

University of Bucharest

  
*Manager*

No. 29 ~ 2019

---

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 BÎRCEA**

*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. 30 - Management and the economic crisis*

Faculty of Business and Administration

**MANAGER JOURNAL**

December 2018

© *Manager*

<http://manager.faa.ro>

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

## TABLE OF CONTENTS

*~ Evolution of management in the era of globalisation*

<b>Editorial .....</b>	<b>5</b>
<b>FLORENTINA-MIRELA S. MARINESCU (DRAGNEA), IRINA I. POPESCU (DOGARU)</b> ~ The Main Objectives Of Mass Media Industry Management In The Current Context Of The Romanian Market.....	7
<b>IOANA-GABRIELA COSNA</b> ~ Evolution of Bioeconomic Management in the context of Sustainable Development in the Age of Globalization.....	17
<b>FLORIAN GURĂMULTĂ</b> ~ Population Aging In Romania.....	29
<b>ADINA MARIA MOȚICA</b> ~ Regional Economic Analyses. Regional Development .....	38
<b>OANA SIMONA HUDEA</b> ~ Company-level leadership models. The right way or the circumstance-related adequate one?.....	46
<b>IZABELLA KRÁJNIK, MONIKA FOSZTÓ, ANTONIA IZABELLA KELEMEN</b> ~ Accounting Aspects of Banking Risk Management.....	53
<b>OANA SIMONA HUDEA</b> ~ Romanian great leaders.....	61
<b>IOANA JULIETA JOSAN</b> ~ Current issues and future challenges in Education based on the analysis of Human Capital indicators between 2007-2017.....	67
<b>CAMELIA SURUGIU, MARIUS SURUGIU, RALUCA MAZILESCU</b> ~ Social Media and Destination Marketing: Today Advancements for Tourism Future....	83
<b>CRISTINA VEITH, DANIEL COSTEA</b> ~ Industry 4.0 - A challenge or a risk for the involvement of women in management and business.....	91

<b>SORIN-GEORGE TOMA, PAUL MARINESCU, IONUȚ CONSTANTIN, DANIEL COSTEA</b> ~ Beyond Charismatic Leadership: The Case of Jack Ma.....	99
<b>GHEORGE-FLORENTIN MIULESCU, PAUL MARINESCU, SORIN-GEORGE TOMA</b> ~ Competitive Cooperation – Market Development Instrument.....	106
<b>FALKO LUCHT</b> ~ The Success of the Freemium Business Model. How Riot Games flourishes with a free to play game.....	114
<b>JOHANNA BURFEIND</b> ~ Leading Cultural Change in the Newspaper Industry: How Jeff Bezos saved The Washington Post.....	125
<b>ROBERT MARACINE</b> ~ The Distinct Evolution of Crowdfunding Strategies in Asian Countries.....	139

## *Manager or leader Risk, avoiding it or looking for it*

*Employee's motivation is the main subject, which makes the difference between a leader and a manager. Starting from here, we find out, that we are dealing with different ways of action. It is obvious that there are people that can have both leadership and managerial skills. We cannot simplify the classification of people in the two categories because in reality, an individual can have different behaviors determined by his own perception. For a manager we talk about different styles: authoritarian, transactional, focused on professional work, the need for safety. For leaders, there are also characteristic styles: charismatic, transformative, focused on people, risk exploration.*

*The features that differentiate between the two types of „managing reality“ include among others: time horizon, decision-making, power, risk and organizational dynamics. According to the time horizon perspective, leaders focus on long term, while managers have an appetite for short term. In decision-making, leaders are enablers, while managers focus on the correct execution of tasks. A leader expresses his power primarily through charisma, while a manager through formal authority. The way an organization is evolving is based on the risk adversity of the decision makers. The leader is tempted to take risks, while the manager tries to minimize the risks. Organizational dynamics imposes, based on the situation, proactive behaviors (specific to the leader) and reactive behaviors (specific to the manager).*

*In fact, it is imperative that we identify the relationship between management and leadership. We cannot ignore this, considering that for the control of all the resources that ensure the development of all the strategic plans, we also use action changes. Those chances are influenced by the contexts we go through and the stakeholder behavior. Between the short-term and the long-term planning, between doing the right thing and doing the how-to thing, between maintaining and developing, managing and innovating, a reality defines the difference between manager and leader.*

*In the life of an organization, it is mandatory for a manager to have leadership skills. Those skills are needed for being able to lead successful teams, mainly in confrontation avoidance and risk assumption situations.*

*Prof. Ph.D. Paul Marinescu*



# The Main Objectives Of Mass Media Industry Management In The Current Context Of The Romanian Market

~ Ph. D. Student **Florentina-Mirela S. Marinescu (Dragnea)** (*Academy of Economic Studies, Bucharest, Romania*)

E-mail: mirela\_dragnea@yahoo.com

~ Ph. D. Student **Irina I. Popescu (Dogaru)** (*Academy of Economic Studies, Bucharest, Romania*)

E-mail: irina.dogaru@dogaru.ro

**Abstract:** All media companies face the issue of dramatic market changes and consumers' habits. The new technologies, the competition represented by the e-commerce companies and the huge number of non-journalists content producers have major impact on the mass media industry.

Strategies and business models must lead to the best use of resources, keeping the constant market shares, and thus increasing profitability. Flexible strategies, market knowledge, loyal readership, the ability to innovate and adaptability to change are the elements that prepare businesses for an era of personalized information, as mass-media are ones of the few industries whose products are exclusively intangible-conceptual and non-material.

The economic goals that media industry management needs to achieve are as important as the responsibility towards society and customers. The major focus of mass media management is finding the model to ensure the optimal balance between the costs involved by producing quality content, gaining trust and readership loyalty, managing digital and technology successfully as mandatory elements for revenue growth and business stability.

**Key words:** management objectives, advertising market, readership, audience measurement

**JEL Classification:** M10, M20, L29

## Introduction:

The issue of ensuring business stability is present in all economic areas. The analysis included in this paper aim to reveal the industry constant changes trend and challenges, as mass media are probably one of the most affected businesses, in which the impact of the economic crisis and technological changes are huge.

For instance, in the economic crisis, people gave up buying goods and services that were not absolutely necessary, and newspapers and magazines were in this category. In addition, this decision was easy to make, as Internet and affordable technology allowed access to free information, news and video.

After the end of the economic crisis, the media industry, on certain segments such as the printed publications, did not return to the previous situation, and this analysis of the segment's market shows that the trend is definitive in Romania.

In the media industry, technology and digitalization not only caused the modification of platforms where content is delivered, but also changed the audience's consumption habits.

That is to say, compared to other industries, the content consumer's decision on the delivery platform was just one of the factors which led to changes, another factor being generated by the variety of options and the speed with which consumers can choose between information and entertainment providers (Kandula, 2006).

Another important feature of the media industry is that non-industry players have emerged in direct competition, such as e-commerce companies and non-journalists. The massive fragmentation of the market has led to a rethink of the advertising budgets

allocation and the subscription decision to a certain type of content.

In other industries, the product acquisition process takes place online and the product is identified and delivered physically, thus the buyer's choice is obvious and definitive. In the mass media industry, however, on-line content being predominantly free leads to the possibility of choosing or abandoning any product in favor of another, to the option of being a consumer for multiple categories of content at one time, or setting up a particular category. This consumption habit does not necessarily determine an income for the content provider.

The growth of electronic editions audience involves business strategies and models that generate revenue growth without affecting the content quality. The analysis of the printed publications readership versus electronic publications readership for the same titles shows how the trend have constantly changed in recent years.

Market analysis is mandatory because it shows the extent of the change in attitude to the products offered by the media, being a good indicator of the difficulties faced by management in achieving the objectives of maintaining profitability and thus stability of the business.

## Advertising Romanian market overview

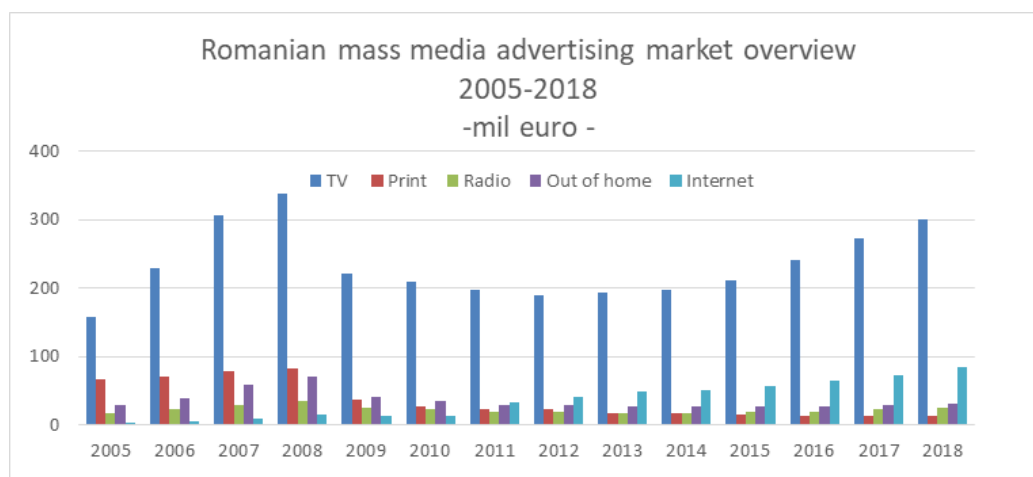
A first objective for media industry management is to identify new business models and strategies to achieve revenue growth as advertising revenue is directly related to the audience, and costs for producing content tend to become not influenced by revenue volumes. The lack or the decrease of



subscriptions for printed publications, and consumer habit in electronic publications ranging from multiple visits from a single consumer to unique visits from multiple consumers have a direct impact on advertising revenue. As such, new business model approaches are required to maintain profitability and efficiency (Carton and Hofer, 2006). In order to achieve such a revenue maximization objective, management must be aware

of consumers' expectations of choice, comfort and value, all delivered in personalized experiences, available on demand on platforms with limited advertising and protected data.

An advertising market overview in Romania for the 2005-2018 period highlights the changes as a result both of the economic crisis and the increase of the Internet penetration rate.



Source: MediaFact book Study – Initiative Media Agency

The advertising budgets allocated to the mass media industry have fallen by 44%, from 540 million EUR in 2008, the year with the highest advertising budgets, to 303 million EUR in 2012, the year with the lowest advertising budgets since the beginning of the economic crisis.

After four years of continuous steady growth the Romanian media market is ready to close the gap with 2008 levels in the next two to three years to come.

In 2018, the market growth was driven by the increase of TV investments. Besides TV, other media channels like online, radio

and outdoor also increased in 2018, while print remained the only medium, with a negative evolution.

At the same time, the increase of internet penetration has led to a change of the proportion of advertising budgets allocated for print and those allocated for internet. Thus, compared to 2008, when advertising revenues in print amounted to 82 million euros and those in internet of 16 million euros, in 2018 advertising revenues in print reached only 13 million euros, while internet reached 85 million euros.

The demand for video content as well as the need to be connected 24/7 are being supported every day by new and more affordable technologies.

The choice of advertising agencies and advertising clients is primarily due to the methods of audience measurement. The ones most affected by this choice were small print brands, newspapers and general magazines which did not address an audience whose profile could be easily identified (by niche of the publication) and did not benefit from a critical mass of rhythmic, permanent readership.

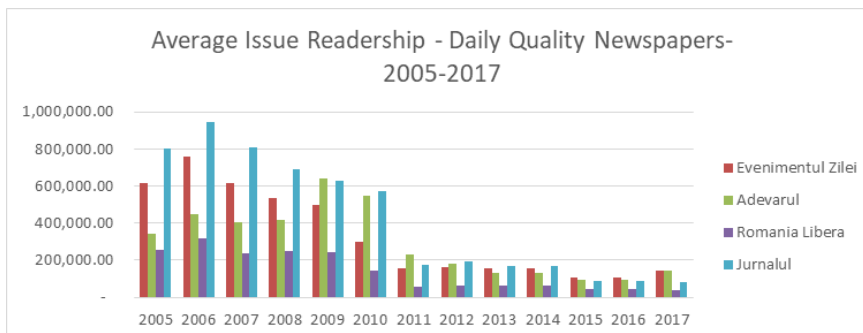
The solution for maintaining the brands on the market was to become multimedia brands, using the same content both in print and in on-line editions (electronic, digital) and to adapt to the requirements of new

technologies simultaneously with resizing the printed publication portfolio.

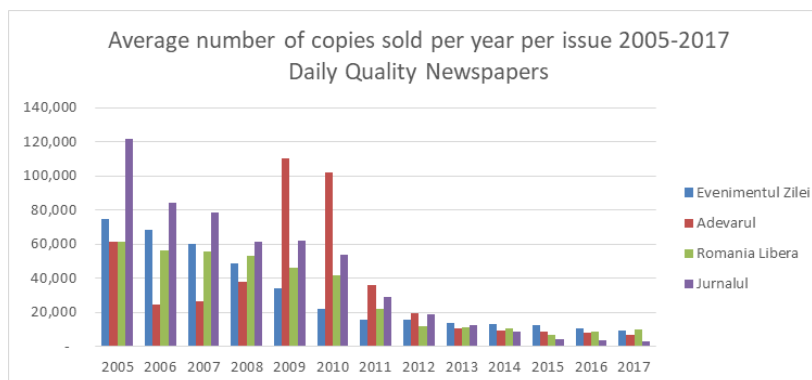
### Readership, circulation and internet audience overview

Decreased consumers' purchasing power has caused a dramatic drop in print edition readership, another factor that has had a major impact on advertising budgets allocated to this media segment.

In the daily quality newspaper category, without taking into consideration the newspapers whose print edition was closed during the analyzed period, the readership evolution indicates the dramatic decrease, directly related to the decrease in the number of buyers.



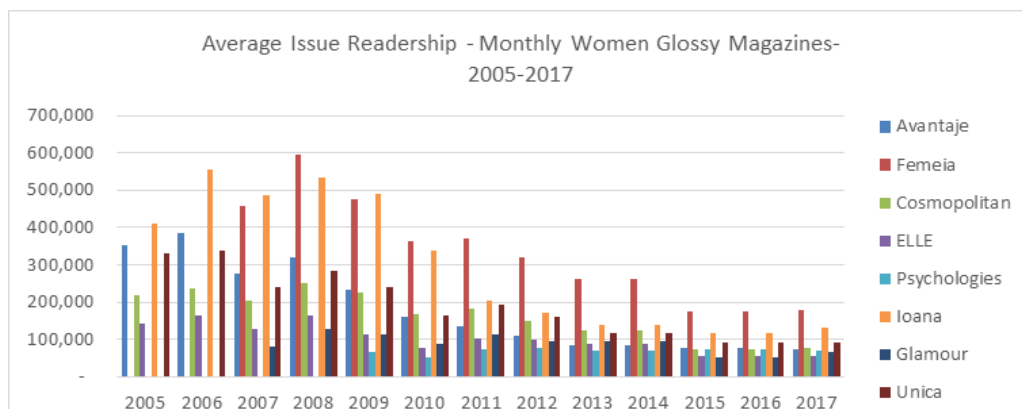
Source: Processed data from National Audience Survey (SNA Focus)



Source: Processed data from Romania Circulation Audit Office (BRAT)

Women's glossy magazines readership follows the trend of quality daily newspapers,

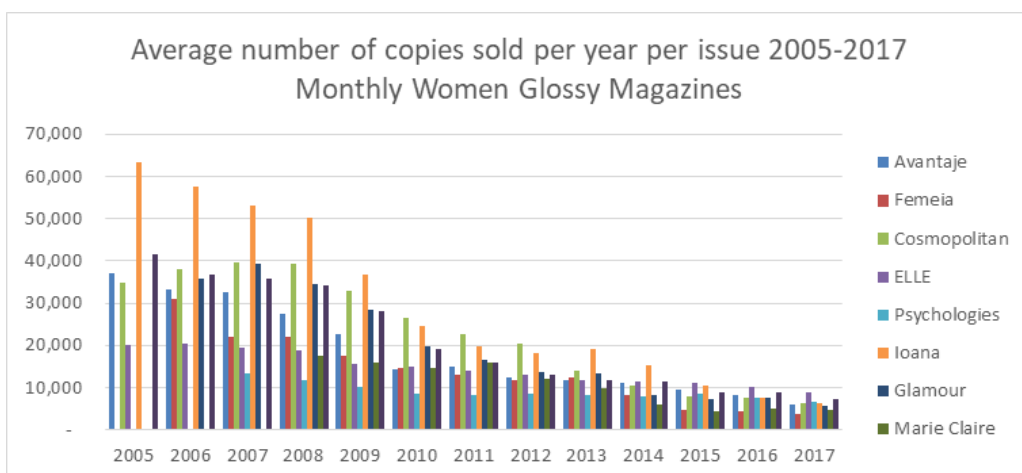
despite the periodicity, quality of support (quality paper), and quality content.



Source: Processed data from National Audience Survey (SNA Focus)

The decrease in the number of buyers has inevitably led to the decrease in

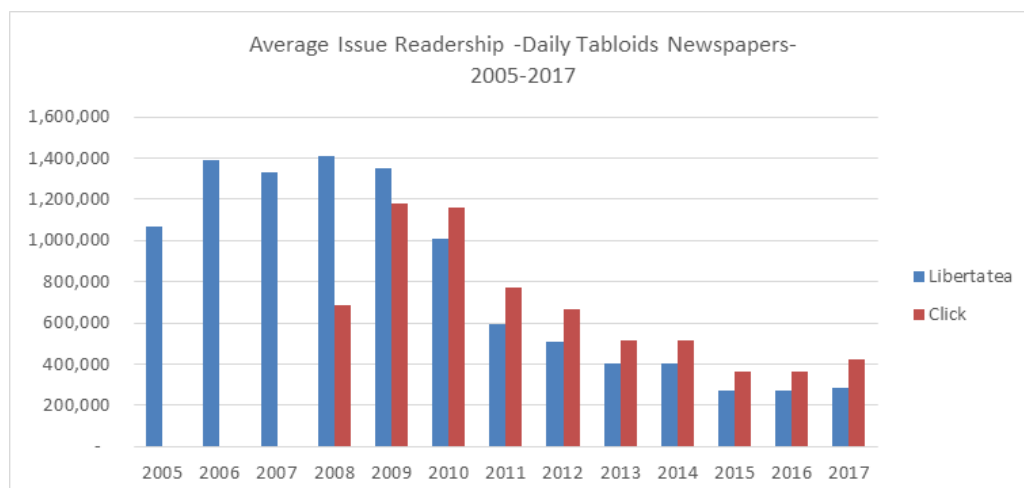
readership, albeit at a lower rate than in the case of quality daily newspapers.



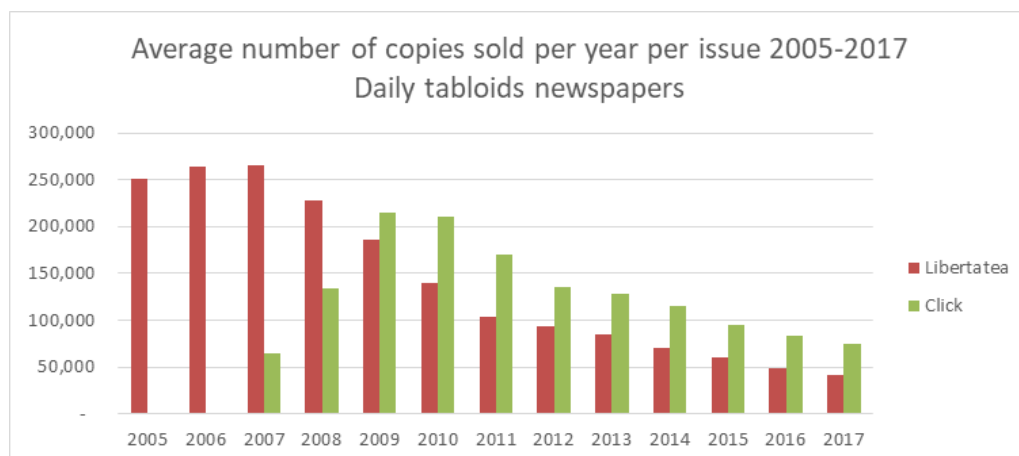
Source: Processed data from Romania Circulation Audit Office (BRAT)

National tabloid newspapers is the last category analyzed from the readership and

circulation perspective, as follows:



Source: Processed data from National Audience Survey (SNA Focus)



Source: Processed data from Romania Circulation Audit Office (BRAT)

Against such a market reaction, adapting to the new sales channels for audience monetization was the solution in order to keep market share and to continue to attract revenue for content driven business as the main objective, due to the possibilities offered by new technologies and audience measurement. Knowledge of consumer data is critical for advertising partners, both in quantitative and qualitative terms, given the fragmentation of video and written platforms

and of the device through which the content is delivered, such as television, computer, phone, tablet. Thus, the ability to quickly measure audiences, sometimes in real time, and the continued development of technology have led to new advertising sales models such as programmatic advertising, the sale of content related to published content (native advertising), 360 degree advertising related to all broadcast media, including social media, and addressable advertising.

