 2007-2009, revealed that CI played a major role in helping one of the companies to achieve a remarkable efficiency of approx. 80% of its investment, while the industry average was of only 18%. The major contribution of the CI team was to determine which investments not to do. The study revealed that there is a direct relationship between the "success rate" and the use of CI methods and tools in the decision-making process of resource allocation.

- Added value – in 2002, Pricewaterhouse Coopers published "Trendsetter Barometer", which revealed that those who have given the information about competitors the values "very important" or "crucial", achieved income growth of over 14% and, respectively, 11.8%, versus all others, which is a difference of about 20%.

IC is, mainly, focused on the process and means of information collection, analysis and dissemination, enabling recipients to take effective decisions and, most often, in real time. These decisions are strategic (long-term oriented), operational or tactic (present-oriented and with a short-term horizon action), based on the hierarchy occupied by the beneficiary in the organization. Thus, the intelligence acts as a key element in the strategy development, providing a realistic foundation and dynamic of the decision-making processes (Cook and Cook, 2000).

Fuld (1995: 26) shows that among the main objectives of the CI, we find the acknowledgement of the role of early warnings and major risk potential surprises prevention on the market share, reputation, turnover and profitability in the medium and long term. The analyses aim at identifying potential threats posed by opposition's plans to

take over larger segments of the market or to create alliances with other opponents.

Competition and competitive environment analysis is essentially a process developed in order to provide actionable information that decision makers can use to improve business performances. For example, a detailed analysis on the opponent's knowledge (institutional knowledge, management experience and acting ways), on its investment decisions and on the effectiveness with which they are integrated in the company's already existing activities will reveal some important parts regarding the opponent's possibilities and directions of its further development.

### **Management and competitive intelligence**

To make decisions, to lead people and processes, to analyse stakeholders' needs, to prioritize them, all are specific actions for an economic agent's management. Whether we understand that management involves leadership in the management and coordination components or that leadership uses management as a tool for substructures, the debates on this subject are present at the intersection between the academic and the business environment.

We can also consider a broad sense of the term, when it comes to leading or coordinating an activity, or a narrow sense, when we refer to the sequence of the planning, organizing, coordinating, training/motivating and control functions, an update of the H. Fayol proposed functions from 1916 (planning, organizing, command, coordination and control).

The term "management" is defined as

"the activity or the art of leading; the company organization and management science" (Neologisms dictionary, 1978: 650). Oxford Advanced Learner's Dictionary defines management as the decision-making and their control in a business or similar organization (1999: 712), and in Larousse it is presented as a combination of company's orientation, organization and management techniques (2001: 620). The verb "to manage", from which the English word "management" derives, is defined in the Oxford Advanced Learner's Dictionary of current English as "to be responsible for or to take decisions in a business or in an organization, or in a part of a business or an organization" (1999: 712), while Larousse defines the verb as "practicing management; organizing, conducting a business, a service or training athletes" (2001: 620).

The given definitions of management emphasize, more or less, the scientific content or the personal skills – assessed by some authors as art – but some common elements can be highlighted:

- It is a continuous activity, specific to everyday life of the individuals and also of the organizations;
- It involves subsuming individual or organizational activities to proposed goals, subdivided in organizational or individual goals;
- It involves the consumption of certain resources of the individual and/or organization;
- It involves planning the actions to be carried out in order to achieve the proposed result, organizing resources in this regard, leading (also known as "coordination" or "motivation and training") the involved human resources and controlling the

achievement degree of what was planned (Ionescu, 2007: 9).

The relevant aspects manifest on several decision levels of an economic agent, conventionally being reduced to three: top, middle and lower (first line) management. Top-management includes, in one approach, general managers (general manager and deputy managers) and departmental managers (financial manager, marketing manager, human resources manager, technical manager etc.), and, in another approach, the boards of directors and shareholders' meetings are added. We support the second approach, the boards of directors and shareholders' meetings being the main entities that generate strategic decisions, decisions that characterize this level (business plan, budget, strategies). Middle-management includes, in big corporations, regional managers, national and executive managers who are below the national departmental managers. Decisions made at this level are tactical and aim at the strategic decisions implementation and operationalization. First line management is practiced by the executive managers that directly lead the production or services processes and generate decisions implied by the economic agent's current activity. CI is addressed primarily to top-management and aims particularly at strategic decisions. Knowing the competitive environment and the competition is necessary at this level and less required at subordinated levels. Moreover, the uncontrolled spread may induce risks for their own activity.

The limited perspective on management assigns it five functions which, in principle are accessed sequentially.