The diversity of content and platforms used for content delivery has generated new expectations for consumers about the ease with which they can reach the desired media product. Consumers have switched from the status of passive consumers of a certain content type tied to a specific moment decided by the editors, to the status of active content users of customized content received on any device they are connected to. This change constrains content producers to be permanently adapted to the needs of consumers and to focus not only on the quality of the content but also on the speed and continuity at which they receive it.

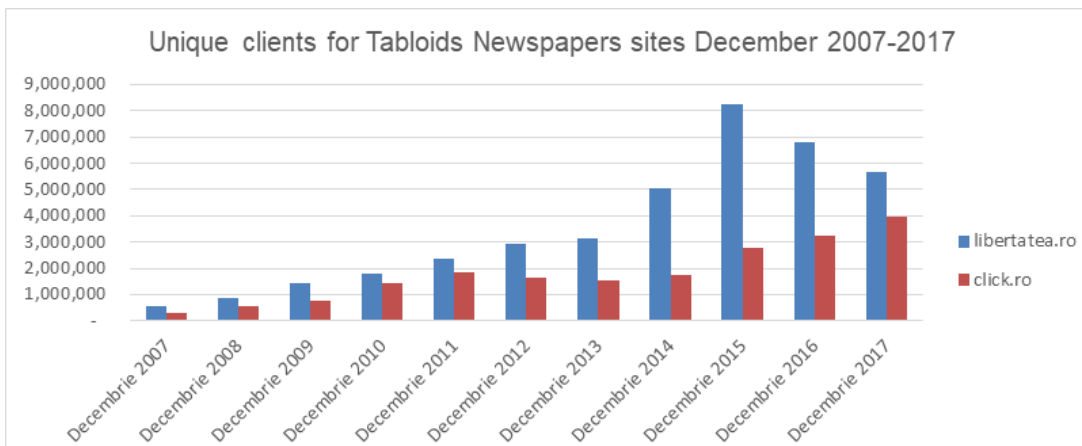
From this perspective, the most relevant information is the audience data related to the electronic editions (sites) corresponding to the printed titles analyzed. Online audience data is available from 2007 onwards. In the analysis below are data corresponding to December each year, starting from the assumption that data are comparable and indicate a trend. Online audience surveys are daily and monthly, fluctuations are due to the promotion of content and the existence or not of some information or news that are exclusively in the site, the retention rate being insignificant.



Source: Processed data from Internet Audience and Traffic Measurement (SATI)



Source: Processed data from Internet Audience and Traffic Measurement (SATI)



Source: Processed data from Internet Audience and Traffic Measurement (SATI)

### The interdependence between economic objectives and the responsibility towards the audience

Another objective deriving from the need to meet consumers' exigencies is to achieve a level of excellence in content and, implicitly, in human resources. Obviously, content creators are the primary and determinant human resource of media product quality, whether written, TV or radio, but insufficient to guarantee revenue growth or

business success. IT departments, sales, marketing, and finance are the ones that promote and optimize editorial effort and performance. The major challenge is the need for human resource excellence, along with the need to reduce costs and increase profitability, so it is up to management to identify cost-cutting strategies that deliver immediate results and profitability on long term.

Consumer data protection is another goal for media management. Every page

access, content download and visualization means a huge amount of data, which can mean a real competitive advantage, the company's revenue base and strategy, but it can also be a major factor of interest in cyber attacks. Data protection is no longer just an option, it is a legal obligation established by European standards and important not only from the business perspective but also from the consumer perspective.

The media business model for producing premium quality content, as the main revenue generator, is difficult to be build in terms of attracted costs, requires ongoing analysis and changes to ensure balance between profitability, market needs and consumer exigencies. Consumers benefit from remarkable changes in creativity and content availability. Competition for premium content and consumer attention is steadily increasing with social media players and the emergence of e-commerce companies who are heavily investing in content. In this context, for traditional media players, the premium content creation and acquisition process is becoming a growing challenge.

The global growth of social media giants, advertising and e-commerce, with billions of users and huge financial resources, determines the urgent need to strategically respond to a competition where the winner can take all. In this situation, the media industry is unable to grow organically, so mergers and acquisitions can be a quick solution to market share growth, product portfolio growth and market rationalization, strategic imperatives in competition with non-traditional players.

Globalization becomes essential for mass media companies to open up new markets and maintain competitiveness (Newman, 2018). Despite the presence of economic

nationalism and the prospect of difficulties in trade, a number of digital technologies allow the reduction of border relevance, so that the media industry must be open to opportunities for growth of international operations.

New technologies accelerate the way supply and demand intersect in all industries, so that market dynamics, both for consumers and advertisers, becomes extremely flexible. As digital dynamics will increase in all environments, flexibility will continue to grow, with effects on increasingly limited options to captivate customers, even on short term.

### Conclusions:

Using the quantitative analysis method of available statistical data on the Romanian advertising and readership markets for mass media printed and electronic editions allowed not only to compare them but also to identify the trends.

Thus, the main challenges faced by the industry and, consequently, the economic management objectives could have been identified. Dynamics shows the need for business model flexibility. Digital transfer of audience requires a multi-level focus, all impacting on the company's figures: revenue growth through intelligent content monetization, technology adaptation costs (content management systems, software for new devices), human resources that support adaptability and ongoing performance.

## REFERENCES:

1. Romanian Circulation Audit Office – circulation data – paid data base – available for data older than 2018;
2. National Audience Survey (SNA Focus) – audience data - paid data base – available for data older than 2018;
3. Internet Audience and Traffic Measurement (SATI) – internet traffic data - available for data older than 2018;
4. **Nic Newman**, 2018, *Journalism, Media, and Technology Trends and Predictions Study*, Reuters Institute for the Study of Journalism, University of Oxford
5. **Armstrong, Michael**, 2009, *Armstrong's Handbook of Performance Management*, Kogan Page Limited
6. **Carton, Robert V., Hofer, Charles W.**, 2006, *Measuring Organizational Performance Metrics for Entrepreneurship and Strategic Management Research*, Edward Elgar Publishing Limited
7. **Druckman, Daniel, Singer, Jerome E., Van Cott, Harold**, 1997, *Enhancing Organizational Performance*, National Academy Press
8. **Folan, Paul, Browne, Jim, Harinder, Jagdev**, 2007, *Performance: its meaning and content for today's business research*, in *Computers in Industry*, vol. 58, p.605-620
9. **Kandula, Srinivas V.**, 2006, *Performance Management: Strategies-Interventions-Drivers*, PHI Learning Private Limited, Delhi
10. **Kerssens-van Drongelen, Inge C., Fisscher, Olaf A.M.**, 2003, *Ethical Dilemmas in Performance Measurement*, in *Journal of Business Ethics*, vol. 45, p. 51-63
11. **Vlatka, Hlupic** (2014), *The Management Shift*, United Kingdom, Palgrave Macmillan
12. **Fons, Trompenaars and Piet, Hein Coebergh**, 2014, *100+ Management Models*, United Kingdom, Infinite Ideas
13. **Julie, Hodges and Roger, Gill**, 2014, *Sustaining change in organizations*, London, United Kingdom, Sage Publications
14. **Cris, Beswick, Derek, Bishop and Jo Geraghty**, 2015, *Building a culture of innovation*, London, United Kingdom, Kogan Page
15. **Faris, Yakob**, 2015, *Paid Attention*, London, United Kingdom, Kogan Page
16. **Bernard, Marr**, 2015, *Big data*, United Kingdom, Wiley
17. **Richard, Stutely**, 1999, *The definitive business plan*, Edinburgh, Pearson Education Ltd
18. **Dan, Poynter**, 2006, *Book publishing Encyclopedia*, Paperback
19. **Ciaran, Walsh**, 1996, *Key management ratios – how to analyze, compare and control the figures that drive company value*, Edinburgh, Pearson Education Ltd
20. **Davide, Sola, Jerome, Couturier**, 2013, *How to think strategically*, Harlow, Essex, Pearson



# Evolution of Bioeconomic Management in the context of Sustainable Development in the Age of Globalization

~ Ph. D. Student **Ioana-Gabriela Cosna** (School of Advanced Studies of the Romanian Academy (SCOSAAR) - Economic, Social and Legal Sciences Department, Bucharest, Romania)

E-mail: [gabriela11david@gmail.com](mailto:gabriela11david@gmail.com)

**Abstract:** Currently, the States and regions around the world face with several economic, environmental, social challenges etc. The increase in the demand for power supply, for primary resources (agriculture, forestry and fishing), for industrial products and services, sets a significant pressure on the ecosystems sustainability. One of the solutions to support the sustainable development process may be the transition towards the bio-economy, innovative sector focused on the production of biotechnologies and biomass. The bio-economy is the field comprising all economic activities related to the use of biological renewable resources. Considering this, the goal of this paper is to draw the attention on the importance of bio-economy in the effectiveness of the use of natural resources and in the current context of obvious and irreversible climate changes. Moreover, lately, the concept of bio-economy gained the attention of the scientific and political environments, both in Europe and at worldwide level. We can already talk in Europe of a general transition towards the bio-economical field.

**Keywords:** Bio-economy, sustainable development, innovation, renewable resources management

**Jel Classification:** Q01, Q51, Q57

## Introduction

Currently, humankind faces the effects of overexploiting the natural resources and the consequences of a chaotic technological, industrial development, which is inefficient most of the time (the inefficiency of the natural resources use). These effects had a negative impact on biodiversity and on the quality of the eco-systemic services, adding to them the disappearance of some species and the loss of the water quality, all having negative impact on food security and, implicitly, on population welfare.

The worldwide economy functions within an unlimited ecosystem, and the increase in the materials flow and in the energy consume disagrees with the physical limits of the planet and with those of life-support delivered by the natural ecosystems<sup>1</sup>.

In an economic and ecological overview, the exhaust of the natural capital is viewed as a loss of the tangible material flows (natural resources) and a potentially irreversible loss of the elements generating intangible benefits flows (eco-system services). This statement is supported by the growth of the global water and power demand with about 40% during the next 20 years<sup>2</sup>, while the food demands will increase with about 60% until 2050, and the area for crop fields per habitant is going to reduce to 1.5% per year<sup>3</sup> (fields selling to foreign investors).

There are also other global pressures on the environment, which increased in

intensity, especially after 1990, namely:

1. A small number of countries dominating the worldwide production and consume;
2. Worldwide population growth and the increase in its mobility leading to the increase of the exposure risk for new pandemics, usually associated with the precarious distribution of the food;
3. The increase of the environmental pollution correlates directly to the climate changes, with the exposure of the eco-systems to high levels of pollution, which leads to the loss of the food security and the occurrence of extreme weather phenomena.

These global pressures determine economic growth based on consume, on changes of the technological patterns and demographic growth. According to some UN reports, 60% of the ecosystem services altered during the last 50 years, about 54% of the world population lives in urban centers.

The current economic patterns do not guarantee further the maintaining the environmental quality and the terms for healthy lifestyle support. Usually, the cost of environmental deterioration (air and water pollution, food etc.) is not comprised in NGP.

In this regard, the deep paradigm change, the institutional, technological transformations, the modification of the lifestyle etc. are required for the decoupling the economic growth by the environment degradation and for reaching a stable and lasting eco-system.

## 1.The Concept of Bio-economy

Generally, the bio-economy is regarded as an extremely dynamic, active, process of society transformation and adjustment to the

<sup>1</sup> Herman E. Daly, (2007), *Ecological Economics and Sustainable Development*, Selected Essays of Herman Daly, Edward Elgar Publishing, Inc., ISBN 978 1 84720 101 0

<sup>2</sup> <https://www.eia.gov/>

<sup>3</sup> <http://www.fao.org/home/en/>

new climate and resources challenges, process which cannot be achieved without total involvement, both long-term political, societal, financial, and spatial, territorial (as it is not enough to be applied only by one region or country).

Having a programmatic character, adjusted to the specificity and nature of the consume resources and patterns, the countries on the globe have full freedom in defining their vision and concept on the bio-economy, including the strategies, the actions and measures meant to render it applicable.

The theories and concepts setting the grounds for the definition of the bio-economy field targeted elements coming from two fields so different considering the aimed goals but mutually influencing each other more and more visibly: the economics, and the environmental protection. The analyses in the field of environmental protection interfering with those from the field of economic and social sciences succeeded to create a model of societal evolution which to take under consideration the constraints resulting from the intensive use of the natural resources. Nevertheless, in a first stage, the classical theory claimed that economics and environment had diametrically opposed objectives. The wish to obtain profit –the declared purpose of all theories of classical economics – is obvious, regardless if we talk about the capitalist economics or the socialist one. As the profit or the added value are growing, more and more resources are consumed in the technological process, resources of any kind, natural, human or technological, ideas or knowledge, constantly exerting a negative effect on the environment and biodiversity. At a certain point, the environment surrenders, entering a negative slope of supporting the manufacture and reproduction process,

affecting the profit beneficiary itself. From this point of view, we identify several theoretical approaches on the relation between economics and environmental resources:

1. the first approach is that of eco-centric type, the natural resources being assigned an intrinsic value, regardless on their usefulness (H. D. Thoreau and J. Muir etc.);

2. the second direction is oriented towards the preservation of the natural resources, being the result of some pragmatic concerns; the nature has value as far as it supports human life and activity and is predominant even nowadays (for instance, how can certain natural resources be managed so that the future generations could also benefit) (G. Marsh is one of the representatives, 1864).

3. the third approach represents a mix of elements from the above, and relies on the concept of ethics of the land, developed by Aldo Leopold by the middle of the 20th century. He considers that people is morally liable for the protection of the natural resources and that these have intrinsic value, beyond their use in the human beings interest. This approach triggered the movement known as deep ecology (in the 70s and 80s). The approach led to some more radical movements which considered that the eco-system general welfare had to be a first priority, and the human aspirations and needs had to be re-considered through the fact that they are not priority but only a small element among many others. With the development of the petrochemical industry, of the town and sub-town planning, of the automotive large expansion, after the Second World War, the environmental issues have become public, global, national and regional priorities.

As for the definition of the concept of “bio-economy”, it has several meanings:

- sustainable and eco-efficient transformation of the waste into renewable biological resources, in the food products, energy and products for other industries (DG Research, 2006).

- the production and sustainable conversion of the biomass, of the organic waste including, into a range of food, fibers, industrial products etc.<sup>4</sup> (EPSO, 2011).

- the production of renewable energy, of biological resources and their and waste flows transformation into products with added value (for instance, food, feed, bio products, bio-energy) (EC, 2012). Thus, the concept of bio-economy covers the following fields: agriculture, forestry, fishery, food industry, biotechnology and chemical industry.

- the bio-economy is a world where the bio-technology corresponds significantly to the economic production (IECD). The emergent bio-economy implies: (I) use of advanced knowledge, of the complex genes and processes in order to develop new processes and products, (II) use of renewable energy and biomass in order to support the sustainable production; (III) integrating the biotechnological knowledge and applications in the industries.

- an economy of the future put in service of life, people, by rational use of the environmental resources (Acad. A. Bogdan).

- bio-economy is precisely the human species way of survival under the terms of some unpredictable climate changes, an inter-disciplinary science becoming by every passing day the center of the debates on the current (economic, political, military, industrial, etc.) crisis of the modern civilization (G. Roegen)<sup>5</sup>.

<sup>4</sup> <http://www.epsoweb.org/file/560>

<sup>5</sup>Georgescu-Roegen, *The Entropy Law and the Economic Process*, Harvard University Press, 1971.

The bio-economy is regarded as a new paradigm operating and managing the values hidden in bio-resources and bioprocesses, in a sustainable way. The biomass may be of forestry, agricultural, aquatic origin, a material of biological origin (CEN, 2011).

OECD estimates that, by 2030, the use of bio-technology is to be of 35% of the industrial production of chemical products and of other products which could be manufactured with the help of bio-technologies (for instance, bio-plastic materials), of 80% of the pharmaceutical products and of about 50% of the agricultural production (OECD, 2009).

Consequently, the bio-economy aims to differentiate itself from the nature and to have more control with regard to the technology and innovation.

There are certain differences between bio-economy and bio-based economics but, generally, the distinction is made in relation with the production and use of biomass, often with the exclusion of the production of food and feed.

The bio-economy comprises the production of biomass, either primary (from agriculture, forestry, fishing, aquaculture and industry) or by collecting the waste flows and using the biomass in consume, power and materials.

Bio-based economics is part of the global bio-economy and approaches only the use of the biomass for materials, power, chemical substances and other biological products, though excluding the food.

The European Union identified the economics based on biology as one fully integrating the range of natural and renewable biological resources, terrestrial and maritime resources, bio-diversity and biological materials (plants, animals and microbial), their

processing and consuming included (EC, 2012). This definition of the concept focuses mostly on raw materials than on conversion processes, being applied in Germany, Finland and Sweden. Due to its innovative character, the definition of the concept of bio-economy knows constant changes.

## **2.Fields of Application of the Bio-economy**

The bio-economy is an inter-disciplinary field reuniting the economical innovation and activity, involving more fields, as follows:

- the industry, including the chemical products, the bio-plastic materials, enzymes, bio-synthesis, biofuels, bio-remedy, bio-sensors, and other methods of reduction of the pollution impact on the environment;

- the agriculture (primary production, plants, respectively animals cross-breeding and improvement; veterinary applications etc.);

- medical industry and human health (pharmaceutical genetics, bio-pharmaceuticals, dietetics etc.).

### **a. Bio-refinery**

In the bio-economy, the sustainable production and biomass capitalization represents the framework for its functioning. Sustainable biomass production (cultures, algae, residues) is used to complete the demand for human food, for animals feed, for bio-energy (power, heating and biofuels for transport) and that for biological products (chemical products, materials). The relatively low availability of the raw materials requires the development and the implementation of the technologies for biomass conversion into various bio-products.

The bio-refinery transforms the biomass into various products and refers to the equipment using a range of technologies for bio-conversion of various raw materials (trees, energy, crops, wastes, ...) into a wide range of products, including food, ingredients for animals feeding, chemical substances, biomaterials (fibers including) and bioenergy, targeting to maximize the added value along the three pillars of sustainability (environment, economics, and society). The bio-refinery exploits various elements of the biomass and produces more valuable refined products. For instance, the forestry bio-refinery uses the whole potential of the raw materials and of the secondary flows of the forestry field, and turns them into a wide range of products, efficiently.

Currently, the biomass is mainly used for human feeding, for animal feed and for fuels production.

### **b. Forestry Industry**

As effect of the traditional markets reduction, the forestry field knows important changes leading to excessive losses of workplaces with effect on rural communities. The governments try to stimulate the new industries focused on the use of sustainable forestry bio-fibers and the production of biofuel for the production of energy, chemical substances, and polymers.

The forestry industry comprises the industry of cellulose, paper, hard paper and wooden products. The latest comprise timber, pressed wood and the industry of construction products.

### **c. Food Industry**

The agricultural crops are not used in the bio-economy only for the production of food and feed, but they are used also to

produce chemical products, materials and biofuels. The agriculture produces significant volumes of residues. The wastes have been investigated and the findings were that some antioxidants, vitamin E and vegetal sterols could be extracted from this resource.

#### Microalgae

Algae represent a group of relatively simple organisms, likely to the plants, living in the oceans, seas, and rivers waters and being able to perform photosynthesis. There are thousands of various species of algae of various sizes. The algae contain lipids (oil), proteins and carbohydrates (sugars).

The use of the microalgae on the food products and for feed is increasingly often met, as some of their components have the potential of being competitive. The micro-elements of the algae have specific advantages with regard to the traditional advantages, making them market viable even if the production costs are higher.

Recently, algae are used in the production of ethanol or bio-diesel. They play an important part also in aquaculture, being incorporated in cosmetic products; they are cultivated as sources of poly-unsaturated fatty acids etc.

In the current global context, the extension of the research in bioscience is strictly dependent on the sophisticated infrastructure and modern equipment. Therefore, it is necessary also to support and fund the research and to promote cooperation projects. Thus, a coherent alignment of the priorities is requires: investments in research and development, innovation and competencies, support policies in the bio-economy field, encouragement of the entrepreneurial spirits and dissemination of the culture of innovation.

### 3.The Bio-economy Field in Europe

At the level of the European Union, there is in progress the implementation of several inclusive and smart policies and strategies of sustainable development which support unequivocally the economy based on bio-products and biotechnologies, on a community of recycling, preservation and equitable share of the ecosystems. Among these, the 2020 Europe Strategy distinguishes itself by far, proposing five goals and, in the same time, establishing concrete targets to be reached: the labor force occupancy (75% of the population to be employed), reduction of poverty (20 million persons less exposed to risk of poverty), climate changes and energy sustainability (20% reduction of the greenhouse gas, 20% energy from energy renewable sources, an increase with 20% of the energy efficiency), research and development (3% of the EU GDP), education (reduction of early school dropout rates below 10%). Other sector objectives are also added to these (for instance, stopping the illegal forestry exploitations by 2030, reaching cohesion by 2050 etc.).

In the 2020 Europe Strategy, the bio-economy is more than a goal, it is a reality built on the recognition, capitalization and uses of the entire research and innovation potential, of the implementation of the biotechnologies and of putting into practice the principles of sustainable development. From the performed analyses, it was found out that some member states have been applying for long strategies to support the bio-economy field, parallel with funding, promoting and developing a stronger research-innovation field (for instance, Netherlands, Germany, Finland, Sweden etc.).

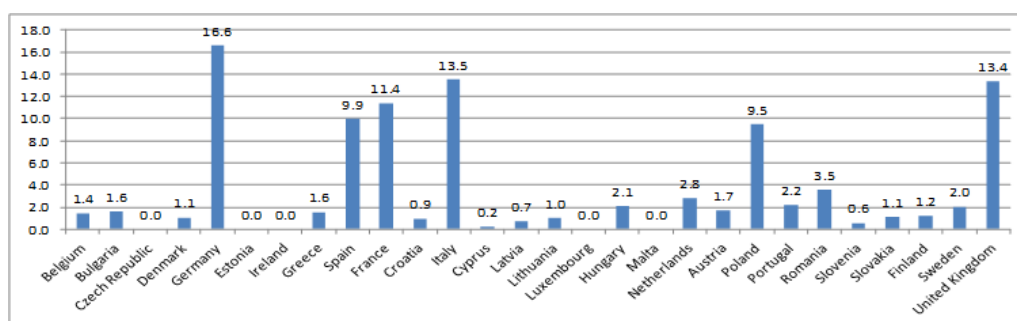
As recognition of the importance of this field, the European Union promoted



the Strategy on Bio-economy in 2012, which aimed to develop a society of knowledge and innovation, the increase in the productivity simultaneously with the sustainable use of the resources, and the reduction of the pollution impact on the environment. The Strategy also supports the implementation of an adequate management of the ecosystems and to insure of the bio-diversity. It is predicted in the Strategy that about 130,000 workplaces are going to be created and an added value of 45 billion Euros is going to be reached (by 2025). Currently, the situation

of the occupancy in bio-economy is presented in figure 1. The bio-economy represents a field playing an important part considering the occupancy in the EU Member States. For instance, Pilvere et al (2015) show the possibility to increase the occupancy in forestry, this aspect being regarded as an advantage for the society . 3,874,966 persons were employed in the field of bio-economy in the European Union, most employees being in the agriculture area (56%), followed by the employment in food (25%) and wood industries (7%).

Figure 1: Occupancy rates in the field of bio-economy, in EU-28, in 2015 (% of the total)



Sources: Processing of Eurostat data

The European Strategy on bio-economy is structured on three pillars: investments in research, innovation and specialization (skills), development of specific markets and increase of their competitiveness, strengthening the policies, and stakeholders' involvement.

This EU involvement in the field of bio-economy relied on the high quantity of generated waste, namely 16 tons of waste per person per year. Moreover, in 2010, only 36% of the total of waste production in the EU was recycled, the rest being stored or burnt. It is predicted that about 600 million of tons (37.5%) could be recycled or re-used.

For instance, the Framework Directive on European Waste (Directive 2008/98/EC) defines the waste as being those substances or object thrown away by their holder, or which he/ she intends to get rid of. The directive comprises two recycling and recovery goals which are to be achieved by 2020: (a) 50% for the reuse or recycling of certain waste from the households, and (b) 70% for reuse, recycling and other retrievals from constructions and demolitions.

In 2012, the European Commission passed the strategy called "Innovating for Sustainable Growth: Bio-economy for Europe", which proposes a comprehensive

approach of some ecological, environmental, energetic aspects, food supply and the challenges related to natural resources. In the same time, the strategy is to contribute in achieving the growth of economics sustainable development. As worldwide leader in research and innovation in the field of bio-economy, EU is trying to manage sustainably its resources, contributing to the opening of new markets of food bio-products, of animal feed, of power etc.

Under the auspices of the EU Strategy on Bio-economy, support tools for various fields, sectors and stakeholders were established. In addition, many of the member states in the EU designed their own national strategies on the bio-economy.

#### **4. New Perspectives of the Bio-economy Progress after 2020**

In EU, promoting the use of biomass is regulated by the Medium and Long Term Strategic Framework on Sustainable Energy (timeframe 2020-2030-2050), but also with the help of some documents of programming. One of these documents is called the Green Paper - A European Strategy for Sustainable Competitive and Secure Energy [COM(2006)]. Achieving the economic, social and environmental goals, but also solving some major issues on energy, the increasingly higher dependence on energy imports, the volatile prices for oil and gas, the climate changes, and so on represent strategic desiderata considered by the prior mentioned Green Paper. In the field of joint energetic European policy, six priority fields have been set as follows:

1. Increasing the competitiveness and the development of the energy internal market;

2. Diversifying the energetic mix by promoting ecological diversification of the power supply;

3. Solidarity – measures to be taken at community level in order to prevent the crisis of the power supply and their management in case of occurrence;

4. Sustainable development – better energetic strategy to balance the objectives of environment protection with the competitiveness and security of the supply;

5. Innovation and technology – measures that should be taken at community and national levels in order to make sure that Europe remains a worldwide leader in the field of energetic technologies.

6. The need for joint European policy in the field of energy .

By far, the most important is the Action Plan for Biomass [COM (2005) 628 final], which is the component of the EU new energetic policy established in the Green Paper on energy. The definition given to biomass is the following: the totality of animal and vegetal products used to produce energy; the biomass represents currently about half (44-65%) of the total of renewable sources of energy used in the EU. Currently, the biomass supplies 4 % of the EU energy needs (69 million tons equivalent oil - tep). An increase in the weight of the biomass in the energetic mix up to 150 million tep may cause the following benefits: diversification of the European energy supply, significant reduction of the greenhouse gas emissions (209 million tons), 250,000-300,000 direct workplaces, and possible decrease of the oil price due to lower demand.

Biomass for heating

Heating is the process/ sector using mostly the biomass due to simple and less



costly technologies. However, the use of biomass is not appropriate, the intent being of appealing to various measures to improve this situation, such as: the passing of a new specific legislation on energy from renewable sources for heating, developing a survey on the ways to improve the boilers performance on biomass for household use and for reducing the pollution, too.

The use of the biomass for heating is more appropriately to be performed in centralized heating systems than in individual ones. It is highlighted that there are many ways of producing power supply from renewable sources of energy. The use of biofuels in transports is regulated by the Directive on biofuels for transport, which stipulates among others:

- the establishment of national objectives for the biofuels market share;
- the obligation to use biofuels;
- the implementation of a system for compliance certification with the biofuels standards.

#### Stimulating the offer of biomass

As for the agriculture, the reform of the Common Agriculture Policy (CAP) introduced an „aid for energetic cultures” in particular. Moreover, the Commission is to fund an information campaign on the priorities for energetic cultures and the perspectives for exploiting them.

The statistics for forestry show that about 35 % of the annual growth of the EU forests remains unused. An action plan is to be drafted in order to stimulate the electricity produced from wooden biomass.

Wastes are also an insufficiently exploited energy resource. From this reason, the Commission drafts in currently a theme strategy on wastes prevention and recycling,

and a draft for the revision of the framework legislation on waste is under preparation.

Sub-products of animal origin, which are not meant for human consume, are used more and more for generating energy.

In addition, a particular attention is paid to the adoption of European standards for solid biomass fuels in order to facilitate the trade, the markets development and for increasing consumers' trust.

The European Commission encourages the drafting of national and regional action plans for biomass evaluation at various levels (physical and economic availability, priorities for use, measures to be taken etc.).

#### Funding in the field of biomass

Supporting the development of renewable and alternative energy sources is a key object for the Structural and Cohesion Funds. Consequently, the European Union and the Member States have to promote the development of the renewable sources of energy through the regional policy.

In addition, the Commission emphasizes that the support for the production and use of biomass have to be consistent with community policy on state aids.

#### Biomass and research

The proposition of the Commission for the seventh framework program assigns high priority for the research in the field of biomass. It is intended to promote the best methods to stimulate the research in the optimization of the use of the agriculture crops and the wood residues for energetic purposes, as well as in the conversion processes.

As for the evolution of the bio-economical field at the European Union level, four scenarios have been submitted for the period after 2020, which are to unblock the innovation potential and the creation of workplaces for research-development-innovation.

The analysis of the social, economic and environmental impact of the four scenarios is to allow for the identification of the most efficient way to achieve the set objective, while being consistent with the principles of subsidiarity and proportionality.

These scenarios are presented below:

Scenario 1: bio-economy considered from the perspective of “normal or regular businesses”.

Scenario 2: research and innovation coordinated outside EU: in this option, the EU research efforts in the field of bio-economics are no longer coordinated at community level, but each Member State is performing them apart. The coordination of the research and innovation efforts between the member states is relatively limited. Despite all, the policies on bio-economy continue within the national agreements on sectorial approach and with minimal coordination.

Scenario 3: the bio-economy is supported by increased efforts in the field of research and innovation. In this scenario, the bio-economic research benefits of a new approach supporting the Union of innovation via the Horizon 2020 program. The research is carried out specifically in an integrated approach of research and innovation in order to address the society challenges and to support innovation, in order to allow for better development of the products and processes on the market and to increase the social innovation. Moreover, it is supported by tools promoting the excellence on scientific basis and creates competitive industrial management and staff. Various policies related to bio-economy continue to function at sectorial approach both at EU and Member States levels. As specified in the draft for the Multiannual Financial Framework (CFM), the research

and innovation in bio-economy benefit of more funding compared to FP 7 (4.5 billion EUR for 2014-2020).

Scenario 4: bio-economy supported by the strengthened political interaction and increased efforts in the field of research and innovation: in this option, the bio-economy has a coherent interaction framework of sustained public policies targeting the conciliation of the competing activities and the overlapped initiatives. Research and innovation are so structured that they correspond to the political challenges and goals of the society. This scenario is related to CAP and PCP, and to policies related to industry, environment, and energy due to innovation potential in these fields. The future European Innovation Partnership (EIP) on “Agriculture Productivity and Sustainability”, proposed in the reforms package for CAP after 2013 and the Communication named “A Union of Innovation” is to become, for instance, a key-instrument for inducing the innovation in agriculture.

The regional policy contributes in the development of innovative new enterprises and infrastructures in Europe. Ensuring proper human capital supposes the coordination with the training and educational policies. The research in the field of bio-economy benefits of a new approach while supporting the Innovation Union implementation via Horizon 2020 Program: research is carried out in a new inter-disciplinary approach, targeting namely how to address the bio-economic society challenges, and making efforts to support innovation in order to allow for a better development of the products and processes on the market. Research and innovation in bio-economy benefit of increased funding compared to the current level, as specified in the Multiannual Financial Framework (MFF).

## 7. Conclusions

Innovation and knowledge are regarded as symbols of human beings' emancipation, as they bring about competitive advantage and economic growth. Recently, they are the central elements of the strategies for sustainable development and for transition to bio-economy. The new attitude towards the nature causes a wiser management of the natural resources, and production patterns environment friendly as well.

A biomass-based economy instead of fossil fuels represents a significant change in the socioeconomic, agriculture, energetic and technical systems. This type of economy may achieve the sustainability requirements ecologically, socially and economically.

In this context, it can be supposed that bio-economy is to represent an opportunity for decoupling the industrial development

from environmental deterioration by using production methods based on biotechnology at industrial level. A balance has to be ensured between the existing natural resources and the economic aspirations, and it could be easily comprised in bio-economy. In addition, the establishment of new non-food markets in synergy with the existing food ones and in combination with alternative sources of income may provide for the rural region with a major impetus.

This paper tried to prove that bio-economy is much more than a simple evolution of the knowledge based economy, though it is part of it, towards a smarter sustainable economy, favorable to inclusion. The challenge human kind is currently facing is precisely to reach this balance between the current technical means and technology and the wish to maintain a clean environment and biodiversity for future generations.

---

## REFERENCES:

1. **Georgescu-Roegen, N.**, (1971), *The Entropy Law and the Economic Process*, Harvard University Press.
2. **Herman, E. D.**, (2007), *Ecological Economics and Sustainable Development*, Selected Essays of Herman Daly, Edward Elgar Publishing, Inc., ISBN 978 1 84720 101 0.
3. UN, (2010), *Report Global Biodiversity Outlook (GBO-3) 2010*. [4] IEA (2013) *World Energy Outlook 2013*. International Energy Agency, Paris.
4. FAO, (2012) *World Agriculture towards 2030/2050: The 2012 Revision*. ESA Working Paper 12-03, United Nations Food and Agriculture Organization, Rome.
5. **Rulli, M.C., Savioli, A., D'Odorico, P.** (2013) *Global Land and Water Grabbing*. Proceedings of the National Academy of Sciences, 110, 892-897. <http://dx.doi.org/10.1073/pnas.1213163110>
6. OECD (2009), *The Bioeconomy to 2030: Designing a Policy Agenda*, Main Findings and Policy Conclusions. OECD, Paris.
7. DESA/UN (2015), *World Urbanization Prospects: The 2014 Revision*. Department of Economic and Social Affairs, Population Division, United Nations, New York, <https://esa.un.org/unpd/wup/publications/files/wup2014-report.pdf>
8. DG Research (2006), *FP7 Theme 2: Food, Agriculture, Fisheries and Biotechnology*. 2007 A. 40 Work Programme.

9. EPSO (2011), *The European Bioeconomy in 2030: Delivering Sustainable Growth by Addressing the Grand Societal Challenges*. European Plant Science Organisation, <http://www.epsoweb.org/file/560>
10. European Commission (2012), *Innovating for Sustainable Growth: A Bioeconomy for Europe*. COM (2012) 60. [http://ec.europa.eu/research/bioeconomy/pdf/official-strategy\\_en.pdf](http://ec.europa.eu/research/bioeconomy/pdf/official-strategy_en.pdf)
11. CEN (2011) *Biobased Products - Overview of Standards* (CEN/TR 16208:2011). European Committee for Standardisation (CEN).
12. Naik, S.N., Goud, V.V., Rout, P.K., Dalai, A.K. (2010), *Production of First and Second Generation Biofuels: A Comprehensive Review*. Renewable and Sustainable Energy Reviews, 14, 578-597. <http://dx.doi.org/10.1016/j.rser.2009.10.003>
13. Stupak, I., Asikainen, A., Jonsell, M., Ravn, H. and Tamminen, P. (2007), *Sustainable Utilization of Forest Biomass for Energy—Possibilities and Problems: Policy, Legislation, Certification, and Recommendations and Guidelines in the Nordic, Baltic, and Other European Countries*. Biomass and Bioenergy, 31, 666-684. <http://dx.doi.org/10.1016/j.biombioe.2007.06.012>
14. European Commission (2014), *Where Next for the European Bioeconomy?* [http://ec.europa.eu/research/bioeconomy/pdf/where-next-for-european-bioeconomy-report-0809102014\\_en.pdf](http://ec.europa.eu/research/bioeconomy/pdf/where-next-for-european-bioeconomy-report-0809102014_en.pdf) [40] European Commission (2014b) Bioeconomy Panel. [http://ec.europa.eu/research/bioeconomy/policy/panel\\_en.htm](http://ec.europa.eu/research/bioeconomy/policy/panel_en.htm)
15. European Commission (2014), *Horizon 2020. Food Security, Sustainable Agriculture and Forestry, Marine, Maritime and Inland Water Research and the Bioeconomy*. <https://ec.europa.eu/programmes/horizon2020/en/h2020-section/food-security-sustainable>
16. European Association for Bioindustries (EuropaBio) (2011) *Building a Bio-Based Economy for Europe in 2020*. European Association for Bioindustries, Brussels, 2011.
17. <https://www.eia.gov/>.
18. <http://www.fao.org/home/en/>.

## Population Aging In Romania

Aging: the only means of living longer.

Voltaire

(His real name was François-Marie Arouet.

Born on November 21, 1694, Paris, the Kingdom of France,

deceased May 30, 1778 Paris, the Kingdom of France

(French Enlightenment writer and philosopher)

~ Ph. D. Student **Florian Gurămultă** (Advanced Studies, Romanian Academy,  
Calea Victoriei, Bucharest, Romania)

E-mail: [floring14@yahoo.com](mailto:floring14@yahoo.com)

**Abstract:** This paper emphasizes that population aging concerns the world, the public environment and scientific research and a discerning approach may create the assumptions for economic revival. Work-force nowadays acknowledges realities involving permanent adjustment and reorientation depending on developments in the technical and technological fields and its migration has become an almost instantaneous phenomenon. For this purpose, it is necessary to consider the fact that along with migration, dislocations in the active population occur, which often are not immediately supported by new contingents; therefore disturbances are created both on the labour market but also in the demographic plan. It is important to seek solutions to minimize their impact on the Romanian economy affecting economic growth and the level of development. Labour migration is mainly amplified by economic reasons. Labour force migration is a phenomenon which may have some benefits on international markets such as the European labour market considering its role in stabilizing the European labour market. At the same time it may represent a major benefit in balancing unemployment rate in the Euro area, or even in some European states which are aware of the labour market imbalances. However, it should be noted that population aging is recorded

*in the regions where dislocations occur: it is a phenomenon which may generate a decline in the economic growth and affect the living standard, should there be no thorough analysis. Therefore a closer monitoring of migration is mandatory, as aging population is one of its consequences, which must be investigated in the regional context.*

**Key words:** demography, aging, migration, economic growth, standard of living.

**JEL Classification:** J11, J61, O15

## Introduction

Issues relating to national economy have represented a permanent concern for researchers, the academic environment and specialists, especially in approaching the new economic context after the change occurred in 1989. Almost all the states which change to the new economy system have sought and have been concerned with finding solutions for economic restructuring and to cope with the context and reality they were experiencing. Labour force was an important element, as a factor of production used in different combinations to manufacture goods, services necessary for consumption. Romania has been confronted with a natural phenomenon of population decline since 1990 until nowadays. Another important element that should be taken into account is the one relating to migration, which includes both its internal and external forms. Migration is an important factor at the international level and it has occurred more and more often in the past few years. Migration from areas such as Asia, the Middle East and North Africa towards more developed areas in Europe represents a reality of the present; conflicts, poverty, social inequalities, lack of good jobs and natural environment are among the main reasons.

Environment is an important element affecting migration, which is being discussed during international political and economic

meetings. It is brought into attention by the importance of the phenomenon as well as by the effects of this process which also starts from issues related to the environment.

During the Eurasian Economic Summit held on February 6-7, 2019 in Istanbul, at the 22nd century Eurasian Economic Summit, a series of issues such as the leaders' responsibilities for the future of our society, globalization, health, migration, populism, as well as the role of religions in today's society were discussed. At the same time the summit sessions have included speeches on various topics such as technology development and future of humankind, new dimensions of globalisation, religious dimensions of water and the relationship between water and migration.

Over 300 participants from 44 countries, among which state and government leaders, presidents and members of Parliament, ministers, religious leaders, headed by His All-Holiness Ecumenical Patriarch Bartholomew the first, political analysts, representatives of the business environment, writers, journalists, UN representatives and other international organizations attended this meeting. Abdullah GÜL, President of the Republic of Turkey (2007-2014), Bujar NISHANI, President of Albania (2012-2017), Danilo TURK, President of Slovenia (2007-2012), Phil VUJANOVIĆ, President of Montenegro (2006-2018), Gjorge IVANOV, President



of Macedonia, IVO JOSIPOVIĆ, President of Croatia (2010-2015), Mladen IVANIC, President of Bosnia and Herzegovina (2014-2018), Petru Lucinschi, President of the Republic of Moldova (1997-2001), Stjepan MESIĆ, President of Croatia (2000-2010), Valdis ZATLERS, President of Latvia (2007-2011), Ali YERLİKAYA Governor of Istanbul, Mevlüt ÇAVUSOĞLU, Minister of Foreign Affairs of the Republic of Turkey, Alenka BRATUSEK, Vice Prime Minister of Slovenia, Elena KIRTICHEVA Ph.D., Ambassador, Secretary General of the Economic Forum in Vienna, prof. Vujica LAZOVIC Ph.D., former Vice Prime Minister of Montenegro, Seyed Kamal KHARRAZI Ph.D., Minister of Foreign Affairs of Iran (1997-2005), Dumitru Braghis Prime Minister of the Republic of Moldova (1999-2001), Archbishop Bartholomew, Ecumenical Patriarch of Constantinople, Patriarchal Vicar of the Syrian Orthodox Church in Istanbul, Leonardo MANZARI, Director of the European Institute For Eurasian Dialogue were some of the personalities present at the 22nd edition of the summit.

During the Eurasian Economic Summit in 2019, His Excellency Mr. Emil Constantinescu, the President of The Institute for Advanced Studies in Levant Culture and Civilization - Centre of Excellence of the World Academy of Art & Science, and Luiza Niță, the History Of Culture And Civilisation Directorate, have emphasized the role of education and humanism as solutions of the current populism, defined as a social and moral failure of the Western representative democracy: "By the degradation of the level of culture and education, society lacks people able to judge by their own and we are heading towards a society with democratic institutions,

but without citizens. In my opinion, there is a need for a new humanism based on the universal moral values and it can be promoted only in the academic environment and used as the basis for the reconstruction of civil society, able to revive the democratic institutions. This is our responsibility, of the academic environment".