Planning ensures goal setting and needed resources identification in order to achieve

them, by following certain steps, generally identified as: situation analysis, stakeholders identification, goals and objectives identification, their prioritization, alternative strategies identifications in respect to the available resources and impact evaluation on stakeholders, outcomes estimation, implementation and evaluation phasing, planning presentation. This planning achievement way is mainly addressed for the strategic decision level, the involvement of more people being obvious. Even if the responsibility lies on one person, the planning process is complex and decisive for the success of managerial act. For middle-management and front line management, the planning process is usually less complex, large firms adopting procedures that involved managers must follow. In terms of restrictions, if for top-management the limits are given by law and, eventually, by best practices, at other levels additional limitations occur through internal regulations and top-management's planning, which reduces the space in which managers can be creative. The objectives set at this level are characterized by a high degree of traceability and measurability. In small firms, the planning stages are, most often, circumvented or taken lightly. The lack of a large and strongly specialized staff determines the existing management to substitute, with more or less success, the role of specialists. In a large extent, this is the level at which a visionary manager can excel and represent an important competitive advantage. In terms of CI, planning is the main "beneficiary", the obtained information being needed in order to reduce uncertainty with which decisions with great impact on the economic agent's future are made. Through CI, the management can obtain information on: the movement



made by competition in the market; competition's strategies; development capacity and resources; new competitors' emergence in the market; the launch of new products and services by competitors; customer loyalty; market developments and trends; technology's development trends; etc.

Organization is the management function through which the needed resources in order to achieve the proposed objectives are identified, classified and allocated. The main resources of an organization are the material, financial and human ones and organization involves obtaining an optimum between resources consumption and results. Organization is done at the top-management level periodically, generally annually, with the help of tools such as income and expenditure budget and organization chart. From the mentioned documents, middle-management develops operating rules of some departments, and front-line management makes job descriptions for employees. This is the classic organization for economic agents that have a repetitive activity with small variations, but there also are atypical formulas with "variable geometry" dealt by economic agents that approach unique projects or very small quantities. In the latter case, the budgets are done for each project, and human resources contribution is also specific. CI can contribute to this function by adding intelligence, as a stand-alone resource or to augment other resources. For the development of the revenue and expenditure budget, information about the market or competitors, about technological change and price trends is important. This information can be produced by CI. In terms of personnel, CI can signal the shortage or surplus of specialists in the field of interest, which can give significant competitive

advantages to the economic agent.

Coordination is achieved by harmonizing the human resources actions with the undertaken activities, all in consonance with the objectives and limits assumed by the economic agent. Coordination may also include the management of human resources in order to create synergies in existing or future teams and to form and maintain the human capital at a high level. For all these activities feedback loops are needed, in order to monitor the outputs from the economic agent's system (financial, decisional, informational, etc.) and to permanently correlate internal processes' parameters. A good coordination requires clear and stable communication procedures within the informational system and a good interface of this system with the environment in which the economic agent works. CI role at this level can be to ensure this interface's operation by properly "translating" the environment signals in order for them to be easily processed by the internal informational system.

Training and motivation aim at stimulating the staff to be efficient, the manager constantly trying to reconcile the economic agent's interests with the staff's. People have good results in the activity when they are heavily involved in their work and eager to achieve certain goals, whether pecuniary, professional or self-realization. If employees are motivated to remain in the organization, to meet organizational requirements set in the job description at the highest level of effectiveness and try to improve their work, the organization will be effective in a greater extent compared to those in which performance is below standard and nobody is trying to innovate and to find ways to increase performance level. CI role for this



management function is to identify the most efficient workers in a field, to elaborate their profile and to suggest ways and opportunities to bring them in the team. Mapping the human resources potential of the business – we are referring to consecrated specialists and managers – might be useful for the top-management in maintaining or changing human resources policies and in reshaping the business as a whole.

Control involves the tracking process set regarding the way certain activities or the whole management processes are conducted in relation with the established objectives and deadlines. Moreover, it also refers to the required deviations corrective actions. For this purpose, the control is mainly preventive, but can also have a punitive character. At the same time, the quality insurance of products or services is in a direct relation with the proper control function insurance. Control occurs on three temporal levels: strategic, tactical and operational. Again, CI can support the strategic level, offering identification solutions for the analysed issues, in relation with other competitors in the industry. Also, it can provide support for the internal informational system functioning evaluation and for the informational security breaches identification.

The complex tasks assumed by an effective management can receive significant support from Competitive Intelligence. Actionable, appropriate, verified and not infrequently predictive information diminishes uncertainty that may affect the decision and can significantly contribute to the development of a management act. It is noteworthy that CI is addressed mainly to top-management and can be accessed by all management functions. The adaptation for each activity is

performed mainly by adjusting the used information analysis methods and techniques, and also by creating intelligence products that closely meet the manager's requirements and skills.

### **Leadership and competitive intelligence**

Leadership is a desirable attribute organizations request from their managers. Leaders have self-confidence and generate trust to others. Around the leader, employees are concerned about their work and find the interesting part of it. Leadership means the capacity to influence people's behaviour, it concerns using non-coercive means in order to obtain a coerced participation, aiming at the achievement of objectives.

The classic question if leaders are made or born still concerns many researchers. Is it a charisma or something that can be taught? The answer to this question varies. Although it is unexceptionable that leading isn't easy, leaders should have some essential attributes such as vision, integrity, trust, selflessness, commitment, creative ability, toughness, communication ability, risk taking and visibility (Capowski, 1994: 12).

The term „leadership“ entered the current terminology as one of the elements considered necessary for success in business. Most of the specialists define leadership as the process of social influence in which the leader determines subordinates willingly participation in a joint effort to achieve objectives. The following definitions support this summary:

- Leadership may be considered as the process (act) of influencing the activities of an organized group in its efforts toward goal

setting and goal achievement. (Stogdill, 1950: 3)

- Leadership is the behaviour of an individual when he is directing the activities of a group toward a shared goal. (Hemphill & Coons, 1957: 7)

- Leadership is interpersonal influence, exercised in a situation, and directed, through the communication process, toward the attainment of a specified goal or goals. (Tannenbaum, Weschler & Massarik, 1961: 24)

- Leadership is a process of influence between a leader and those who are followers. (Hollander, 1978: 1)

- Leadership is the process of influencing the activities of an organized group toward goal achievement. (Rauch & Behling, 1984: 46)

- Leadership is the process of influencing the activities of an individual or a group in efforts toward goal achievement in a given situation. (Hersey & Blanchard, 1988: 86)

- Leadership is a development of a clear and complete system of expectations in order to identify, evoke and use the strengths of all resources in the organization the most important of which is people. (Batten, 1989: 35)

- Leadership is an interaction between two or more members of a group that often involves a structuring or restructuring of the situation and the perceptions and expectations of members...Leadership occurs when one group member modifies the motivation or competencies of others in the group. Any member of the group can exhibit some amount of leadership... (Bass, 1990: 19-20)

- Leadership is a process of giving purpose (meaningful direction) to collective effort, and causing willing effort to be

expended to achieve purpose. (Jacobs & Jaques, 1990: 281)

- Leadership is that process in which one person sets the purpose or direction for one or more other persons and gets them to move along together with him or her and with each other in that direction with competence and full commitment. (Jaques & Clement, 1994: 4)

- Leadership is the art of mobilizing others to want to struggle for the shared aspirations. (Kouzes & Posner, 1995: 30)

- The leader acts toward supporting a group to achieve its objectives, using everyone's maximum capacity and skills. He is not content to encourage the group, he is the commander who facilitates the process and trains the group in achieving organizational objectives. He is like a conductor, whose function is to create coordinated sounds and a suitable tempo by integrating the orchestra members. The orchestra will react depending on its conductor's lead. (Vagu & Stegaroiu, 2006: 7)

- Leadership is a process of social influence, which maximizes the efforts of others, towards the achievement of a goal (Kruse, 2013)

At the same time, the clarifications made by Kruse (2013) regarding leadership are also interesting:

- „Leadership has nothing to do with seniority or one's position in the hierarchy of a company. Too many talks about a company's leadership referring to the senior most executives in the organization. They are just that, senior executives. Leadership doesn't automatically happen when you reach a certain pay grade. Hopefully you find it there, but there are no guarantees;

- Leadership has nothing to do with titles. Similar to the point above, just because you have a C-level title, doesn't automatically make you a "leader." In all of my talks I stress the fact that you don't need a title to lead. In fact, you can be a leader in your place of worship, your neighbourhood, in your family, all without having a title;

- Leadership has nothing to do with personal attributes. Say the word "leader" and most people think of a domineering, take-charge charismatic individual. We often think of icons from history like General Patton or President Lincoln. But leadership isn't an adjective. We don't need extroverted charismatic traits to practice leadership. And those with charisma don't automatically lead;

- Leadership isn't management. This is the big one. Leadership and management are not synonymous. You have 15 people in your down line and P&L responsibility? Good for you, hopefully you are a good manager. Good management is needed. Managers need to plan, measure, monitor, coordinate, solve, hire, fire, and so many other things. Typically, managers manage things. Leaders lead people".

Some practitioners believe that "manager" and "leader" are synonymous terms and use them alternately, but "leadership" and "management" actually define distinct capabilities. Leadership is, in essence, the ability to cause people to operate. Management, on the other hand, is the administration of available resources in order to achieve organizational goals (through planning, organization, coordination, motivation/training and control). Therefore, a person can be an effective manager without having the capabilities of

a leader, and a person who is heard and inspires other employees may be an ineffective manager. But developing good business direction isn't magic. It is a tough, sometimes exhausting process of gathering and analysing information. People who articulate such visions aren't magicians but broad-based strategic thinkers who are willing to take risks (Kotter, 2001).