Bartholomew, the Ecumenical Patriarch, expressed during this international forum the opinion that there is an implicit connection between the water deficit and migration, which is not a "simplistic and superficial" one. At the same time, Patriarch Bartholomew pleaded for everyone's right to have access to the natural resources of the planet; if denied, this will inevitably and gradually lead to "severe challenges and serious conflicts".

His Holiness believed that clean water represented a fundamental right and mentioned that "It is, therefore, our choice and your choice to pay attention to these connections and support access to clean water for each human being". He also pointed out that "Access to clean water is a fundamental human right, inviolable and non-negotiable". While referring to those over two billion people who "are tragically forced to live without enough and suitable water for household or personal use", the Patriarch considered that "water does not belong and may not belong to a person or a nation, it belongs to the whole world forever".

Therefore migration is a phenomenon that is discussed and addressed from scientific, cultural, academic points of view within the framework of international events, as permanent attempts to find solutions.

One should consider that migration is influenced by a number of factors related to the natural environment, but there are also

reasons including living conditions, the level of development.

In terms of the age of persons who are involved in migration, greater attention should be given to people who should constitute families and give birth to children and who contribute to the growth of birth rate.

However, the absence of favourable living and development conditions leads to migration to areas of the world which can provide such conditions, whereas other areas face population aging. Such a phenomenon is not just at international level, but it also occurs within Member States. Romania has also been facing population aging for more than 30 years. It is necessary to submit important efforts to insure balance. The author's opinion according to which Romania needs help instead of criticism is obvious. It is important to use research, foreign in particular, as well as Romanian literature for us to find the best way to develop.

Romanian research in the field of demography and of research on births and deaths consists of a treasure with valuable works published abroad at the highest scientific and academic level.

## 1. Literature research

We shall discuss a topic already studied by Nicholas Georgescu-Roegen, namely the influence of the mother's age, rank of birth and birth order on stillbirth (1928-1930, France).

The famous economist along with other researchers reached conclusions in his study on birth depending on the mother's age and the number of children already born by the same mother. We shall present these conclusions in this paper.

The mortality rate for the first born, according to the researchers, is likely to be influenced by the duration of the marriage in a first stage - if this marriage lasts less or longer than nine months. They also claim that stillbirth is much higher when mothers are married for more than nine months than in the other case. It is considered that this difference is given by a social selection, which influences stillbirths of children born of mothers married for less than nine months. Research shows that many illegitimate relationships, followed by pregnancy, are not legitimized if the child is born prematurely, dead, whereas the child who is born at term, alive, is declared after the relationship has become a legitimate one.

Table no. 1 Stillbirth coefficient of the first born

The mother's age	Duration of marriage		Coefficient
	< 9 months	> 9 months	
< or equal to 20	28.3	31.4	90.1
20 - 24	30.3	34.2	88.6
25 - 29	38.7	48.1	80.5
30 - 34	52.2	72.7	71.9
39 - 39	68.4	108.6	63.0
40 < or equal	108.9	153.3	71.0



The researchers who are the authors of the study do not believe that this difference expresses the influence which duration of the marriage may exert on the coefficient of stillbirths in case of first time mothers. According to their opinion, this influence, should it manifest itself, would only be limited, because the difference mentioned also affects very young mothers who, however, must be married only for a little while.

The research supports the assessment according to which the coefficient of stillbirths grows, in general, with the mother's age.

The analysis of this law also emphasizes the fact that in relation to the order of births, there are a number of exceptions which are significant. Thus, for the second, third and fourth child, stillbirth is higher for very young mothers (under 20 years old); for the sixth and seventh child, there is a minimum number of stillbirths in the case of mothers aged between 25 and 30 years.

The authors of the research also notice the reason for this difference: repeated pregnancies exhaust very young mothers; on the contrary, it is known that, after the age of 27, 28 years, one of the most important causes of dystocia among first time mothers is ossification of the sacrococcygeal ligament.

In a situation where one passes from a rank of birth to the next one, the authors of the research noticed that stillbirths in general decline for normal cases, respectively for those where there is a compatibility between the mother's age and the number of children she has given birth to. Therefore it is considered that stillbirth for a given age group begins by dropping and it grows in the end. The growth of stillbirths for the highest birth ranks is all the more accentuated as the

mother is younger. Therefore, the stillbirth of the seventh child born of a mother aged 20 to 24 years is much higher than stillbirth of the first born.

## 2. Population aging in Romania

The decline of population is influenced by the natural decline of population and the large number of people who emigrated but by other elements as well, such as the development conditions which fail to be sustainable for young people and the families they form. As for data at European level, one may approximate to be ample and favour research on populations at national level. At a national level, demographic data and information are for the most part aggregates of the records relating to the deaths, births, marriage, divorces, changes of the domicile or country residence, emigration and immigration.

Natural decline of population as well as migration with change of residence within cities are phenomena undergoing a concerning development. In order to analyse the entire change (growth and decline), the contribution of external migration with change of habitual residence (place of residence for at least 12 months), the numbers of emigrants and immigrants are required. There are no details or synthesizing information among national statistics on the level of migration at the level of localities by means of proper statistical instruments, at least for the time being. Some estimates are made only at county level, which can contribute to the calculations of the population resident in the counties, but which are only estimates. The next population census in the year 2021 aims at acknowledging the population resident in the cities, counties, regions and at national level.

On the basis of the estimated number of the population resident in the counties at the beginning of the year, but also of the natural growth and decline and the county migration may be deducted by estimating the size of external migration, but the reliability of the data does not provide the best accuracy yet.

We try to determine in this paper the natural population growth and decline at the level of localities (common, city, and municipality), the internal migration with change of habitual residence (where the person lives). We mention that we shall use the concept of resident population as it is used in the European Union, after the year 2010.

Without knowing the size of the population resident in localities, we believe that its growth or decline may be determined naturally or by growth or decline of the internal migration, which is an expression of the direction and the amplitude of the changes in the resident population.

The dimensions and features of the depopulation of the country at the territorial level refer to the year 2017 and shall be better assessed by reference to the prior data on the phenomenon at national level during the whole period between 1990 and 2018 and data in table no. 2 (results from other author's research) provide this framework.

Table no. 2 Diminished number of the resident population in the period between 1990 and 2018 and the components of the decline

Period	Decline in the number of individuals	The contribution of natural decline and external migration	
		Natural decline	Net migration
1990-2002	thousand people		
	-1584	-259	-1325
	proportions - in %		
	100.0	16.4	83.6
2003-.010	thousand people		
	-1428	-327	-1101
	proportions - in %		
	100.0	22.9	77.1
2011-2018	thousand people		
	-799	-503	-296
	proportions - in %		
	100.0	62.9	37.1
1990-2018	thousand people		
	-3812	-1090	-2722
	proportions - in %		
	100.0	28.6	71.4

Data Source: Diminished population and natural decline: According to the National Statistics Institute (hereinafter called INS); net migration: and the author's own calculations

Some opinions should be considered based on the data and information presented above:

- one can notice the amplitude the decline of resident population, which reached 3.8 million between 1990 and 2018 and which is expected to reach 4 million in 2020;

- the net trend of diminished development because of external migration throughout the period, by the large number of emigrants during the first two sub-periods;

- the diminished extent of the decline by external migration after 2010, the concomitant growth in the level of the decline by natural drop and establishment of this element as the main cause of diminished population of the country;

- the natural decline of population has elements that determine the occurrence of the phenomenon and also ways of propagation more complex than migration, based on economic, social, cultural, medical and environmental dimensions, but also a series of factors and ways of working that determine the birth rate and mortality of population and which are visible in time, as they manifest rigidity in case of change;

- natural decline of the population which exceeds 1 million inhabitants and to which almost 70 thousand inhabitants have been added annually starting with 2016; it is extremely worrying for the evolution of the country's population; natural decline by improving the conditions essential for birth rate improvement and decline of population mortality rate is a purpose quite difficult to implement and requires extensive material and financial costs.

### 3. Natural growth and migration at regional level

According to the Romanian national statistical data from the National Institute of Statistics with regard to the natural movement and internal migration with change of residence in localities (communes, cities and municipalities), the impact of two components on the development of the number of the resident population grouped on localities in 2017 may be determined: natural growth and/or decline of population (as the difference between the number of live and dead new born children) and internal migration with change of residence between localities. Another component may also be considered, namely external migration, but it is not known due to lack of statistical instruments for registration in the national statistical records. However there are some estimates available regarding external migration at county level, but with a low degree of reliability.

However they help us draft the demographic profile of localities through the assessment of the correlations between natural growth and/or decline of population and the net internal migration on one level and external migration from localities in the counties on another level.

A radiography on the evolution of the population resident in the counties in the year 2017 and the role of the three components mentioned above on the growth and decline can be seen in Table no. 3.

Absolute values were used to illustrate more precisely the degree of population decline (decrease) for the three components in 2017. As can be noticed, population decline is almost generalized only in Bucharest, whereas there is a growth in the number

of individuals (number of inhabitants) in a small number of counties, namely Braşov, Cluj, Iaşi, Sibiu, Timiş and Ilfov county. These components are territorial; those where economic activities allow ensuring living conditions and a development level of the individual and family are more favourable to

evolution and development. The growth in Braşov, Cluj, Iaşi, Sibiu, Timiş counties derives solely from internal migration; all these counties faced natural decline of population. There was also natural decline in the capital city of Bucharest, but internal and external migration prevailed.

Table no. 3 Growth/decline the number of individuals, natural growth/decline, internal and external migration in 2017, author's calculations

County	Growth / decline in the number of individuals	Natural growth/ decline	Net internal migration	Net external migration	County	Growth/ decline of number of individuals	Natural growth/ decline	Net internal migration	Net external migration
Alba	-2662	-1393	-551	-718	Hunedoara	-4554	-2459	-1433	-662
Arad	-2669	-2328	823	-1164	Ialomiţa	-3137	-1445	-1104	-588
Argeş	-4831	-2336	-1164	-1331	Iaşi	1233	-419	2274	-622
Bacău	-4619	-2746	-1129	-744	Ilfov	12928	844	14353	-2269
Bihor	-2326	-1570	576	-1332	Maramureş	-2133	-1132	-501	-500
Bistriţa N.	-1326	-368	-346	-612	Mehedinţi	-4339	-1983	-1040	-1316
Botoşani	-5358	-2195	-1806	-1357	Mureş	-2461	-1203	-98	-1160
Brasov	436	-250	1414	-728	Neamţ	-4397	-2538	-1413	-446
Brăila	-4982	-2455	-1446	-1081	Olt	-6939	-3296	-1758	-1885
Buzău	-6027	-3256	-1244	-1527	Prahova	-7228	-3991	-1148	-2089
Caras S.	-4056	-2182	-1211	-663	Satu Mare	-1884	-942	-339	-603
Călăraşi	-4800	-1915	-1236	-1649	Sălaj	-2094	-649	-463	-982
Cluj	1855	-1018	4300	-1427	Sibiu	352	-85	1475	-1038
Constanţa	-2191	-1320	-70	-801	Suceava	-1145	-333	-217	-595
Covasna	-1424	-499	-432	-493	Teleorman	-8248	-3919	-2182	-2147
Dâmboviţa	-5129	-2376	-767	-1986	Timiş	3298	-770	4443	-375
Doli	-4678	-3932	-266	-480	Tulcea	-2962	-1273	-1005	-684
Galaţi	-4958	-2530	-2024	-404	Vaslui	-4143	-1808	-2155	-180
Giurgiu	-4771	-2065	94	-2800	Vâlcea	-3528	-1023	-1204	-1301
Gorj	-3716	-1562	-1300	-854	Vrancea	-3657	-1876	-758	-1023
Harghita	-1429	-480	-408	-541	Bucharest	980	-2049	2466	563
Romania						-113719	-71125	0	-42594
Population growth					Natural growth of population				
Population decline					Natural decline				
Decline of the number of individuals					The lowest internal migration				
Positive internal migration					The lowest external migration				
					Positive external migration				

Data Source: Population growth/decline, natural growth/decline, internal and external migration in 2017: The National Statistics Institute (hereinafter called INS); author's own calculations

As regards the decline of the number of individuals, Prahova, Teleorman, Buzău, Botoşani counties have the highest values. Prahova, Dolj, Buzău and Teleorman counties are relevant in terms of natural decline. The lowest internal migration was registered in Teleorman, Vaslui, Galaţi and Botoşani counties. The lowest values concerning external migration were recorded in Ilfov and Giurgiu, Teleorman and Dâmboviţa counties.

#### 4. Conclusions

To conclude, we notice the extent of the population decline between 1990 and 2018 and the contribution of natural decline and external migration, at the national level.

The information in Table 3 shows the contributions of the three components, natural growth / decline, internal migration and external migration, to the growth / decline

in the number of resident population in the counties in 2017.

The demographic decline in the regional plan is acknowledged, which creates a pressure on the companies seeking workforce, which can be increasingly difficult to find due to aging population and migration. Due to the lack of internal workforce, foreign

labour force is a solution, but one should also consider the risks arising from here.

It is appropriate to continue and investigate these matters more thoroughly, as they concern the risks to attract and use workforce from abroad, mainly from countries in the Middle East and Asia.

## REFERENCES:

1. **Aceleanu, Mirela**, *Indicators Of Migration And Their Relevance To Employment And Quality Of Life Analysis. Romania's Situation, Management & Marketing. Challenges for the Knowledge Society, Volume 6, Special Issue/Summer, 2011*, <http://managementmarketing.ro/>
2. **Ailenei, D.**, *Diminuarea inegalităților – condiție esențială a coeziunii economice și sociale*, <http://www.coeziune.ase.ro/files/Lucrare%20faza%203.pdf>, 2009, accesat la 10 August 2012
3. **Alvarez-Plata, P., Brücker, H. și Siliverstovs, B.**, *Potential migration from Central and Eastern Europe into the EU-15–An update*, Berlin, DIW, 2003
4. **Avram, C.D., Avram, V.**, *The Flexicurity Of The Romanian Labour Market From The Perspective Of The Employees And The Employers*, *International Journal of Systems Applications, Engineering & Development*, Issue 2, Volume 5, 2011
5. **Babucea, Ana Gabriela**, *Statistică - Teorie și aplicații*, Editura Scrisul Românesc, Craiova, 2003
6. **Lowell, B. L.**, *Skilled Migration Abroad or Human Capital Flight?*, Migration Information Source, 2003, disponibil la <http://www.migrationinformation.org/Feature/display.cfm?ID=135>, accesat la 25.08.2012
7. **Massey, Douglas, Arango, Joaquin, Hugo, Graeme, Kouaouci, Ali, Pellegrino, Adela Taylor, Edward J.**, *Worlds in motion. Understanding international migration at the end of the millennium*, Oxford: Clarendon Press, 1998
8. **Milos, Laura Raisa, Corduneanu, Carmen**, *Diversity of the pension systems in the European Union countries*, *Analele Științifice ale Universității Al.I. Cuza din Iași*, tomul LVIII, 2011

## Regional Economic Analyses. Regional Development

~ Ph. D. **Adina Maria Moțica** (Advanced Studies, Romanian Academy, Calea Victoriei, Bucharest, Romania)

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

**Abstract:** *One of the goals of the national development policy is to support the sustainable economic and social growth of regions territorially balanced in Romania, in order to reduce economic and social inequalities among regions. The presence of multiple functional links in regional economy among processes being variable in time and space leads to the use of panel data models. Such models include regression equations where one uses series that are a combination of time series and cross-sectional data series. This paper presents theoretically the main elements of panel data analysis.*

**Keywords:** regional development; sustainable development; panel data models

## Introduction

In regional analyzes, an important place is taken by mathematical and statistical tools, which simulate certain evolutions in order to assess territorial influences, interactions between internal and external factors, to identify alternative ways of managing in an optimal way the necessary resources. These analytical tools, generically called econometric models, aim at examining aggregates and their relationships, while other models assess in an integrated manner a potential future state of system development or address specific issues (occupied population, income, infrastructure, environment, etc.).

Complex models are built on a variety of models, and can be applied both nationally and regionally, depending on the availability of statistical data and information.

Due to its rigorous side, economic modeling is a managerial tool for optimizing (material, human, financial) resources with objectives set in a given period of time, offering the opportunity to make the best decision under certain given conditions without distorting the reality.

In turn, the models presented above can be descriptive and normative. The descriptive ones represent a simplification of reality, while the normative ones allow for the future behavior of the economic phenomenon. Econometric methods that use mathematical formulas to analyze a particular economic phenomenon are built on a logical and coherent sequence of operations and formulas, known as algorithms. The result of the model obtained with the algorithm is analyzed and if it is considered to be convenient it can be the basis of a decision. Also, any econometric system is based on various exogenous and endogenous variables.

Region or territory can be regarded as a system of relations and processes. In general, regional systems are characterized by a series of relationships that address certain aspects, as follows:

1. Aspects related to natural potential (natural resources, location, influences of different infrastructure elements, etc.);
2. Aspects regarding accessibility / transport / mobility level;
3. Elements of technological nature (investment, entrepreneurship, clusters, etc.);
4. Operational aspects (regional sales relations, services, etc.).

Any region may be defined by the interaction of the above-mentioned aspects, which work within a general system (national, community one). The region can be approached and analyzed as a complex subsystem, defined by a series of specific or general variables. These variables may be input, state (characterizing the behavior of the subsystem at a given time or for a specified period) and output (determined). The multitude of characteristics of such a subsystem determines its state (the region has a functional, socio-economic structure that allows its further development but at the same time it is in connection with other development regions, influenced by them and influencing them, in turn, through the inputs and outputs into and from the system to which it belongs).

At present, the complexity of the problems faced by regional systems implies a new type of approach, based in particular on the analysis of the characteristics and interactions between them by means of econometric techniques and models, increasingly appealing to the statistical-mathematic (and even informatics) instrument that provides the possibility of viable predictions and conclusions



that can contribute to a better substantiation of regional policies and strategies.

There are a multitude of econometric models developed for the analysis of a territorial system (classical models, basic economic models, input-output models, matrix-models of social accounting, econometric integrated and input-output models, general equilibrium models, etc.). Of these, a special place is held by panel analysis, which can render individual peculiarities, invariant structures of a certain statistical unit at a given moment in time; thus distortion induced by the aggregation of data can be reduced or eliminated.

Panel analysis brings an increase in information by capturing individual variability, reducing the multi-collinear type of variables, increasing the number of degrees of freedom - and, implicitly, the power of the tests, thus the degree of confidence in the obtained results. Also, panel analysis increases the efficiency and consistency of econometric

estimates and allows constructing and testing more complex behavioral models than models based on time series or cross-sectional analysis. This panel analysis allows for a better analysis of the dynamics of structural adjustments (Jula D., 2011).

This paper intends to perform a theoretical approach to panel analysis, presenting the main elements that characterize it and how it can operate at regional level.

### General aspects of panel data econometrics

Panel data analysis (also known as longitudinal or transverse analysis of time series data) is an analysis on a set of data in which entity behavior is observed over time. These entities may be states, companies, individuals, regions, countries, etc. Data from the panel analysis are as follows:

Region	Year	x	y
Region 1	2000	6,0	7,8
Region 1	2001	4,6	6,7
Region 2	2000	9,1	9,3
Region 3	2001	8,1	8,7
Region 3	2002	9,7	10,1
Region 3	2003	9,8	10,3

Panel data allow for a control over some variables that cannot be used, so that they meet or measure as factors, differences, or variables. It counts for individual heterogeneity. Using panel data, variables can be included at different levels of analysis (i.e., districts, regions, states) for multi-level modeling or hierarchies. Some of the drawbacks of the analysis are data collection (i.e.

sampling, design, coverage), non-responses or correlations .

Data analysis involves an analysis of fixed effects and an analysis of random effects.

Fixed data analysis (the covariance model within the estimator, Dummy variable model, Square variable model).

Fixed effects assume the relationship between the predictor variable and the result of an entity (country, person, company, etc.). Each entity has its own individual characteristics that may or may not influence prediction variables (e.g. men or women) and may influence opinion on a particular issue. When using fixed effects, we assume that something can have an impact or a result, and this must be controlled. This involves the correlation between the entity's error term and the predictor variables. Fixed effects can eliminate the effect of those invariant time characteristics so they can evaluate the net effect of a predictor on the result variable.

Fixed effects are invariable time characteristics, unique to the individual / entity and should not be related to other features. Each entity is different; therefore, the entity's error and constant (capturing individual characteristics) should not be correlated with the others. If the terms of error are correlated, then the fixed effects are not appropriate because they may not be correct and this relationship should be modeled (probably using random effects). This is also called the main rationale of the Hausman test.

The fixed effects model equation is

$$Y_{it} = \beta_1 X_{it} + \alpha_i + u_{it}$$

Where  $\alpha_i$  ( $i=1 \dots n$ ) is the unknown intercept for each entity ( $n$  entities - specific intercepts).  $Y_{it}$  is the dependent variable (DV), where  $i$  = entity and  $t$  = time.  $X_{it}$  is an independent variable,  $\beta_1$  is the coefficient for IV,  $u_{it}$  is error.