Regardless of the approached type of leadership<sup>6</sup>, the leader must have informational control regarding the environment his team is working into. At the top management level, this means a permanent report of competitor's performances and the analysis of innovative means through which the best results are achieved. CI can provide analytical and predictive information and can simplify decision-making processes by reducing uncertainty. The ability of the leader to guide its team towards success can be consistently supported by the information that will allow firm and efficient actions. CI can create the needed context for the leader to move from reactive actions to proactive ones, to take the initiative and, where possible, to dictate the rules.

If in the case of the management, the informational products are mainly focused on decision support content in the fulfilment of planned tasks, in the case of leadership, intelligence can be more creative, offering alternatives to the economic agent's current development direction. Scenario-based predictive analysis can be a support in this regard and can also suggest potential winning directions.

<sup>6</sup> See Paul Marinescu (2007), Management de Proiect, course, p.124-128.

## Conclusions

Most companies are more managed and less lead. This doesn't necessarily happen because of a change resistance, but rather because leadership requires a dose of risk. The success dependence on the personal qualities of the one that leads is clearly higher for leadership. Under these conditions, an unfortunate choice or relatively frequent changes in the team will surely have implications on the performance. However, with the increase in the general level of knowledge and of employees' professionalism, they are increasingly less likely to react positively to the classical methods of the management. Personal involvement and additional effort obtained from educated people can significantly improve the results of a team. Leadership manages to create synergies. Certainly, a well-balanced organization should have a mix of leaders and managers to succeed, and in fact what they really need is a few great leaders and many first-class managers (Kotterman, 2006: 15).

In order to characterize a complex situation, such as an economic agent's position on a specific market, multisource and multi-criteria analyses, which will include

quantitative and qualitative analyses, are required. If in the early times simple qualitative analysis methods, such as synthesis and case study, were most frequently used, now structured methods and techniques are predominantly used, and the trend is towards quantifications that allow computer data analysis and its storage in a form that can be used easily in time.

In the case of management, the information provided by CI is important in the planning phase, because an incorrect analysis of the business environment and of the competitors would generate plans and strategies containing the source of failure. In this respect, the analyses cover a long period in the future and retain only those elements characterized by reduced uncertainty in evolution. Subsequently, monitoring the process associated items can allow plan adjustments, but the adjustment margins can't be high.

In the case of leadership, updated information enables important reconfigurations, even during the conduct of business processes. With greater bureaucratic ease, the leadership driven system can permanently adapt to market chances, given that it has quality and opportune information.

---

## REFERENCES:

1. Bass, B. M. (1990), *Bass and Stogdill's handbook of leadership: Theory, research and managerial applications*, New York: Free Press.
2. Batten, J. D. (1989). *Tough-minded leadership*, New York: AMACOM.
3. Bennis W. & Nanus B. (2000), *Liderii. Strategii pentru preluarea conducerii. Cele patru secrete ale artei de a conduce*, Editura Business Tech International Press Publishing, Bucharest.
4. Capowski, G. (1994), *Anatomy of a leader: where are the leader of tomorrow?*, Management Review, Vol. 83 Issue 3, pp.10-18.
5. Cornescu, V. & Marinescu, P. & Curteanu, D. & Toma, S. (2003), *Management*, University of Bucharest Publishing, Bucharest.

6. **Fuld, Leonard** (1995), *The New Competitor Intelligence*, John Wiley and Sons.
7. **Gavrilă, I. & Gavrilă, T.** (2008), *Competitivitate și mediu concurențial*, Economics Publishing, Bucharest.
8. **Hemphill, J. K., & Coons, A. E.** (1957), *Leader behavior: Its description and measurement*, Columbus, Ohio: Bureau of Business Research, Ohio State University, pp. 6-38.
9. **Hersey, P., & Blanchard, K.** (1988), *Management of organizational behaviour*, Englewood Cliffs, New Jersey: Prentice Hall.
10. **Ionescu G. G. & Cazan E.** (2007), *Management*, West University Publishing, Timișoara.
11. **Jacobs, T. O., & Jaques, E.** (1990), *Measures of leadership*, West Orange, New Jersey: Leadership Library of America, pp. 281-295.
12. **Jaques, E., & Clement, S. D.** (1994), *Executive leadership: a practical guide to managing complexity*, Cambridge, MA: Carson-Hall.
13. **Kouzes, J. M., & Posner, B. Z.** (1995), *The leadership challenge*, San Francisco: Jossey-Bass.
14. **Kotter, J.** (2001), *What Leaders Really Do*, Harvard Business Review, XII, available at <https://hbr.org/2001/12/what-leaders-really-do> (accessed on 23.03.2015)
15. **Kotterman, J.** (2006), *Leadership vs Management: What's the difference?*, Journal for Quality & Participation, Vol. 29 Issue 2, pp.13-17
16. **Kruse, K.** (2003), *What is leadership?*, In Forbes, online version - <http://www.forbes.com/sites/kevinkruse/2013/04/09/what-is-leadership/> (accessed on 23.03.2015)
17. **Mitchell K. & al** (1997), *Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts*, The Academy of Management Review, Vol. 22, No. 4 (Oct.), pp. 853-886, available at [http://www.jstor.org/stable/259247?origin=JSTOR-pdf&seq=1#page\\_scan\\_tab\\_contents](http://www.jstor.org/stable/259247?origin=JSTOR-pdf&seq=1#page_scan_tab_contents) (accessed on 25.03.2015)
18. **P. Marinescu, P.** (coord.) (2006), *Team work management*, Ed. Universității din București, București.
19. **Popescu, I. et al** (2012), *Probleme fundamentale ale economiei contemporane*, Economical Theory, Moldova Science Academy Publishing, Chișinău,
20. **Porter M.** (2008), *The Five Competitive Forces That Shape Strategy*, Harvard Business Review, January, available at <http://www.exed.hbs.edu/assets/documents/hbr-shape-strategy.pdf> (accessed on 25.03.2015)
21. **Rauch, C. F., & Behling, O.** (1984), *Leaders and managers: International perspectives on managerial behavior and leadership*, New York: Pergamon Press, pp. 45-62.
22. **Sharp, Seena** (2009), *Competitive Intelligence Advantage*, John Wiley & Sons, Inc., Hoboken, New Jersey.
23. **Stogdill, R. M.** (1950), *Leadership, membership and organization*, Psychological bulletin, 47, pp. 1-14.
24. **Tannenbaum, R., Weschler, I. R., & Massarik, F.** (1961), *Leadership and organization*, New York: McGraw-Hill.
25. **Vagu P. & Stegaroiu I.** (2006), *Lideriatul. De la teorie la practică*, Bibliotheca Publishing, Târgoviște
26. *Oxford Advanced Learner's Dictionary of current English*, Fifth edition, Oxford University Press, England, 1999
27. *Dicționar de neologisme*, RSR Academy Publishing, Bucharest, 1978
28. *Le petit Larousse*, Larousse, Paris, 2001

# Leadership and New Technologies. New Security Issues for Management of Internet Connectivity and Remote Control in Automotive Industry

~ Ph. D. **Cosmin Cătălin Olteanu** (*University of Bucharest, Faculty of Business and Administration, Romania*)

E-mail: [contact@olteanucosmin.ro](mailto:contact@olteanucosmin.ro)

**Abstract:** *The main purpose of the paper is to illustrate the importance of implementing new security policies for infotainment systems in automotive industry. A car is full of technology and is easier today to control car systems through an internet connection linked to car system infotainment. This is how it is possible to gain control of critical car systems. More than 84% of users doesn't even know the risk of remote control of the car in the presence of Internet connection.*

**Key words:** *car infotainment, security of car systems, remote control of car systems*

The automotive industry develops more and more advanced systems, sensors and actuators for cars. The sensors and actuators can communicate with car computers and their parameters can be changed in order to be more efficient.

In the modern cars there are a lot of systems, called infotainment where you can

set or view heat, air conditioning, fuel, parking sensors, rear camera, front radar and of course you can pair your mobile phone, you can listen to your favorite music or even see movies. Advanced systems have even Internet connection for your driving experience to be more fun or just for service stations to see what is wrong with your car.

*Fig. 1 Infotainment system of a car*



Source: [http://img.omidoo.com/sites/default/files/stock/mytouch\\_infotainment\\_system.jpg](http://img.omidoo.com/sites/default/files/stock/mytouch_infotainment_system.jpg)



Fig. 2 Infotainment of a car with autonomous systems



<http://static4.businessinsider.com/image/528a898eeab8eafb4621ed51-960/infotainment-system.png>

There is common today even to have autonomous parking system and driving ones.

If we read again all those functions you can imagine that a car with Internet connection, an infotainment linked by OBD II or other system, to car computer, an electronic parking system that means actuators to wheel, brake and acceleration and you will finally see that someone with technical abilities can identify your car and control it by Internet remote. Someone can brake or accelerate when you don't want.

If we start digging information of these systems we will find information even for developing code for making our own onboard applications.

We have infotainment systems that are based on windows or by Linux kernels.

As a test, if your car has Internet connection and deliver Wi-Fi Internet to devices

just test your system if it has a ssh active service and you can make changes even to speed restrictions.

SSH into the car and Run following two commands:

```
/jci/scripts/set_lvds_speed_restriction_config.sh disable
```

```
/jci/scripts/set_speed_restriction_config.sh disable
```