We can add the coefficient of time in the entity model and obtain a regression model of the fixed effects:

$$Y_{it} = \beta_0 + \beta_1 X_{1,it} + \dots + \beta_k X_{k,it} + \gamma_2 E_2 + \dots + \gamma_n E_n + \delta_2 T_2 + \dots + \delta_t T_t + u_{it} \quad [2]$$

Where:

$Y_{it}$  is the dependent variable (DV), where  $i$  = entity and  $t$  = time.  $X_{k,it}$  represents the independent variable (IV),  $\beta_k$  is the coefficient for IV,  $u_{it}$  is the coefficient of error.

$E_n$  is the  $n$  entity.

If the series is binary (dummies), we have  $n-1$  entities comprised in the model.

And  $\gamma_2$  is the coefficient for binary regression (entity)  $T$  is the time of the binary variable (dummy), and we have the period  $t-1$ .  $\delta_t$  is the coefficient for the binary time regressor. Controlling effects over time when no variation or special events are expected to affect the result variable.

Random effects pattern (Random interception, partial sharing). The motivation behind the random effects model is that, unlike the fixed-effect model, the variance between entities is assumed to be random and uncorrelated with the predictor or independent variables included in the model: "... the crucial distinction between fixed and random effects is if not observed, the individual effect includes elements that are correlated with model regressors, and not whether these effects are stochastic or not" [Green, 2008]. If there are reasons to believe that differences between entities have a certain influence on the dependent variable then you should use random effects. An advantage of random effects is that it can include invariable time variables (for example, those related to gender). In the fixed effects model, these variables are absorbed by interception. The pattern with random effects is:

$$Y_{it} = \beta_1 X_{it} + \alpha + u_{it} + \epsilon_{it}$$

Random effects assume that the entity's error term is not correlated with predictors that allow invariant time variables to play a variable explanatory role.

In random effects, you need to specify those individual characteristics that may or

may not influence predictor variables. The problem with this is that for some features, variables may not be available, which results in a variable bias in the pattern. This pattern with random effects allows generalizing inferences beyond the sample used in the pattern.

As previously found out, panel data models assume the estimation of regression equations in which series are used, which are simultaneous time series and cross-sectional data. Thus, with this type of model, a single coefficient can be determined which expresses the impact of a macroeconomic variable on the performance of a group of companies.

Models with panel data allow:

1. summing a single coefficient of the impact of a variable on a group of dependent variable time series (group of companies, countries, etc.);
2. estimation of specific coefficients (constant or coefficients of independent variables) for each time series considered as dependent variable - fixed effects;
3. the grouping of the dependent variables into categories and the estimation of the impact of the category from which the variable depends on its evolution.

Panel analysis uses several categories of data, such as the nature of monthly (quarterly, yearly) dynamics, unemployment rate (or earnings, wage earnings, etc.), data on counties or regions (countries), dynamics of industrial production, branches, VAB dynamics by quarter and branch, quarterly dynamics of GDP, on structure of use, foreign direct investment dynamics by country, GDP (inflation, unemployment rate, public debt, etc.) evolution by country or regions.

The increasing interest in panel data, as well as the increasing availability of statistical

data, has led to the expansion of different statistical tests for panel data.

The study of data in panel structure requires joint analysis of cross-sectional observations (regions, countries, sectors, households, companies, etc.) over several time periods.

Although advances in space economics provide researchers with new ways to address regression problems associated with spatial dependence in regional data series, most applications consisted of one-equation models. However, for many economic issues, there are both endogenous variables and data on observations interacting in space.

The presence of several functional links in the regional economy between processes, variables in time and space, has led to the use of panel models. Such models include regression equations in which series are used, which are combined across data series and cross-sectional data series. As the situation occurs frequently when analyzing socio-economic aspects and processes, panel models are present in many specialist studies. Fischer, Manki, Romer, Weil, Levine and Renelt have conducted studies that have shown long-term economic growth based on panel-based models using some large samples from countries. Brueckner provides an overview of the strategic interaction between local governments based on two categories of panel models.

Arkadievich Kholodilin, Siliverstovs and Kooths perform a forecast of annual real GDP growth rates in each of the 16 German Landers using dynamic panel data models. Partridge investigates the link between revenue distribution and economic growth in the United States, using state data from 1960 to 2000.

Panel data generally provide more information, more variation, and the collinear type of variables is smaller. The higher the degree of freedom resulting from the use of panel data, the higher the efficiency of the estimate. Specifications on more complicated behavioral relationships that can not normally be addressed using cross-sectional data or time series are possible using panel data (Elhorst, 2003). Thus, the rationale for developing and implementing a spatial model with panel data is to improve the accuracy of hypothesis testing and subsequent deductions on the interdependencies between the fundamental variables of the model.

### Conclusions

Panel data analysis can be used successfully to allow building and testing some more complex behavioral models than models based on time series or cross-sectional analysis. This can be used because it has a number of advantages, as follows:

- the analysis can render the individual peculiarities, the invariant structures

of a certain statistical unit at some point in time; thus, distortion induced by aggregation of data can be reduced or eliminated;


- it brings an increase in information by capturing individual variability;
- it reduces the phenomenon of multi-collinear type of variables;
- it increases the number of degrees of freedom - and, implicitly, the strength of the tests, and consequently the degree of confidence in the obtained results;
- it increases the efficiency and consistency of econometric estimates;
- it allows for a better analysis of the dynamics of structural adjustments.

It is known that among processes at regional level there are a lot of interdependencies and inter-conditioning, variable in time and space. Highlighting these interdependencies and inter-conditioning can be achieved through panel data analysis that could be useful to central and local governments in order to improve integrated territorial development strategies and link them to national strategies.

### REFERENCES:

1. **Constantin, D.** (2004), *Economie regională. Aplicații și sinteze*, Editura Oscar Print, ISBN 973-8224-70-0; Regional Economy. Applications and Synthesis
2. **Constantin, D.L.**, *Economie regională*, Editura Oscar Print, București, 1998 - Regional Economics
3. **Constantin, D.L.**, *Introducere în teoria și practica dezvoltării regionale*, Editura Economică, București, 2001;- Introduction to Regional Development Theory and Practice
4. **Friedmann, J.; Alonso, W.** (1975), *Regional Policy: Readings in Theory and Applications*, Cambridge, Mass., MIT Press;
5. **Hsiao C.**, 1990, *Analysis of Panel Data*, Cambridge University Press;
6. **Iancu, A.** ,2009, *Problema convergenței economice în probleme ale integrării economice*, <http://oeconomica.org.ro/files/pdf/93.pdf>; - The Problem of Economic Convergence in the Problems of Economic Integration
7. **Isard, W.** (1957), *Methods of Regional Analysis*, Cambridge, Mass., The MIT Press;
8. **Jula D.** – *Economie Regională*, Ed Estfalia, București, 2002; - Regional Economics

9. **Jula D., Jula N.**, *The Romanian regions competitiveness*, 40Th. Congres of the European Regional Science Association, 29 AUGUST-1 SEPTEMBER 2000, Barcelona, <http://www.sre.wu-wien.ac.at/ersa/ersaconfs/ersa00/pdf-ersa/pdf/266.pdf>;
10. **Jula, D., Jula N. M.**, 2013. "Economic Growth and Structural Changes in Regional Employment," Journal for Economic Forecasting, Institute for Economic Forecasting, Institute for Economic Forecasting, vol. 0(2), pages 52-69, June;
11. **Jula, D., Jula, N.**, 2009. "Productivity and the Regional Employment in Services. Econometric Estimations for Romania," Journal for Economic Forecasting, Institute for Economic Forecasting, Institute for Economic Forecasting, vol. 6(3), pages 129-137, September;
12. **Jula D.**, *Econometrie*, Conferinta 9 aprilie 2011/programul SPODE, Academia Romana, [http://www.postdoc.acad.ro/data/files/ECONOMETRIE\\_-\\_prof.Jula.pdf](http://www.postdoc.acad.ro/data/files/ECONOMETRIE_-_prof.Jula.pdf); - Econometrics, Conference on April 9, 2011/ SPODE Program
13. **Jula N., Jula D.**, (2009), *Modelare economica. Modele econometrice si de optimizare*, Editura Mustang, ISBN 978-606-8058-14-6, [http://www.editura-mustang.ro/carti\\_universitare.php](http://www.editura-mustang.ro/carti_universitare.php); - Economic Modeling. Econometric and Optimization Models
14. **Jula D.**, (2012), *Econometrie*, Editura Mustang, ISBN 978-606-8058-81-8, [http://www.editura-mustang.ro/carti\\_universitare.php](http://www.editura-mustang.ro/carti_universitare.php); -Econometrics
15. **Kholodilin A. K., Siliverstovs B., Kooths S.** (2008), *A Dynamic Panel Data Approach to the Forecasting of the GDP of German Länder*, Spatial Economic Analysis 3(2): 195-207.
16. **Mitruț, C., Anghelache, C.** (coordonatori), **Bugudui, E., Deatcu, C.** (2009) – „*Econometrie: studii teoretice și practice*”, Editura Artifex, București; - Econometrics: Theoretical and Practical Studies
17. **Tošić, D.** (2005). *Regional Geography - quo vadis?* Globus, 36 (30), 3-14;
18. **Țurlea G. & Voineagu V.** (1998) – "Analiza stationaritatii seriilor de timp in economiile in tranzitie" (The analysis of time series stationarity for economies in transition), Romanian Economic Review, 1/1998. - Analysis of time series stationarity in economies in transition
19. **Voineagu Vergil și colaboratorii**, *Statistică economică*, Ed. Tribuna Economică, București, 2009. - Economic Statistics
20. DSS Online Training Section <http://dss.princeton.edu/training/>
21. UCLA Resources <http://www.ats.ucla.edu/stat/>
22. Princeton DSS Libguides <http://libguides.princeton.edu/dss Books/References>
23. "Beyond "Fixed Versus Random Effects": A framework for improving substantive and statistical analysis of panel, time-series cross-sectional, and multilevel data" / Brandom Bartels <http://polmeth.wustl.edu/retrieve.php?id=838>
24. "Robust Standard Errors for Panel Regressions with Cross-Sectional Dependence" / **Daniel Hoehle**, [http://fmwww.bc.edu/repec/bocode/x/xtscc\\_paper.pdf](http://fmwww.bc.edu/repec/bocode/x/xtscc_paper.pdf)
25. *An Introduction to Modern Econometrics Using Stata*/ **Christopher F. Baum**, Stata Press, 2006.
26. *Data analysis using regression and multilevel/hierarchical models* / **Andrew Gelman, Jennifer Hill**. Cambridge ; New York : Cambridge University Press, 2007.
27. *Data Analysis Using Stata*/ **Ulrich Kohler, Frauke Kreuter**, 2nd ed., Stata Press, 2009.
28. *Designing Social Inquiry: Scientific Inference in Qualitative Research* / **Gary King, Robert O. Keohane, Sidney Verba**, Princeton University Press, 1994.

29. *Econometric analysis* / **William H. Greene**. 6th ed., Upper Saddle River, N.J. : Prentice Hall, 2008. • *Econometric Analysis of Panel Data*, Badi H. Baltagi, Wiley, 2008
  30. *Introduction to econometrics* / **James H. Stock, Mark W. Watson**. 2nd ed., Boston: Pearson Addison Wesley, 2007.
  31. *Statistical Analysis: an interdisciplinary introduction to univariate & multivariate methods* / **Sam Kachigan**, New York : Radius Press, c1986
  32. *Statistics with Stata* (updated for version 9) / **Lawrence Hamilton**, Thomson Books/Cole, 2006
  33. *Unifying Political Methodology: The Likelihood Theory of Statistical Inference* / **Gary King**, Cambridge University Press, 1989
- 

## Company-level leadership models. The right way or the circumstance-related adequate one?

~ Ph. D. Associate Professor **Oana Simona Hudea** (Faculty of Business and Administration, University of Bucharest, Romania)

E-mail: [simona\\_hudea@yahoo.com](mailto:simona_hudea@yahoo.com)

**Abstract:** *An incertitude status always arises when dealing with leadership models: which is the best way to act? As simple as the provision of an answer to this question might look like, things highly depend on circumstances. We can all agree, we guess, that some leadership styles have proven their superior efficiency in relation to others, the ones based on extreme behaviours in the matter, for instance, not being, usually, recommended. However, despite of that, issues should be approached by true leaders considering the specific cases they face, be they related to the field of activity concerned, to the professional knowledge held by the group of people they coordinate, to their attitude or dedication, to the types of problems to solve, to the level of risk involved or to the surrounding circumstances, among others. Given the complex range of factors that might exert influences upon the choice of the most adequate leadership style, we are going to mainly focus, hereinafter, on the impact had on the same by the first three of the above-mentioned mentioned, revealing, for each and every considered case, our suggestion.*

**Keywords:** leadership models, leader flexibility, situational approach, company management, business profitability

**JEL Classification:** J59, M12, M54



## 1. Introduction

Being a leader and not just a simple manager becomes a serious challenge in a permanently evolving world in terms of fields of activity, technologies or knowledge, as well as in terms of cultural diversity, behavioural changes and so on. Besides, if leaders are the ones making others obey by virtue of their professionalism, charisma or power of example, making people follow them based on the self-persuasion that it is the best choice to make, true leaders mean much more.

The idea of being followed is proper up to a certain point, the remainder concerning the adequacy of the direction towards which such following action is oriented. This becomes more visible in case of public or private institutions, when the leader having also a managerial position should act so as to bring benefits to its stakeholders. In the specific case of businesses, this is finally reflected in the level of profitability that leaders are able to provide them with, via their actions.

The present paper, mainly emerging from a theoretical approach doubled by an intuition-based deductive descriptive analysis, made through the lens of a related experience-grounded manifestation in real life, reveals some quite ancient but still currently considered leadership models, with component styles appropriate in specific circumstances or avoidable in any case. This is rendered throughout the following four paper sections, namely Literature review, Research methodology, Results and discussions and Conclusions.

## 2. Literature review

A simple click or specialised book looking through-based leadership model-related

search will provide us with a significant series of general information concerning the same.

As in (Hudea, 2014), some of the largely known leadership models are the ones proposed by Lewin et al. (1939), Blake and Mouton (1964) or even, more recently, by Goleman, Boyatzis and McKee (2001).

Lewin classical model concerns nothing else but the desire of the manager-leader to involve more or less into the decisional processes of any kind, this resulting in the autocratic leadership style, with decisions exclusively made by the same, the democratic leadership style, when ideas and suggestions coming from employees are considered, at least, although not always implemented, and the laissez-faire leadership style, with decisions commonly made by all team members, so as to increase the company profitability, and finally approved by the hierarchical superior.

Blake and Mouton model or grid, in exchange, introduces two elements in relation to which the leadership styles should be defined: the concern for people and the concern for production. From such perspective, a series of five related styles emerge, more exactly the country club leadership style, with a core focus on people, the team leadership style, when both people and production are deemed to be tremendously important issues in getting a successful business, the status-quo leadership, with the same way directed concern, but lower in intensity in relation to the previously mentioned one, the impoverished leadership, with no effective involvement in either of the two specified elements, and the dictatorial leadership style, the production process being the only important aspect for the leader.

The real problem in here comes when having to choose the one fitting your particular needs, in the given circumstances.

At least in theory, such issue was solved by proposing the so-called "Situational leadership model" (Hersey and Blanchard, 1969), turned thereafter into two quite similar, but still slightly different models, namely the Situational Leadership Model I (Hersey and Blanchard, 1977, Hersey, 1985) and the Situational Leadership Model II (Blanchard et al., 1985), focussed on the adjustment of the leadership style based on several reference items.

The first one takes into consideration, the employee performance readiness in terms of both capability and willingness, helping the manager in determining the dosage of supervision or direction and the one of arousal or support needed by individuals, but also imposed by job characteristics or by specificity of tasks to be achieved, giving birth to the telling leadership style, when the low capability and high willingness of employees impose a strong supervision, the selling leadership style, needed whenever capability exists, however not being doubled by motivation, involving an increasing arousal, under supervision lowering conditions, the participating leadership style, characterized by a lack of motivation of capable employees, requiring consistent support, respectively the delegating leadership style, when the capable and ready to work employees need a low to moderate supervision and support.

The second one encompasses, also, four leadership styles rendering mixes of directive vs. supportive leadership behaviors to manifest, given the circumstances, this arising into the directing leadership style, with strong direction giving to the learning employee,

doubled by a low, non-overloading support, the coaching leadership style, slowly lowering the direction-related involvement of the leader, allowing the employee to learn by doing, while supporting more the same, the supporting leadership style, involving increased support and less direction, and the delegating leadership style, when both are diminished up to the optimum level needed by the employee.

Later on, in 2001, Goleman, Boyatzis and McKee came with a more developed structure, in fact just an adjusted mix of some elements of the above-specified models. Here, we find the visionary leadership style, embedding employees both supervision and support from the leader, the coaching leadership style, letting the same in discovering their strengths and weaknesses on their own, however not without providing them with certain level of guidance and with consistent support, the pacesetter leadership style, when the guidance and support received by employees are lowered, the commanding leadership style, when leaders are seriously focused on directing people towards the accomplishment of goals, without allowing them to be part of the decision-making process, the democratic leadership style, allowing for the involvement of subordinates, up to a certain level, in such process, and the affiliate leadership style, centred on people, on their needs.

### 3. Research methodology

The present paper, having its roots in a rather general theoretical context, intuitively transposed into practice considering an experience basis in such respect, uses a simple deduction method, empirically reflecting the

best choice in terms of leadership styles to be used by true leaders in order to generate the desired effects, mainly related, in this analysis, to the level of profitability achieved.

For reaching the paper aim, the circumstance-related appropriate leadership styles, identified from among the ones comprised in the models proposed by Lewin, Blake and Mouton, Hersey and Blanchard or Goleman, Boyatzis and McKee, as above-depicted, are determined given three core criteria, namely the field of activity concerned, the professional knowledge of subordinates, respectively their attitude and dedication.

#### 4. Results and discussions

Having in mind the current standing in terms of continuously evolving and changing societies, it is clear that we cannot deal any more either with an universal best leadership style, nor with a specific best leadership style constantly applicable once the related circumstances have been determined. However, although the manager-leader should permanently keep an eye on the sometimes sudden and unexpected changes affecting their activity, on the fluctuations of the reactions manifested by subordinates or on the institution profitability level ups and downs, among many other issues to be analysed, this one should be able to determine, with a quite stable frequency rate, the optimum leadership pattern.

Taking as a reference item the first mentioned criterion, with the purpose of outlining such pattern, that is the field of activity of the company or of the group of subordinates, we might say that:

⊙ when dealing with artistic or related activities:

⊙ the creativity of people should be encouraged via resorting to Lewin democratic leadership style or even laissez-faire leadership style, if the related subordinates are capable and conscientious or, otherwise said, if they manifest a proper attitude towards labour and dedication;

⊙ the focus should be mainly on people, therefore pushing the leader basically towards the Blake and Mouton country club leadership style, the team leadership style being a possible choice when the professional knowledge should be encouraged and the production level should be stimulated and the status-quo leadership style when things are already settled and have to be kept as such for a given period of time;

⊙ the professional knowledge, which might be missing or be present in the case of subordinates, and the usually existing dedication in the matter, issue most frequently encountered in artistic and associated activities, should make leaders orient towards Hersey telling leadership style, in the first case, respectively delegating leadership style, in the second one;

⊙ the more or less supportive attitude is needed when having to do with people working in the specified domain, as the case may be, giving tough directions being, certainly, not recommended, therefore Blanchard supporting leadership style and delegating leadership style or, in some cases, coaching leadership style, meant for increasing the professional background of the same, are the ones that should be had in view;

⊙ the emphasis on people, given their supposed dedication and creativity, that is to be stimulated, should make leaders use Goleman, Boyatzis and McKee affiliate leadership style and democratic leadership style,

the pacesetting leadership style being an option in case of a high professional level of the same.

- ⊙ when dealing with basic production activities:

- ⊙ considering the attitude and dedication of employees, Lewin autocratic leadership style, for low levels of such items or democratic leadership style, for adequate levels of the same, are recommendable, the laissez-faire leadership style not being usually indicated, save for some particular cases where people proving a high level of professional knowledge also manifest an adequate attitude and dedication at the work place;

- ⊙ the focus should be, certainly, on production, but also on people, in most of the cases, the leaders having to choose from among Blake and Mouton team leadership style, the usually preferred one, the dictatorial leadership style, when both the professional knowledge and dedication of employees are questionable or quite inexistent, respectively the status-quo leadership, when everything should be kept as it is for the moment;

- ⊙ all Hersey leadership styles might be considered, depending on the circumstances, the telling leadership style and the delegating leadership style being recommended in case of highly dedicated employees, not having or, on the contrary, evidencing increased rates of professional knowledge, while selling leadership style and participating leadership style having to be selected if the professional knowledge exists, to a moderate to high extent, the increase of the dedication and implication of subordinates via motivation, being necessary;

- ⊙ the same as before, all Blanchard leadership styles have their application depending on the case, the supporting

leadership style and the delegating leadership style being adequate for professional employees needing more or less support from their leaders, and the directing leadership style, respectively the coaching leadership style, when the professional level has to be augmented, without or with a consistent support provided by the related managing leader;

- ⊙ Goleman, Boyatzis and McKee visionary leadership style, as opposed to the pacesetting leadership style, is recommended for leaders undertaking to increase the professional knowledge base of their subordinates, as well as their dedication, the affiliate leadership style and the democratic leadership style, when the last issue is insisted upon, the professional level of employees being deemed consistent enough, the coaching leadership style, if subordinates have to find their own way, being supported up to a certain point by their leaders, respectively the commending leadership style, when the dedication of employees does not represent their strengths, the level professional knowledge being, as well, discussible.