<http://www.mazda3hacks.com/doku.php?id=hacks:disable-speed-restriction>

Or you can modify disclaimer time:

```
mount -o rw,remount /
```

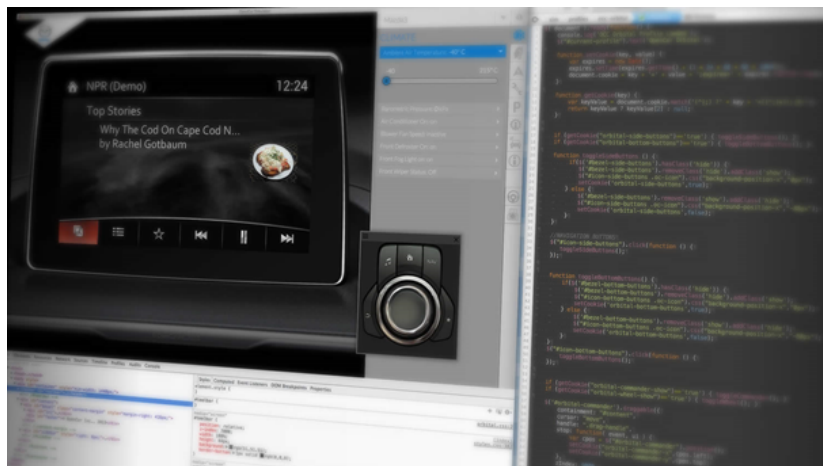
```
chmod 755 /jci/gui/apps/system/js/systemApp.js
```

```
sed -i 's/this._disclaimerTime.remaining = 3500/this._disclaimerTime.remaining = 100/g' /jci/gui/apps/system/js/systemApp.js
```

In 2014 at Consumer Electronics Show (CES), Mazda infotainment had presented a SDK Open Car software to see or to develop new applications. This showed us that a car

can suffer changes to their factory software. Some explaining procedures can be found in <http://www.mazda3hacks.com/doku.php?id=apps:opencar>

Fig. 3 Open Car SDK

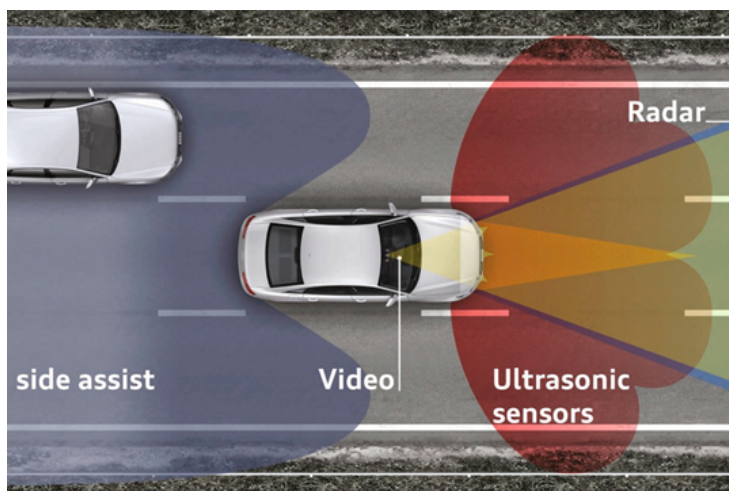


<http://www.mazda3hacks.com/doku.php?id=apps:opencar>

If you can control a system by ssh is easy to start or stop critical systems or to modify an actuator position.

An external application can be written and can be implemented to entertain the driver but no one can assure you that is the only thing it does.

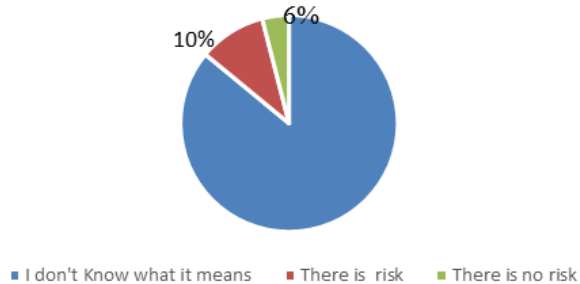
Fig. 4 Active Driving



<http://www.autotrader.com/car-tips/must-have-automotive-technology-for-2014-216735>

A survey has been applied to 50 drivers of a modern car and the results are the following:

Fig. 4 Survey of Car Infotainment Internet Security



The 84% of total users means that they even don't know that bad things can occur through Internet connection to their car.

### Conclusions

Policies for the security of infotainment systems are only on the verge of developing and more research should be made on this

issue. Remote control of car systems opens the Pandora's box to hackers and new technologies in security like firewalls should be developed. Another issue is if infotainment should be linked to car critical systems and read their status or settings. On the other hand, the driver had to know what an open Internet Connection can do to his car and to his safety.