- ⊙ when dealing with high level technological activities:

- ⊙ given the strictness of this field of activity as well as the work carried out in team, in most of the cases, involving inter-correlation of tasks, Lewin laissez-faire leadership style is out of the question, it being replaced either with the autocratic leadership style or with the democratic leadership style, the latter being recommendable when people certify both a high level of professional knowledge and dedication for their job;

- ⊙ production and people are equally important in such cases, high performance

specialists, as required for having a profitable business in the matter, involving also an increased attention to be paid for keeping employees loyal and fully dedicated to the company, Blake and Mouton team leadership style being, therefore, the largely recommended variant of action for related leaders;

- ⊙ as a low capability in the field is not acceptable, Hersey telling leadership style has to be, normally excluded, the same frequently happening, also, with the selling leadership style, the delegating leadership style being, in exchange, recommended, especially in case of employees manifesting dedication for their profession, and the participating leadership style, when the dedication and implication levels require improvements, supporting subordinates via motivation becoming necessary;

- ⊙ Blanchard leadership styles more appropriate in such context are the ones grounded on the existence of professional subordinates, the most recommended one being, therefore, the delegating leadership style, while the supporting leadership style comes as an alternative choice, in case of need for an increased level of motivation and support to be provided to employees, and the coaching leadership style, if there is still enough required space for professional knowledge improvement;

- ⊙ following the same idea of expected consistent professional knowledge of employees in the matter, Goleman, Boyatzis and McKee pacesetting leadership style looks like being a good way to act, mainly when dealing with dedicated people, the democratic leadership style seeming, from such perspective, to be a proper variant as well, in most circumstances.

## 5. Conclusions

Any leader, especially if this position is doubled by a managerial one, allowing the same to be stricter when coming about making decisions and asking for their implementation, has at disposal a large series of instruments to achieve performance, reflected, at institutional level, into a successful evolution of it and, for companies, even more precisely, into an increased level of its profitability.

Many variables should be had in mind by such leaders when deciding the best attitude to adopt in relation to their subordinates, these concerning the field of activity, the professional knowledge of the coordinated people, their attitude or dedication, the types of problems to solve, the intensity of the risks involved, the cultural diversity, the people behavioural fluctuations and so on. This is the reason why leaders should be highly analytical and flexible at the same time, being ready to choose, at any moment, the most appropriate leadership style, according to the given circumstances, considered as a whole, this involving, most often, the use of a mix of such patterns, individually rendered therein as proposed by some renown theoreticians in the matter.

## REFERENCES:

1. **Blake, R.; and Mouton, J.** (1964). *The Managerial Grid: The Key to Leadership Excellence*. Houston: Gulf Publishing Co.
2. **Blanchard, K.H., Zigarmi, P. and Zigarmi, D.** (1985). *Leadership and the One Minute Manager: Increasing Effectiveness through Situational Leadership*. New York: Morrow.
3. **Goleman, D, Boyatzis, R. and McKee, A.** (2001). *Primal Leadership: Unleashing the Power of Emotional Intelligence*. Harvard Business Review Press
4. **Hersey, P. and Blanchard, K. H.** (1969). *Management of Organizational Behavior – Utilizing Human Resources*. New Jersey: Prentice Hall.
5. **Hersey, P. and Blanchard, K. H.** (1977). *Management of Organizational Behavior: Utilizing Human Resources* (3rd ed.) New Jersey: Prentice Hall
6. **Hersey, P.** (1985). *The situational leader*. New York, NY: Warner Books.
7. **Hudea (Caraman), O.S.** (2014). *Cross-cultural Leadership*. Manager Journal, 19: 45-52
8. **Lewin, K., Lippitt, R. and White, R.K.** (1939). *Patterns of aggressive behavior in experimentally created social climates*. Journal of Social Psychology, 10 (2): 271–301

# Accounting Aspects of Banking Risk Management

~ Ph. D. Lecturer **Izabella Krájnik** (*University of Babeş-Bolyai Cluj-Napoca, Faculty of Economics and Business Administration, Romania*)

E-mail: [izabella.krajnik@econ.ubbcluj.ro](mailto:izabella.krajnik@econ.ubbcluj.ro)

~ Ph. D. Lecturer **Monika Fosztó** (*University of Babeş-Bolyai Cluj-Napoca, Faculty of Economics and Business Administration, Romania*)

E-mail: [monika.fosztó@econ.ubbcluj.ro](mailto:monika.fosztó@econ.ubbcluj.ro)

~ Ph. D. Lecturer **Antonia Izabella Kelemen** (*University of Babeş-Bolyai Cluj-Napoca, Faculty of Economics and Business Administration, Romania*)

E-mail: [antonia.kelemen@econ.ubbcluj.ro](mailto:antonia.kelemen@econ.ubbcluj.ro)

**Abstract:** Recognizing that banking accounting risks are a field of uncertainty, regulatory bodies in the accounting field have taken their views on the obligation to present the main assumptions of valuation. This information is designed to allow users of financial statements to assess whether companies are prudent or not in establishing their values.

Over the past decades, banking services have expanded considerably. Newly emerging financial services institutions have become competitors to commercial banks. Institutional investors, with various investments, often promising higher returns on bank deposits and providing greater flexibility, attracted a growing pool of savings and offered alternatives to those seeking funds.

**Keywords:** risk management, accounting, bank risk, financial stability

**JEL Classification:** F33, G21



## 1.Introduction

In general, both at the individual and at the company level, it is accepted that the risk may exist anywhere and at any time. People can accept higher volunteer risks on a voluntary basis and are much more reluctant to reject involuntary risks, even at lower levels, because they do not have sufficient knowledge about them or have no control.

It is characteristic for our country that after a relatively long period of standardized accounting, understanding the need for alignment to accounting regulations in the community space, accounting normalization knows a reform process both in institutional and in accounting terms. In a market economy, the objective of accounting normalization is to organize the functioning of the accounting information market in such a way as to enable financial communication to be optimized. Accounting, as business language, needs to adapt to the new requirements of the international landscape, solving this problem is currently one of the key concerns of the accounting profession.

Due to the fact that in all countries of the world, the adopted accounting system is in a relationship of total dependence on the created legal framework, a significant contribution to the research of the results was recorded by Frigo M., in 2002, joining the opinion many of the specialists in the field, that in our country, the reform of the accounting system was constantly correlated with the development of the profession, with the evolution of the specific legislation of the market economy related to the property, the establishment, functioning and liquidation of the commercial companies and other legal companies, the development of the capital market and the business environment in general.

It can be said that risk is the exposure to undesirable situations due to the lack of appreciation of facts and phenomena with negative consequences.

The term risk is currently used in several areas: economic, financial-banking, social, political etc. Risk can have distinct ways of calculating only when the target to be known and the factors that can influence it. Understanding that we can deepen the multiple aspects of risk and how to calculate it, we will look more closely at some concrete aspect of bank risk.

In the field of banking activities, risk can be defined as a phenomenon that may arise during the course of the operations of the banking companies and which causes a negative aspect of those activities by deteriorating the quality of the business, diminishing the profit or even recording the losses.

In banking, risk is actually a probability of a loss. This probability is not purely mathematical, but rather depends on the bank's transactions with its clients, the credit granted to them, and last but not least, the bank's placements and the payment systems used.

The mathematical approach is applied in the credit risk assessment and consists in measuring, with the help of a necessary algorithm, both banking specialists as a material for improving the practical dimension of their activity based on theoretical and practical considerations.

Conscious awareness of a risk involves the adoption of prudent and calculated actions, taking into account the following factors:

- compliance with prudential measures imposed by the national regulatory authority;
- profit expected loss to justify the

respective exposure to risk;

- any losses can be covered from provisions and profit;
  - the risk must be sized so that future losses do not affect the image of the credit institution;
  - accepting only those risks that have a due date and can be quantifiable.
- Unfortunately, because of a fierce competition, some bankers and some banks tend to lose sight of the risks they are exposed to, and the basic risk question ("What is the client's ability to pay?") Is no longer set, the likelihood of losing enormously.

We can talk about risk in case of realistic decision alternatives, the possible outcomes of an event represent the risk. When a coin is thrown, two results are possible: head or writing. Depending on what we have received, it may be beneficial and may be counterproductive to the outcome of the game. This also implies that taking the risk does not unilaterally include the possibility of expected loss, but also the expected return. In banking practice, however, the focus is on determining and assessing expected losses. The concept of risk, danger and uncertainty is closely related to risk. The problem lies in the task to be solved; the danger of circumstances is

## 2. Literature review

Starting from the premise that the foundation of any scientific research consists of a thorough knowledge of the specialized literature, at this incipient stage of the scientific approach we focused on presenting the current state of the research in the field of banking risk and highlighting the importance that the researchers consecrated have given it to this area.

This methodological research project tends to identify with a single central method of investigation.

As such, it is called for a corroboration, the purpose of which is to assure researchers that their results will be seen by others as credible (Stainback L., 1988). One of the processes used in the conjunction is the triangulation method, which allows the combination of methods to obtain the most credible data, involving the convergence of multiple information sources (Denzin J., 1978).

It should be noted that it originally originated from the premise of a qualitative research, but it was concluded that such research has the disadvantage of making it difficult to determine the relevance and validity of the approaches and information provided, as well as to detect the extent to which the subjectivity of the researcher influences the results research.

For these reasons, we have chosen to extend the research methods, which determines us to classify the present paper as a qualitative research with quantitative elements, often used to test authors' hypotheses.

Also, the motivation for choosing qualitative research lies in the fact that the type of research is the best able to produce consistent information needed to thoroughly understand the banking risks and the overall context.

In addition, this type of research uses subjective information and participatory observation to describe the context, the variable environmental conditions under consideration, and the interactions between these variables in the specified context. And while quantitative research can be presented in mathematical terms, qualitative research is not measurable or comparable in indisputable terms.

In fact, the authors of this paper do not consider these types to be opposing but complementary: research will give the proof of time an optimal combination of research methods in order to achieve the proposed objectives.

In the present paper we have only approached the issue of risk accounting, providing an analysis of 150 selected articles from 50 international journals, considered by the academic community to be the most representative journals in the accounting sphere.

Given that the subject of our research is at the intersection of accounting with finance and management to deepen academic debates on this topic, we have analyzed the scientific papers published in international journals considered by the academic community to be the most representative journals in the field of accounting, finance and management.

For the selection of these journals we considered the classifications made by various scholars of prestigious universities in the world.

For the accounting field, we mention that we were guided by the studies elaborated by Hoffjan A., Plagge J. and Weide G. (2006) A meta-analysis of international journal rankings in accounting, Working Paper, Germany and the study by the Australian National University (2007) on Journal Rankings.

Also, for the field of management we have as reference the study prepared by the School of Management, Cranfield University (2009) Journal Recommendation for academic publication. All articles analyzed were written in English.

Of particular interest in risk accounting, we can see from prestigious professional and

education bodies: AICPA, ICAEW, ACCA, who have published a series of reports and studies that are considered a reference in the literature and as such have been included in the our study.

Besides, a number of books and legislative regulations have been used to make the study, but which, given the nature of this study, have not been taken into account.

### 3. Research Methodology

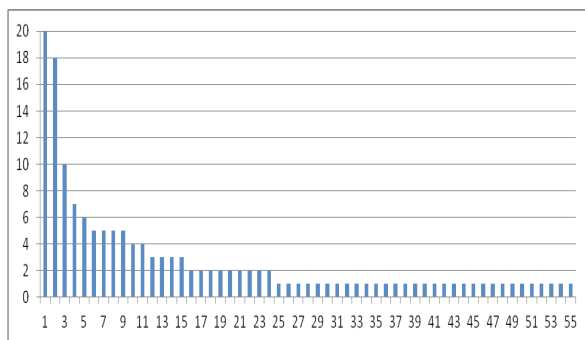
The 150 analyzed papers were selected from 55 main accounting journals but also from finance, management and interdisciplinary journals published by US, European and Australian research and development bodies in English that treated as a primary or secondary topic the field of risk accounting.

By trying to synthesize what the scientific method is common to all sciences, it is found that there are indeed some obvious requirements:

- an attitude of impartiality;
- the decision to consider all reasonable possibilities;
- the desire to make every effort to be exactly wherever possible;
- the need to avoid the influence of preconceived ideas.

In the following table, we present the dispersion of articles in the 55 journals analyzed, from a maximum of 20 articles selected from a journal to a minimum of 1 article.

Figure 1. Dispersion of articles by publications, during the period: 1998-2018



Source: Processed by authors

Out of the total of 55 publications taken in the study, which totals 150 articles, out of 24 journals more than one article on banking risks was selected for the analyzed period, representing 80% of the total number of articles (119 articles).

The following 3 journals accounting for more than 32% of the total of the analyzed articles, namely 48 articles: Accounting Review with 20 articles, Accounting Accounting with 18 articles and Journal of Accounting and Economics with 10 articles.

In the second echelon there is a number of 6 journals showing a moderate interest towards the subject under review and having published a total of 33 articles with a frequency of 5 to 7 items: Accounting Horizons 7 articles, CPA Journal with 6 articles, and five articles in the following journals: Accounting and Business Research, Financial Analysts, Journal of Accounting Research Journal, and Review of Accounting Studies.

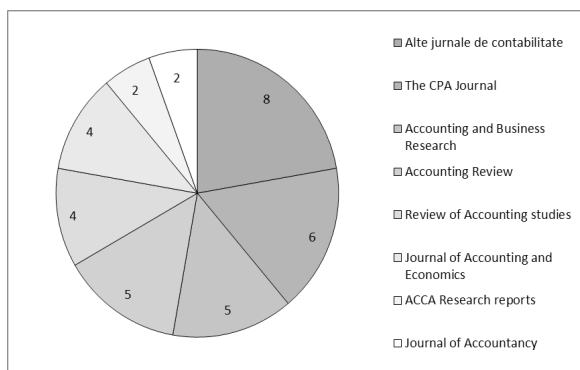
The next level is for logs of relatively low interest for the Employee Benefits Accounting topic, with a reduced number of items between 4 and 2, which are

presented in descending order of interest: Contemporary Accounting Research, Journal of Accounting, Auditing and Finance, Accountancy Magazine, Accounting, Organizations and Society, Journal of Business Finance and Accounting, Strategic Finance, ACCA Research Reports, Human Resource Management Review, Journal of Accountancy, Journal of Accounting and Public Policy, Journal of Financial Economics, Journal of Management, Operations Research Proceedings, Pensions & Investments, Quarterly Journal of Economics.

Analyzing the selected journals in terms of scientific reputation, we find that they can be grouped into 3 major categories. In the first category, 17 of the selected journals are considered to be the best in the field of business research, respectively the accounting, finance and management sub-domain. These logs are ISIs with impact factor. In the second category we include a total of 33 journals found in indexed databases such as: ScienceDirect, Springer, Taylor and Francis, EBSCO - Academic Search Premier. And the third category, which includes 5 publications, refers to professional articles for professionals, practitioners, and researchers in the field, which are available free of charge on the magazine websites of professional organizations' websites as seen in the figure next.

The distribution of accounting books for this period is as follows: in other accounting journals (8), The CPA Journal (6), Accounting and Business Research (5), Accounting Review (5), Review of Accounting Studies (4) in the Journal of Accounting and Economics (4), and in ACCA Research reports 2 and in the Journal of Accountancy.

Figure 2. Distribution in Accounting Logs



Source: Processed by authors

Banks that have managed to control the risks to which they are exposed have inferred that this process is in close correlation with their profitability. To get higher incomes, a bank has to take greater risks or increase its exposure to risk, or reduce its operating costs (which also leads to increased risks).

Typically, profitability varies directly with the degree of risk of bank activity. Some risks can be avoided or diminished, others are inherent in the economic environment that the bank serves.

Today, we see that banks deserve very complex activities, and therefore risk management tends to be "cross-checked", both on the types of transactions conducted and on the bank's deposit and loan portfolios. This risk approach is addressed both to regional or national banks and to internationally-performing banks.

Banks assess the credit risk they are exposed to by answering 3 questions:

1. What is the rate of non-performing loans based on past data?
2. What are the expected losses in the future?
3. How is the bank ready to cover and face the losses?

In order to cope with the losses resulting

from bad loans, the bank has to set up a series of reserves that are imposed on a percentage of the total loans granted. From the competitive pressure, unfortunately the analyzes related to the creditworthiness of the debtors are made quickly and negligently, which leads to the increase of loans granted by banks.

Some banks grant credits to governments, government agencies, or foreign economic entities. If the country risk is not properly and carefully assessed, these credits can be considered as loss from the start, as the refusal to pay may occur at any time, often on economic grounds.

Table no 1: Represent the degree of severity (impact) on the business

The impact of several factors (Y)	High(III)	3	6	9
	Medium(II)	2	4	6
	Low (I)	1	2	3
		Low (I)	Medium (II)	High (III)
		PROBABILITY (X)		

Balance of liquidity depends on how the market perceives the bank's financial situation.

Due to the importance of banks for any economy, their work is subject to strict supervision also by the central bank of that country. Although some banking companies are vehemently protesting against the supervisory measures imposed by the central authorities, they are designed to avoid risks throughout the banking system and to create the necessary procedures for action if the negative effects of risk arise.

## Conclusions.

It can be said that the bank risk identification and management operation is particularly important in economic and financial activity. At the same time, the risks represent the cooperation between banks and the economic structure units of a country. Of particular interest are the loans granted by the bank, which raise an approximately similar risk for both the creditor and the debtor.

Consequently, each science has its own notions, its specific methods, the fruit of evolution and historical accumulations; all sciences have in common what is called the scientific approach to research.

Although the conception of the method changes with science itself, there are a set of permanent principles, which are the basis of any scientific method. All sciences are based on a series of facts, data, "evidences", perceived from the real world, to be explained and confronted by various theories.

These data are in a series of relationships, as an expression of interdependencies between data, which are interpreted in some models, as a first step towards the elaboration of comprehensive theories. Confusion and ambiguity occurs when the succession is broken

data - relationships - models. This is a serious deviation from the scientific method.

Given that the subject of our research is at the intersection of accounting with finance and management to deepen academic debates on this topic, we have analyzed the scientific papers published in international journals considered by the academic community to be the most representative journals in the field of accounting, finance and management. For the selection of these journals I have considered the classifications made by different scholars of prestigious universities in the world.