---

### REFERENCES:

1. <http://www.autotrader.com/car-tips/must-have-automotive-technology-for-2014-216735>
2. <http://www.jdpower.com/cars/articles/car-news/modern-infotainment-systems-top-reported-problem-new-vehicles>
3. <http://techland.time.com/2014/03/04/the-wide-confusing-world-of-car-infotainment-systems/>
4. <http://www.mazda3hacks.com/doku.php>
5. <http://www.broadcom.com/blog/ces/in-car-infotainment-not-just-a-head-unit-any-more/>
6. [http://en.wikipedia.org/wiki/Automotive\\_electronics](http://en.wikipedia.org/wiki/Automotive_electronics)

# Mobile Connectivity and Security Issues for Cloud Informatic Systems

~ Ph. D. **Cosmin Cătălin Olteanu** (*University of Bucharest, Faculty of Business and Administration, Romania*)

**E-mail:** [contact@olteanucosmin.ro](mailto:contact@olteanucosmin.ro)

**Abstract:** *The main purpose of the paper is to illustrate the importance of new software tools that can be used with mobile devices to make them more secure for the use of day to day business software. Many companies are using mobile applications to access some components to ERP's or CRM's remotely. Even the new come, cloud Informatic Systems are using more remote devices than ever. This is why we need to secure somehow these mobile applications.*

**Key words:** *secure mobile applications, security of mobile devices, ERP's and CRM's mobile components security*

If we walk on the street, or just if we go to the mall, we will see that every one of us is addicted to technology and mobile devices. Today, a mobile phone, called smartphone is more than just a device we use. These devices are now more often, called personal companion. On these devices we have a lot of personal information and many more.

A lot of companies understood the need of users to access from their devices all the information they need through

applications that helps the user to gain easier access to what he needs.

As an effect to that, entrepreneurs have seen the advantage of use of personal devices of employees to some business application in order to have a better business and make more profit.

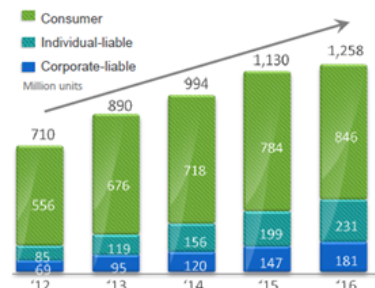
Today almost any provider of ERP's, CRM's and other components of an informatics system, have mobile components for every level of management and users (Fig.1).

Fig. 1 Business Apps and smartphone sales mix

### Enterprise Mobility Drivers

- Proliferation of Mobile Business Apps  
*Email, CRM, ERP, SFA, etc.*
- Consumerization of IT  
*Largely driven by Android*

### Global Smartphone Sales Mix

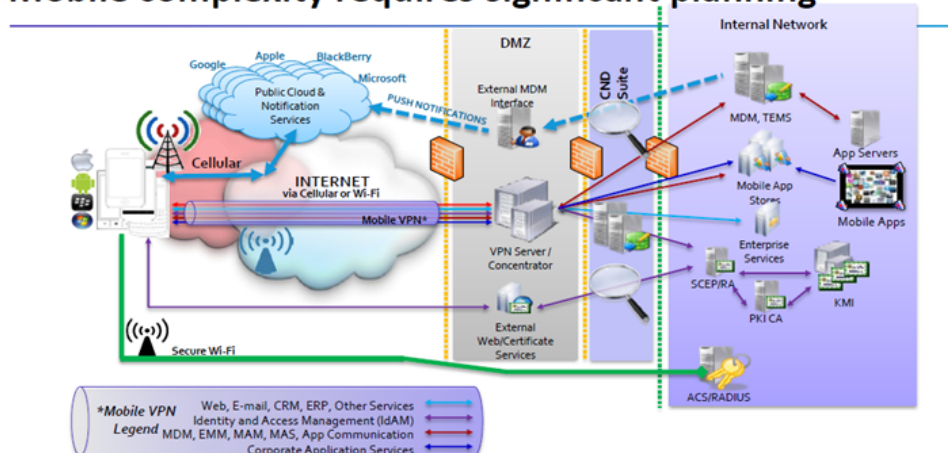


(Source: IDC, 2012)

<http://www.slideshare.net/FedScoop/security-in-the-enterprise-and-governmen-tv1>

Fig 2. Planning on migrating Apps to mobile devices

### Mobile complexity requires significant planning



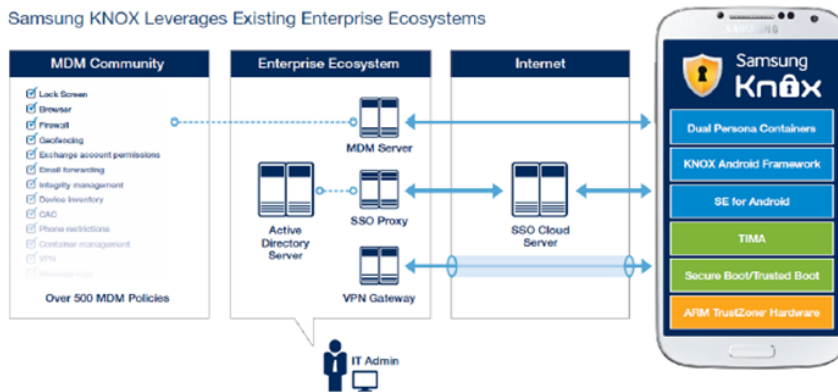
<http://www.slideshare.net/FedScoop/security-in-the-enterprise-and-governmen-tv1>

If we are looking on the security journals of mobile applications, we see that a lot of companies are just migrate their applications to mobile devices with just little planning (Fig 2) on this issue.

In order to secure an application now we have some platform that can be a layer

between that application and your smart-phone. That layer secure the data and the connection. Such a platform is called KNOX (Fig 3) and is even used by USA administration at all levels.

Fig. 3 Knox communication

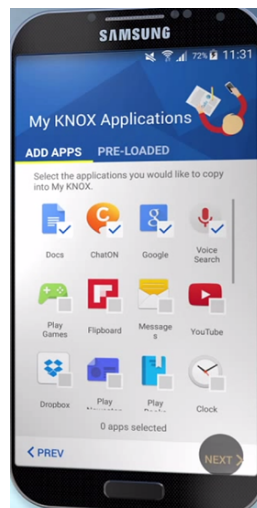


<http://www.slideshare.net/FedScoop/security-in-the-enterprise-and-governmen-to1>

Knox is present in Google Play from where you can download and install in your device. All you have to do is to create

your account and chose what applications you should allow to run only under KNOX protection.

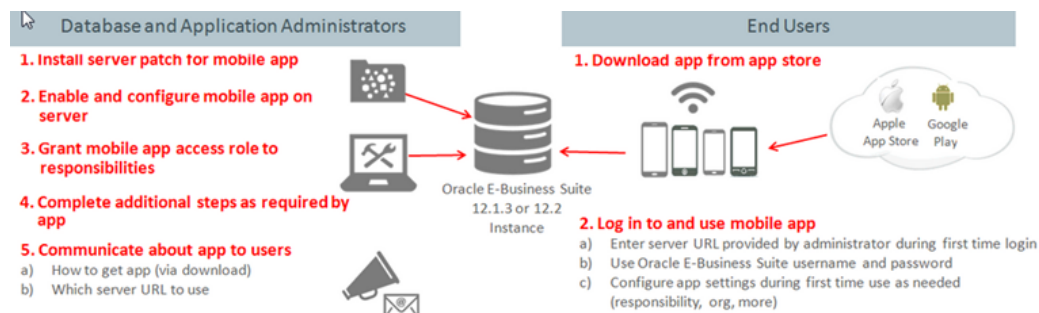
Fig. 4 Knox layer and applications



Just by using your application under Knox your data is secure because all data are encrypted.

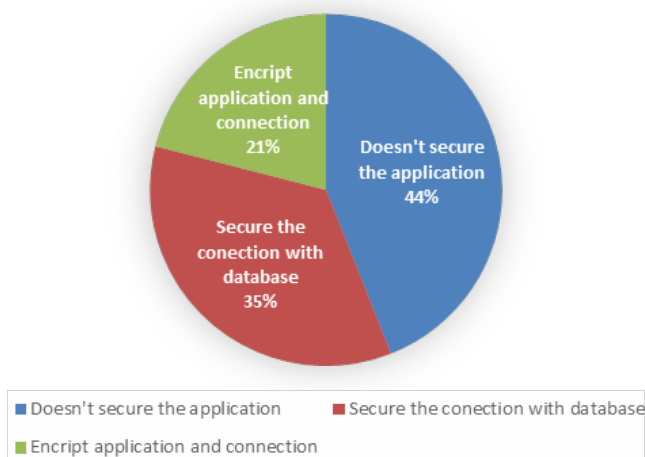
Companies like Oracle is using this solution to some of their employees. One solution is Oracle E-business Suite that was ported on mobile devices (Fig 5).

Fig 5. Instance of Oracle E-business Suite



I have made a survey of 100 software developers entrepreneurs about using secure connections on their Apps and the results are the following:

Fig. 6 Secure the mobile application connection and application



The results show us that we use a lot of application on our mobile devices that are insecure and can provide issues of vulnerability of our personal or business data.

Only just 21 % of entrepreneurs realize that security is a big issue and should be taken from start in the planning of apps.

## Conclusions

The users of mobile devices are usually the weak link between Apps and providers. Today we have a lot of threats starting from Mobile User Authenticating Methods, Platform Security Capabilities, Mobile



Malware and Spyware Apps and a lot more. By using platforms like Knox, Mobile Virtual Private Networks, Secure Web Gateways and Mobile data protection, we can add a level

of trust to our mobile companions known as smartphones when we use them for personal use or for business.

---

#### REFERENCES:

1. Samsung Electronics America 0 100 200 300 400 500 600 700 800 900 1000 2010 2011 2012 2013 2014 2015 2016 Units(millions) Source: Gartner - Forecast: Devices by Operating System and User Type, Worldwide, 2010-2016, 3Q12 Update PC Smartphone Tablet Worldwide Platform Shipments
2. <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Technology-Media-Telecommunications/gx-tmt-predictions-2014.pdf>3
3. <http://www.slideshare.net/FedScoop/security-in-the-enterprise-and-governmen-tv1>