## REFERENCES:

1. Agoraki, M.E., Delis, M.D., Pasiouras, F. (2011). *Regulations, competition and bank risk-taking in transition countries*, Journal of Financial Stability, 7, 38-48
2. Aikaterini-Foteini, V., Girardone, C. (2008). *Efficiency across alternative financial structures*, Bank types and size classes: a comparison of the OECD countries. International Journal of Banking, Accounting and Finance, 1 (2), 168-188
3. Albort-Morant, G. and Ribeiro-Soriano, D. (2016). *A bibliometric analysis of international impact of business incubators*. Journal of Business Research, 69 (5), 1775-1779
4. Anghel, M.G., Sfetcu, M., (2017). *Bank Risk Management*. Romanian Statistical Review, Supplement, 11, 87-94
5. Anghel, M.G. (2016). *Elements of significance concerning the interest rate and its role in the banking activity*. Romanian Statistical Review Supplement, 4, 99-106
6. Anghelache, C., Bodo, G. (2017). *Model for Analyzing the Sensitivity of the Bank's Risk Indicators to the Interest Rate Variation*. Romanian Statistical Review, Supplement, 12, 64-75
7. Anghelache, C., Sfetcu, M (2017). *Analysis of Banking Risks in the Context of The Basel Agreements*. Romanian Statistical Review, Supplement, 12, 83-89
8. Anghelache, G.V., Anghel, M.G (2016). *General Notions on banking Risks*. Romanian Statistical Review Supplement, 5, 13-18



9. **Anghelache, C., Marinescu, R.T. et al.** (2016). *Banking Risk evaluation Model based on BASEL Committee*. Romanian Statistical Review Supplement, 5, 150- 158
10. **Awdeh, A. et al.** (2011). *The Effect of Capital Requirements on Banking Risk*. International Research Journal of Finance and Economics, 66, 133-146
11. **Baba M.** (2009). *Quality management of the accounting services*. Bulletin of the Transilvania University of Brasov. Economic Sciences. Series V 45-67
12. **Bushman, R. and Williams, C.** (2012). *Accounting discretion, loan loss provisioning, and discipline of Banks' risk-taking*. Journal of Accounting and Economics, 54 (1), 1-18
13. **Chen, G. and Wu, Y.** (2014). *Bank Ownership and Credit Growth in Emerging Markets During and After the 2008-2009 Financial Crisis A Cross-Regional Comparison*. International Monetary Fund in its series IMF Working Papers
14. **Crété, E.** (2012). *Analysis of banking activity by business line*, Quarterly selection of articles - bulletin de la Banque de France, 26, Summer, 53-64
15. **Delis, M. and Kouretas, G.** (2011). *Interest rates and bank risk-taking*. Journal of Banking & Finance, 35 (4), 840-855
16. **Elsinger, H., Lehar, (2006).** *Risk Assessment for Banking Systems*. Management Science, 52 (9), 1301 - 1314
17. **Fulop MT, A Tiron-Tudor** (2019). *Audit education role in decreasing the expectation gap*, Journal of Education for Business 94 (5), 306-313
18. **Gavrila-Paven I, EM Dobrescu,** (2014) *Sustainable development through entrepreneurial initiatives in Center Region, Romania*, Procedia Economics and Finance 15, 1065-1070
19. **Hakens, H. and Schnabel, I.** (2010). *Credit Risk Transfer and Bank Competition*. Journal of Financial Intermediation, 19 (3), 308-332
20. **Hernández-C, G. and Martínez-S, P.** (2010). *Relationship lending and SME financing in the continental European bank-based system*. Small Business Economics, 34 (4), 465-482
21. **Ippolito, F., Peydró, J.L** (2016). *Double bank runs and liquidity risk management*. Journal of Financial Economics, 122 (1), 135-154
22. **Jimenez, G., Lopez, J.** (2013). *How does competition affect bank risk-taking?*. Journal of Financial Stability, 9 (2), 185-195
23. **Krájnik, I., Olteanu, L.,** (2010), *Pensions Accounting In Romania Under International Financial Reporting Standards*, Studia Universitatis Vasile Goldiș Arad, Seria Științe Economice Anul 20/2010 Partea I, P.337 – 347
24. **Krájnik, I., Foszto M.,** (2010), *Economic aspects of social security*. Pension system, Conferință Științifică – Relevanța educației și cercetării în dezvoltarea afacerilor și protecției mediului, Presa Universitară Clujeană
25. **Ly, K.C.** (2015). *Liquidity Risk, Regulation and Bank Performance: Evidence from European Banks*. Global Economy and Finance Journal, 8 (1), 11 – 33
26. **Marinescu P.** (2018), *Future management: from creativity to rigour*, Manager 27, 5-6
27. **Pasiouras, F. and Kosmidou, K.** (2007). *Factors influencing the profitability of domestic and foreign commercial banks in the European Union*. Research in International Business and Finance, 21 (2), 222-237
28. **Tiron-Tudor A.**(2019). *Public Sector Accounting, Auditing and Control in Romania*, Public Sector Accounting, Auditing and Control in South Eastern Europe 1, 61-102



## Romanian great leaders

~ Ph. D. Associate Professor **Oana Simona Hudea** (Faculty of Business and Administration, University of Bucharest, Romania)

E-mail: [simona\\_hudea@yahoo.com](mailto:simona_hudea@yahoo.com)

**Abstract:** Leaders may be encountered in any field of activity and at any level: we may talk about leaders of small groups, family leaders, institutional leaders, project leaders, national leaders and so on. As leaders are dominant individuals succeeding in coagulating other forces around, being highly successful as result of the leading actions carried out or remaining for a long time, sometimes forever, in the memory of people, becomes the attribute of a subdivision thereof, namely great leaders. The present paper is meant to reveal groups of Romanian great leaders, having proved their ability in bringing, directly or indirectly, their contribution, at economic, social or strategic level, to a prosperous evolution of their domestic country or having imprinted a direction towards such future favourable evolution.

**Keywords:** Romanian leaders, great leaders, institutional leaders, project leaders, national leaders

**JEL Classification:** M12

## 1. Introduction

All of us, the ones interested in management and leadership-related issues, have wondered, at least once, if there is a clear delimitation between managers and leaders, if one without the other one is possible and susceptible to bring significant advantages in the medium to long run for all stakeholders, if being a leader involves being the best or if there is a difference between being just a leader and being a great leader.

Such questions find more or less pertinent answers, because, as discussed in Literature review, rendered below, not only ambiguous differences are identified between the definitions of managers and the ones of leaders, in certain cases, but also the definitions given to the same item of the two are sometimes contradictory, as revealed by several sources.

Analysing, further, in such context, the distinction between leaders and great leaders, reveals an even higher level of incertitude in the matter.

Having this in mind, we are going to outline, thereafter, what represents in our opinion great leaders and, starting from that point, which would be some of the Romanian great leaders, people with high potential, as perceived by independent domestic and international organisms, people that have been or are still effectively involved in the destiny of our country.

Such ideas are revealed, step by step, along the following sections of the paper: Literature review, section 2, Research methodology, section 3, Results and discussions, section 4, and Conclusions.

## 2. Literature review

The most important when analysing a given topic is to clearly understand the meaning of each and every related concept used. Unfortunately, in many cases, it is quite difficult to have an accurate understanding of items, due to divergence of opinions, resulting in a lack of unanimity as for a single, non-ambiguous definition of the same.

In such cases, the best option at hand is to try to make an opinion of your own, based on the most frequently encountered convergent points of view, on the most relevant arguments brought in favour of one variant or another or just based on your personal perspective.

Dealing with simple, basic definitions of two items: managers and leaders, we will finally consider, after few official renderings of the same, mainly coming from dictionaries, our own point of view in the matter.

The Business Dictionary defines the manager as an individual "who is in charge of a certain group of tasks, or a certain subset of a company", often having "a staff of people who report to him or her", the leader being, on the other hand, a person "that holds a dominant or superior position within its field", being capable "to exercise a high degree of control or influence over others".

A manager is perceived, according to Vocabulary.com as being someone "who 'manages' or takes charge of something", the one who "oversees finances, scheduling, and the everyday operation of the business", who "controls resources and expenditures", the leader being the individual "in the charge", the person "who convinces other people to follow". The same entity sees the great leader as the one who "inspires confidence in other people and moves them to action".

Merriam Webster Dictionary gives a simplified definition for both items, the manager being a person “who conducts business or household affairs” and the leader, a person “who has commanding authority or influence”.

The manager is a person “responsible for controlling or administering an organization or group of staff”, while the leader “leads or commands a group, organization, or country”, based on Oxford Dictionaries.

According to Dictionary.com, a manager is an individual “who has control or direction of an institution, business etc., or of a part, division, or phase of it”, while a leader is an individual “that leads”, “a guiding or directing head, as of a army, movement, or political group”.

Given our background in the matter and passing through the multiple definitions encountered, from which we have rendered, within the previous lines, just several, for exemplification purposes, we might say that managers are individuals having particular positions allowing them to exercise certain authority-related rights like direction and control, being mainly encountered at institutional level, while leaders are individuals able to convince groups of people, be they part of an institution or not, to follow them, by virtue of specific characteristics that make such leading individuals special: their knowledge, their experience, their self-control, their persistence without borders, their persuasion power etc.

What orients us towards making our own definition of leaders is reflected by VTAIDE, seeing the leader as “a person who influences a group of people towards the achievement of a goal”.

As for great leaders, this emerges from the ideas launched by Inservice, stating that

great leaders “don’t tell people what to do, but instead take them to where they need to be”. After all, leadership “is all about action not position or title”.

We might conclude the range of definitions with the one provided by Ronald Reagan, revealing, from our point of view, the essence of great leaders: “The greatest leader is not necessarily the one who does the greatest things. He is the one that gets the people to do the greatest things.”

Going on with our perspective, leaders need something more in order to become great leaders, namely to be able to give up to themselves for others, if circumstances impose it, to act so as to produce advantages, in the short, medium and long run for all members of the group, for all people involved, bringing benefits, after all, to a smaller or larger community.

If we talk about great leaders acting at the same time as managers in a public or private institution, of course that the prerogatives of such persons increase, doubled by an augmentation of expectations others might manifest as concerns them, the latter having as “task” to be successful, as the goals to be reached have effects on a larger range of individuals, more exactly on all related stakeholders of that institution.

### 3. Research methodology

The paper starts by approaching, purely theoretical, some largely known and, at the same time, pretty unknown or unclearly delimited concepts, trying to set a more coherent basis for the understanding thereof. The method used is, therefore, a descriptive and analytical one, this generating a layout fit for the second part of the study, dedicated to the

depiction of groups individuals identified by various independent, internal and external organisms, embodying the characteristics finally assigned by us to the related concepts. It is about great leaders originating and/or residing in our country, being or not in a managerial position, but having succeeded in bringing additional value in the matter, via their actions.

#### 4. Results and discussions

Identifying groups of leaders can be done by resorting to well defined criteria, such as field of activity, level of achievements, number of stakeholders beneficiary of their successful actions, intensity and persistence in time, in the collective memory, of their greatness etc.

Financial Times, tries to reveal, by the related analysis, the Romanians having most contributed, via different projects, to the improvement of the society. In this list we encounter:

- Andrei Duncă – producer of the LiveRail software
- Dumitru Popescu – leader of the Romanian project Romanian Association for Cosmonautics and Aeronautics
- Raul Popa – CEO TypingDNA
- Dan Nechita – co-founder and President at Smart Everything Everywhere
- Avădanei Andrei – executive manager of Bit Sentinel Security
- Roxana Rugină – founder of Simplon
- Andreea Hanganu – co-founder of the Institute for Digital Government
- Radu Puchiu – co-founder and CEO at H.appyCities
- Attil Bustya and Andras Lenard – co-founders of Spider Drone Security

- Mihai Raneti, Claudia Dehelean, Adina Brutaru and Kacper Gogol – employees of Clepsisoft CyberFog, charged with the protection of organisations against any possible cybernetic attack

As we can see, these are individuals having imprinted their names in the history of their field of activity and, thereby, having influenced the life and activity of a large range of people.

According to Ziarul Financiar, the most appreciated Romanian business leaders, as seen through the lens of the Romanian managers, would be the following:

- Dragoș Pavăl and Adrian Pavăl – founders of Dedeman DYT Retailer
- Ion Țiriac – founder of Țiriac Holdings
- Florin Talpeș – founder of Bitdefender Security Solutions

Also on the business field focuses Business Magazine when revealing Romanian leaders. Among them, we encounter:

- Daniel Boaje – CEO of McDonald's România, the strongest player of the Romanian restaurant-related market
- Paul Cuza – CEO of Inditex, the largest Romanian fashion retailer
- Constantin Boromiz – founder of Boromir, one of the most representative Romanian bakery products producers
- Mihai Marcu – CEO and shareholder of MedLife, leader of the Romanian private medical services
- Felix Pătrășcanu – founder of Fan Courier Express, leader of the Romanian private courier services
- Doris Andronescu – founder of Sanador, one of the most important Romanian private medical groups
- Iulian Dascălu – known as King of

Malls, owner of most Romanian malls

- Daniel Dines și Marius Țîrcă – founders of UiPath, the most valuable Romanian technological company, specialized in providing outsourcing software solutions and automation robot-based solutions.

The last two classification reflect, as previously specified, leaders in business, most of them having come with an idea turned into a successful business covering not only the needs of their owners, but also of a significant number of beneficiaries, be they in the position of suppliers, employees or customers.

However, what looks more interesting is seeing leaders from a quite different perspective, more exactly from the one of people having become representative personalities of a nation and even beyond the borders thereof, models to follow, individuals having effectively changed, directly or indirectly, destinies, both at individual and at collective level. This is the point from where we might discuss in terms of really great leaders.

The Romanian Television reveals, from such perspective, as result of a national vote, the greatest Romanians of all times, to whom we might certainly assign a leader label. Surprisingly or not, most of the top ones are national leaders, art and literature leaders or sport leaders, not business leaders, this indicating us that, in time, those generating highly covering and long-run effects remain imprinted much more in the memory of people than the ones succeeding in bringing benefits at micro-economic or micro-social level. The list of such leaders includes:

- Ștefan cel Mare – prince of Moldavia
- Carol I – first Romanian ruler of the Hohenzollern-Sigmaringen dynasty and first King of Romania
- Mihai Eminescu – Romanian most influential poet

- Mihai Viteazul – Prince of Wallachia, Prince of Moldavia and first ruler of Wallachia, Transylvania and Moldavia

- Richard Wurmbrand – evangelical Christian minister, author and educator

- Ion Antonescu – Romanian prime minister and Romanian leader during World War II

- Mircea Eliade – Romanian researcher, professor of history of religions and novelist

- Alexandru Ioan Cuza – first ruler of the United Principalities of Romania

- Constantin Brâncuși – famous Romanian modern sculptor

- Nadia Comăneci – renown Romanian gymnast

The perception in such circumstances might be different, from case to case, but, irrespective of the point of view, no one could ever contest the fact that the above-mentioned individuals have succeeded in turning into iconic, emblematic characters of our country.

## 5. Conclusions

Without trying to cover too extensively a topic that, at the same time, rises interest and generates fervent debates, we undertook, in the present paper, to lay the grounds for a deeper understanding of the manager-leader difference, as well as of the leader-great leader one, so as to expose thereafter, from a clearly delimited perspective, some of the most representative Romanian leaders, as perceived based on the analyses carried out by independent entities, focussed of revealing great individuals who should be valued accordingly at national level.

## REFERENCES:

1. **Bellu, C.** (2016). *Cine sunt cei mai apreciați lideri din țară și din străinătate în viziunea managerilor români: Elon Musk, Steve Jobs, frații Pavăl și Ion Țiriac, în top* (Who are the most appreciated leaders from our country and from abroad, in the vision of the Romanian managers: Elon Musk, Steve Jobs, Pavăl brothers and Ion Țiriac, in top). Ziarul Financiar. Retrieved from: <https://www.zf.ro/companii/retail-agrobusiness/cine-sunt-cei-mai-apreciati-lideri-din-tara-si-din-strainatate-in-viziunea-managerilor-romani-elon-musk-steve-jobs-fratii-paval-si-ion-tiriac-in-top-16032119>
2. **Popescu, N.** (2016). *Români în topul celor care au schimbat lumea* (Romanians in the top of those having changed the world). Financial Times. Retrieved from: <https://www.activenews.ro/externe/Financial-Times-Romani-in-topul-celor-care-au-schimbat-lumea-138312>
3. <https://www.activenews.ro/externe/Financial-Times-Romani-in-topul-celor-care-au-schimbat-lumea-138312>
4. <https://www.businessmagazin.ro/lideri/>
5. [https://en.wikipedia.org/wiki/100\\_Greatest\\_Romanians](https://en.wikipedia.org/wiki/100_Greatest_Romanians)
6. <https://www.businessdictionary.com/definition/manager.html>
7. <https://www.businessdictionary.com/definition/leader.html>
8. <https://www.vocabulary.com/dictionary/manager>
9. <https://www.vocabulary.com/dictionary/leader>
10. <https://www.merriam-webster.com/dictionary/manager>
11. <https://www.merriam-webster.com/dictionary/leader>
12. <https://www.lexico.com/en/definition/manager>
13. <https://www.lexico.com/en/definition/leader>
14. <https://www.dictionary.com/browse/manager>
15. <https://www.dictionary.com/browse/leader>
16. <http://inservice.ascd.org/what-it-means-to-be-a-true-leader/>
17. <http://www.vtaide.com/gleanings/leader.html>

## Current issues and future challenges in Education based on the analysis of Human Capital indicators between 2007-2017

~ Ph. D. **Ioana Julieta Josan** (Faculty of Business and Administration, University of Bucharest, Romania)

E-mail: [ioana.josan@faa.unibuc.ro](mailto:ioana.josan@faa.unibuc.ro)

**Abstract:** The investments in educational capital are a medium and long-term weapon that nations can use to combat poverty and ensure sustainable development. Considering that the future belongs to those states that are aware of its huge potential, an analysis on the Romanian stock of educational capital is a necessity. Thus, the research findings will further facilitate the knowledge that decision makers could use to improve the policies and strategies in order to develop a competitive education in a digitized economy.

The analysis will focus on the quantitative and qualitative dimension of human capital. The evolution of enrollment rates by education levels, school dropout rates and the results of international tests will be the pillars of the educational capital analysis between 2007-2017. The study will be based on data from the Eurostat database, Statistical Yearbooks and official data provided by public institutions and international organizations. In fact, the period under evaluation was chosen for reasons that are linked to the economic and political context. The first was to carry out an analysis of the impact on education of the first 10 years after Romania's accession to the European Union. The second reason was the identification of the existing or non-existing effects on the education system of two different periods of the economy evolution (the crisis and the post - economic crisis). The third reason was to highlight the educational system direction in a decade characterized by major changes in business and labor market along with the evolution of the digitized economy.

**Keywords:** human capital, enrollment rates, investment, poverty, digitized economy



## Introduction

Human capital is defined by Becker as monetary and non-monetary activities that influence the future monetary income of the individual and according to him "education and professional training are the most important investments in human capital."<sup>1</sup> The economist highlights the fact that the individual is not just the ultimate consumer, but it is a true producer who, through education and training, is investing in human capital. As in the individual level, the state, through its policies and strategies, is a major actor who chooses how to invest in producing human capital.

Human capital is the level of education and health in a population and is considered an important determinant of economic growth. In modern economic theory, human capital is defined as "the knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being" (OECD). Accordingly, the new modern economy cannot grow without an educated workforce.

The need to assess the human capital of a country is a prerequisite for ensuring sustainable government policies. Therefore, knowledge of people value at the national level will help to better manage the existing human capital and to better facilitate future policies for the creation and development of the forthcoming human capital.

As the authors of the OECD report explain, the interest in the factors that can generate economic growth is not a new trend and it's the reason "why economics is at the

core of modern life"<sup>2</sup>. The interest in growth may originate in "human greed for material goods or our desire to create a better world with good schools and hospitals for all, most of us want to see our countries – and ourselves – become wealthier."<sup>3</sup>

For a nation, the purpose to create public policies to ensure economic growth is a way to ensure the prosperity of its citizens. Human capital, through the quality of the workforce, play an important role in economic growth, along with other factors like demography, innovation, opening to foreign trades and the entire national political and legal system etc.

## Research methodology

The analysis will focus on the quantitative and qualitative dimension of human capital. The evolution of enrollment rates by education levels, school dropout rates and the results of international tests will be the pillars of the educational capital analysis between 2007-2017. The study will be based on data from the Eurostat database, Statistical Yearbooks and official data provided by public institutions and international organizations.

Therefore, investigating human capital helps to better understand the internal capabilities of a country and to formulate policies as suited to its real needs.

Several assumptions are to be left for the issue analyzed in this article:

- The lack of long-term vision and certain financial limitations by competent authorities could affect the fair allocation of

<sup>1</sup> Becker, Gary (1997), Capitalul uman. O analiză teoretică și empirică cu referire specială la educație, ALL Publishing House, p. 17

<sup>2</sup> OECD Insights: Human Capital, p. 26, <https://www.oecd.org/insights/37967294.pdf>

<sup>3</sup> Ibidem

resources which can determinate a regression in training and use of human capital.

- The Myopia of Government's education policies and measures and the decreasing birth rates, along with high rates of Romanian emigrants could affect economic growth in the medium and long term, with great consequences for declining business competitiveness.

- The decrease of education results recorded in international assessment tests should be a cause for concern to the authorities because on the long run they can cause a loss of innovation capacity, development and prosperity of a nation.

## Results and discussions

The findings are carried both practical and theoretical implications which are discussed in the light of the current results. The results are based on the human capital development context and the quantitative and qualitative research of the human capital indicators.

### 1. Romanian human capital development context

Considering the total number of inhabitants, the population of Romania is among the leading countries in the European Union, with a high potential for growth through the formation and development of the human capital of its citizens. Thus, Romania is in the top 10 countries with the largest population, having a total of 19,523,621 in 2018 according to EUROSTAT data<sup>4</sup>. In contrast, the quality of life ratio placed Romania since its accession to the EU as the second lowest the EU 28, followed by Bulgaria.

Only in 2018, after more than 10 years, according to Eurostat official statistics, Romania has reached 63 points in the EU average of GDP/capita in PPS, registering a leap five points in one year as a result of strong economic growth - 6.9% - in 2017 as can be seen in the chart below (Fig. 1 ).

<sup>4</sup> <https://ec.europa.eu/eurostat/tgm/table.do?tab=table&plugin=1&language=en&pcode=tps00001>

Figure 1. Quality of life (2007 – 2017)



Source: EUROSTAT, GDP per capita in PPS , data processed by the author

Starting from this measurement indicator, which is the most common measure of the economic activity of a region or a country at a given time, it is appropriate to draw attention to the fact that human capital in Romania is in a vulnerable position in terms of its quality. Even with this growth in 2017, we are one of the poorest countries in the Community, with major effects on the competitiveness of human capital.

Table 1. The relative poverty rate in Romania (2007 -2017)

Year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
The relative poverty rate	24,8	23,4	22,4	21,1	22,2	22,6	22,4	25,1	25,4	25,3	23,6

Table 1. The relative poverty rate in Romania (2007 -2017)

From the data presented in the table below (Table 1), it results that almost one in five inhabitants lived in a family whose income was lower than 60% of the population's median income. The average of the analyzed period is 23,48 which means that approximately a quarter of its citizen is being in poverty situation. The relative poverty rate in Romania. The relative poverty rates in Romania show slight increases and decreases over the period under review, but without any major influence on its evolution.

For example, there was a decrease in the relative poverty rate between 2007 - 2010, but the effects of the global economic crisis and the measures taken to reduce the crisis effects have led to an increase in the poverty rate in the period 2011-2016.

Only in 2017 the poverty relative rate drops after more than 6 years of growth (23,6 comparing to the peak - 25,4 in 2015), but far from reaching the lowest level registered in 2007 and far from the European Union level (16,9 in 2017).

To highlight the poverty level in Romania, I introduced also the analysis of the relative poverty rate evolution. The relative poverty rate is the share of poor people who have a disposable income per adult-equivalent lower than 60% of the population's median income.

Among the Member States, Romania is still among the countries with the highest poverty rate (along with countries like Bulgaria, Spain, Lithuania) and at a very long distance from countries with the lowest proportions of persons at-risk-of-poverty (Czech Republic, Finland, Denmark).

Given the data that places Romania among the poorest countries in the European Union, we should draw the attention that in this context human capital suffers because education and poverty are closely inter-connected if we are consider Shultz and Becker human capital theory. Human capital "in the form of education and health increases an individual's earning potential, but also generate a "ripple effect" throughout the economy by way of a series of positive externalities".<sup>5</sup> For example, OECD, as in its many other

<sup>5</sup> Indunil de Silva and Sudarno Sumarto (2014), Dynamics of Growth, Poverty and Human Capital: Evidence from Indonesian Sub-National Data, MPRA Paper No. 65328, <http://mpra.ub.uni-muenchen.de/65328/>

studies and reports, in "The value of people"<sup>6</sup> study highlights the incredible power of revenue growth through education. The authors mentioned that "the higher a person's level of education the better they do in economic terms"<sup>7</sup>. In Norway, for instance, university graduates enjoy a 26% earnings premium over people who only finished secondary school.

Therefore, to reduce poverty a solution could be fostering higher level of Romanians education. To highlight the situation of the education system, I will analyze the enrollment rate, the rate of graduates by level of education and the results of Romanian pupils at international tests.

## 2. The Quantitative dimension of human capital

For a better understanding of the subject, a brief presentation of the Romanian education system structure is needed. According to the Law of National Education, the organization of the education system is based on the "sustainable production of a highly competitive national human resource able to function effectively in the current and future society."

<sup>8</sup>The national education system is organized in educational levels to ensure the coherence

<sup>6</sup> OECD Insights: Human Capital, p. 26, <https://www.oecd.org/insights/37967294.pdf>

<sup>7</sup> OECD Insights: Human Capital, p. 26, <https://www.oecd.org/insights/37967294.pdf>, p. 33

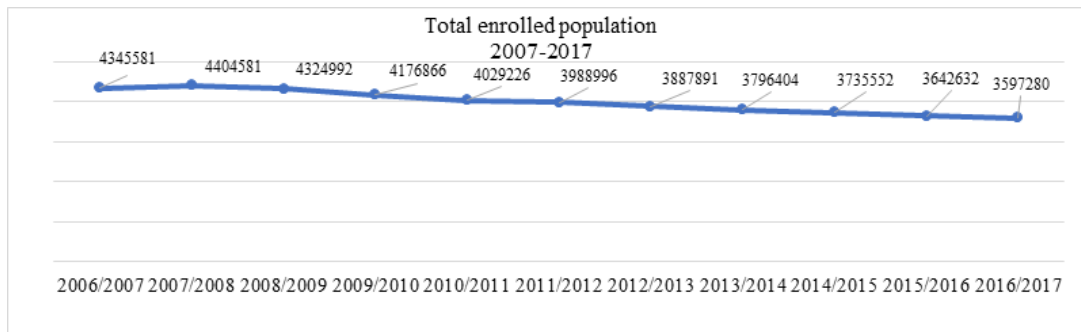
<sup>8</sup> Legea 1/2011, Educației Naționale (Law 1/2011, Law of National Education), art. 2

of instruction and education by age and individual peculiarities. The state ensures equal rights of access to all levels and forms of School education and Tertiary education, as well as to lifelong learning, without any form of discrimination, to Romanian citizens, as well as to the citizens of the other European Union member states, of the states belonging to the European Economic Area and of the Swiss Confederation.

In Romania, the compulsory education is founded by public funds and participation in the educational process is mandatory. The participation in the Romanian education system is financed by public funds for children enrolled in kindergartens and public schools. The Romanian state also finances the participation of students in tertiary education. Thus, Romania is among the countries of the European Union whose education is financed mainly from public sources. This should contribute to a higher rate of school enrollment. However, the analysis of the evolution enrollment rate indicates the opposite. The school population tends to decline at national level, with serious long-term damage to human resources in quantitative and qualitative terms.

In the analysis carried out between 2007 - 2017 (pre and post economic crisis), the downward trend has been recorded at all levels of education: Pre-primary education, Primary and lower secondary education, High schools, Vocational education, Post-secondary non-tertiary and foremen education and Tertiary education (see Fig. 2).

Figure 2. Evolution of the total number of pupils/students enrolled in education, 2007-2017

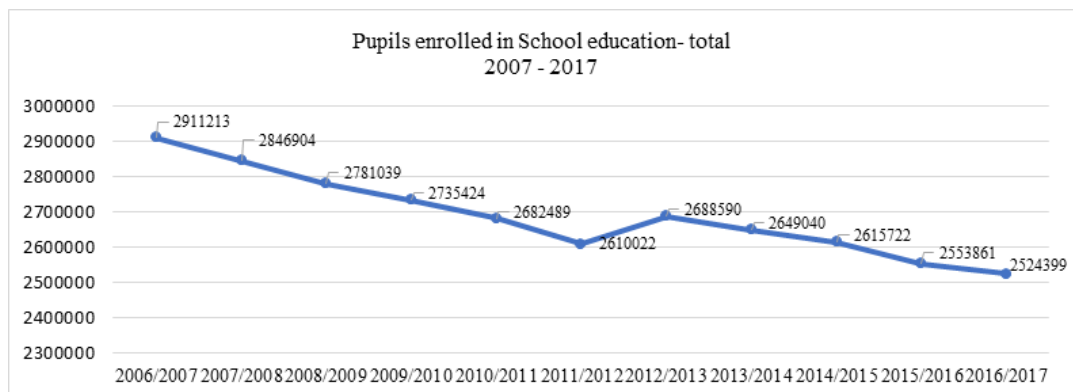


Source: National Institute of Statistics, data processed by the author

The 2007-2008 school year had the highest number of enrolled pupils and 2016-2017 had the lowest number of pupils enrolled.

Therefore, in 10 years, Romania lost 807 301 of the pupils/student's population.

Figure 3. Evolution of the total number of pupils enrolled in School education, 2007-2017



Source: National Institute of Statistics, data processed by the author

During this period, for School education level, the 2006-2007 was highlighted as being the year with the highest number of enrolled population (2 911 213 enrolled population) and at the opposite side was the year 2016-2017 with the lowest number of enrolled populations with only 2 524 399.

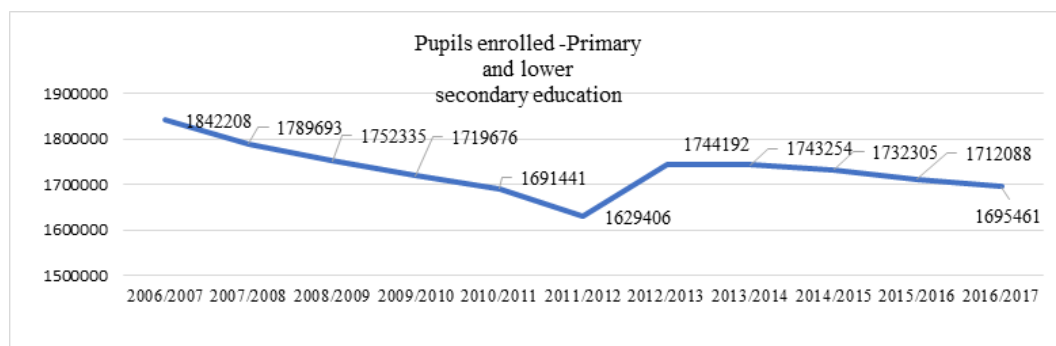
As can be seen from the above figure, a major decrease occurred in the school year 2011 - 2012, followed by an increase in the number of people registered the following year, but only for one year. The increase in the gross enrollment rate in school can be explained by the inclusion in the compulsory

education system of the preparatory grade in the school year 2011-2012.

Even with the inclusion of the preparatory grade, the data from the past five years indicate a continuing downward trend.

The decrease was registered both in primary and secondary education. For these levels, during the economic crisis there was a major drop, followed by a slight increase and maintenance for two years until the school year 2015-2016 when it is a new negative trend at the number of enrolled people.

Figure 4. Evolution of the total number of pupils enrolled in Primary and Secondary education, 2007-2017



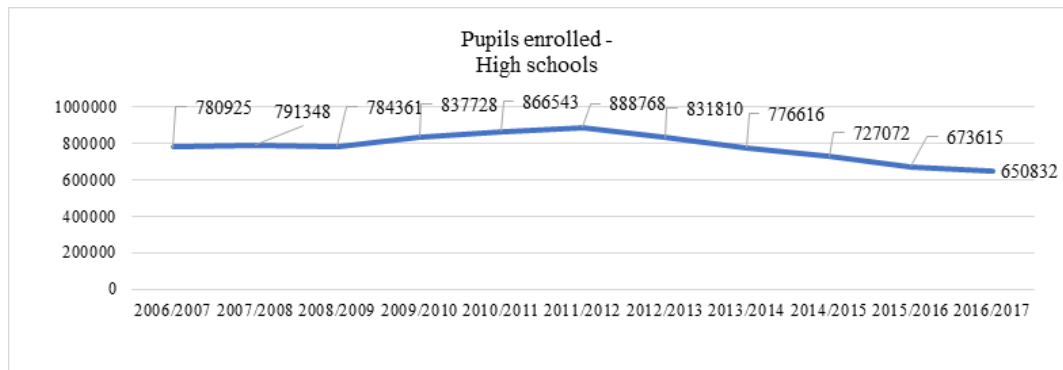
Source: National Institute of Statistics, data processed by the author

For high-school education, the enrollment rate increased significantly in the first part of the analyzed period, reaching maximum number in 2011/2012 (888 768 people enrolled). The positive enrollment trend was determined by the abolition of vocational education (arts and crafts units), a decision which limited the choice of secondary school graduates through further education only within high school level. Subsequently, as a result of Government measures to reorganize vocational education (in 2014/2015), the high

school enrollment rates dropped, reaching the lowest level in 2016/2017.

Therefore, in the case of High School education, the crisis did not have a negative impact on the number of people enrolled because at this level there were contextual factors (the abolition of arts and crafts schools) that stimulated growth. Unfortunately, the second part of the period under review reveals a decrease as it is found in all levels of education mentioned above.

Figure 5. Evolution of the total number of pupils enrolled in High School education, 2007-2017



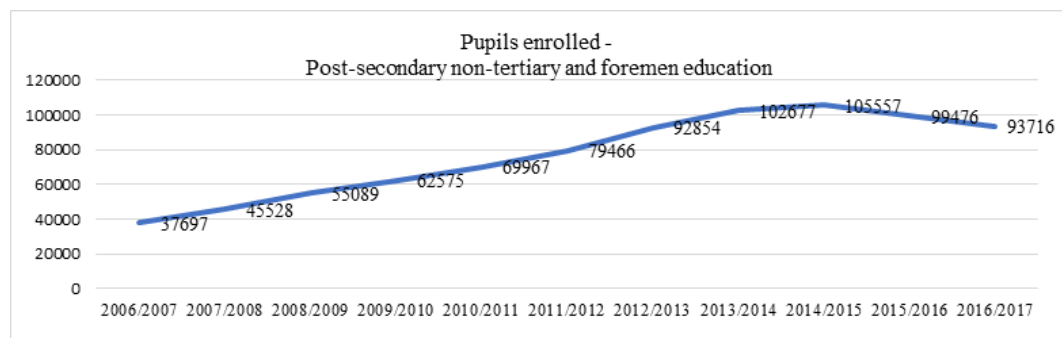
Source: National Institute of Statistics, data processed by the author

A possible explanation for this trend might be the decrease of birth rate, emigration and school dropout. The school drop-out is caused by poverty or lack of parental supervision because parents emigrate for better salaries abroad, and children are cared by grandparents or other relatives without being

able to supervise and care them properly.

The only level of education that is marked by spectacular growth is that of post-secondary non-tertiary and foremen education. For this level of study, there was a steady increase over the period the interval 2007-2014.

Figure 6. Evolution of the total number of pupils enrolled in Post-secondary non-tertiary and foremen education, 2007-2017



Source: National Institute of Statistics, data processed by the author



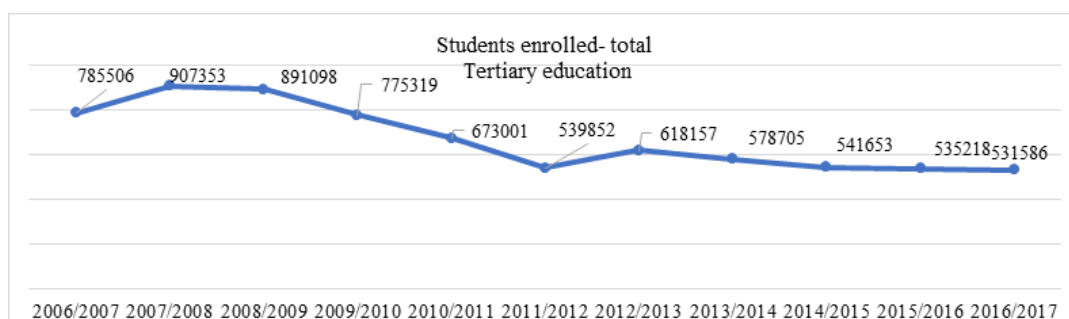
The significant increase in the number of pupils attending post-secondary education and foremen is explained by the fact that this level has become an attractive option, given that in recent years the high school graduates without a Baccalaureate diploma (High school diploma) has increased and the gross enrollment rate in higher education has decreased (from 56.9% in 2009/2010 to 35.8% in 2015/2016).

As I underlined above, the effects enrollments and graduates' rates in School education have direct effects on enrollments in tertiary education. Thus, the tendency to decrease is also observed in the case of tertiary education sector. The factors that accelerate the drop, apart from those mentioned above, includes also the fierce competition on the international education services market and the lack of correlation between the specializations of the universities and the

labor market which makes the alternative to continue higher education less attractive. Also, in recent years, another cause has been the attractiveness of immediate job earnings abroad as unqualified staff. Unfortunately, from the perspective of human capital theory and income variation reports by education level, the above model is a risky one because it limits the growth and future development of the individual. Migration rates from Romania to other host countries indicate an increase of young people. This situation has direct effects in decreasing the number of enrolled and higher education graduates.

As in School education, the highest number of students, was registered in 2007-2008, the year before the beginning of the economic-financial crisis, in which Romania (in 2008) registered one of the biggest economic growth (8.6%) as can be seen in the figure below:

Figure 7. Evolution of students enrolled in Tertiary education, 2007-2017



Source: National Institute of Statistics, data processed by the author

During the crisis the enrollment rates were very low. Thus, in the analyzed period, from 2007 to 2017, the total number of students almost halved. From 907 353 students in 2007, when the highest rate of enrollment was recorded, it fell steadily in 2017 to 531 536, with less than 375,817 students enrolled. The greatest decrease is recorded in the years of the economic crisis, with more than 100 000 students (the difference between the academic year 2009 - 2010 and 2010 - 2011 is 102 318 students less, and between 2010 - 2011 and 2011 - 2012 the decrease was higher than in the previous year, with 133,149 less students enrolled). After this decreasing peak, in 2012 - 2013, there was an ascending evolution, the number of students increased by 78 305 students enrolled. Unfortunately, the growth trend has not been maintained in the next few years. In the last five years, the student dropout rates are no longer as high as in the

crisis, but the trend is negative.

In the analysis carried out by the Ministry of Education and published in 2016 it was emphasized that by ownership, the highest decreases are registered in private education and for public education the data indicate a slight increase, most likely influenced by the loss of attractiveness of the private sector. Of the total number of enrolled students, nearly 87% preferred public education programs and just over 13% private education. in 2015-2016 academic year, the private higher education institutions had 70000 enrolled students from 535218 students total enrolled.

According to the type of study programs, both in public and private education, the highest number of people enrolled are Bachelor studies followed by master studies as shown in the figure below:

*Table 2. Distribution of people enrolled in higher education, study programs and property form*

Studies programs	Public tertiary education%	Private tertiary education %
Bachelor studies	75.60%	84.40%
Master studies	20.20%	15.10%
PhD studies	3.60%	0.30%
Other	0.50%	0.20%

*Source: Ministry of Education (2016)*

From the above data, there is a low preference for continuing non-bachelor studies. This issue should be worrying given that for Bologna system, the bachelor studies have shortened their duration, creating only general competencies. Therefore, continuing a master's program has a great importance on the more in-depth skills required for a graduate on the labor market.

In this case, university management could provide specific strategies for each faculty to increase the retention of those who complete bachelor studies. Also, to increase the attractiveness of master programs, the programs should become more applied and stimulate the interactivity and relation between labor market experts and master students.

Moreover, the major problem identified for the age 18-24, according to research in education, is the highest degree of school dropout and non-participation in education systems. According to Eurostat report "from

2006 to 2016 the total number of students dropped by 17 %". For the period under review, 2008 marks the lowest recorded rate in Romania for this indicator (15.9%). An explanation for the dropout rates lies in the cost of the opportunity to stay in school. This is too high, especially for rural young people and they prefer to look for a job or other specific opportunities outside the school. In addition to opportunity cost, there is a mix of personal, social, economic, educational, and family factors that are connected and lead to dropout (e.g. the disorganized family environment, the exodus of parents and young people abroad and the difficult finding of a job corresponding to the graduates profile etc.).

For the pre-university education the percentages are lower than for the 18-24 age group. The rates have fluctuated, higher percentages were observed at the beginning of the analyzed period (2006-2008), but also at the end of the analyzed periods (2014-2016) as can be seen in the data below:

Table 3. The dropout rate in pre-university education (2006 -2017) - percentage

Education level	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013	2013/ 2014	2014/ 2015	2015/ 2016
Primary and lower and secondary education	2	2	1.7	1.6	1.8	1.8	1.4	1.5	2	1.8
of which:										
Primary education	1.5	1.7	1.4	1.4	1.6	1.6	1.1	1.3	1.8	1.7
Lower secondary education	2.1	2.3	1.9	1.7	2	1.9	1.7	1.9	2.1	2
High school education and vocational education	2.7	3.3	3.6	2.9	4.2	2.4	2.9	2.9	3.5	3.6
Post-high school and foremen education	8.6	7.5	5.9	5.5	6.3	6.1	8.9	7.9	10.7	9.7

Source: National Institute of Statistics, data processed by the author

The perspective for post-high school and foremen education is alarming because it highlights a significant increase if we compare the school year 2008-2009 when the lowest dropout level was registered with the school year 2014-2015 when the rate doubled. And these high growth rates indicate an increase in youth vulnerability to poverty because they have a higher risk of becoming unemployed or earning less once they become employees. And this issue generates additional public and social costs as health and social benefits, individual incomes and lower economic growth, and lower tax revenues. In fact, "the costs of such exclusion have been estimated in some countries based on the analysis of major social and economic costs at the individual and society level and, in this context, the costs of early school leavers have reached, over the lifetime, 2 million euros per person" .

It should be mentioned that the school dropout is also an important indicator for assessing the performance of education. It is calculate as the difference between the number of students enrolled at the beginning of the school year and the number of pupils enrolled at the end of the school year, expressed as a percentage of the number of pupils enrolled at the beginning of the school year.

Being a performance indicator, finding solutions to improve exit rates should be a priority as it affects Romania's medium and long-term ability to have a well-trained workforce to ensure sustainable economic growth.

These solutions should be identified through a process interconnected to the reality of each school, region, specialization etc. The strategies implemented so far foreseen interventions on the system, so many of them have not achieved their goals. The new

strategy should include a correlation of all institutional, administrative and social actors to prevent and combat dropout by using specific measures for each group, aligned with a governmental policy that will be able to support the actions.

### **3.The Qualitive dimension of human capital**

The above analysis reveals a quantitative study of human capital through the study rate enrollment and drop out school rate as a loss, but this would not be complete without a human capital qualitative study that considers the test scores on national and international investigations into pupil assets. Thus, an analysis is needed to identify the quality of outputs in the educational system. A study of the quality of human capital was originally developed by the authors Hanushek and Woessmann (2012) which explored the impact of education on growth by using data on different international achievement test performance as a main proxy for the human capital.

The PISA (The Program of International Student Assessment) test consists in a specific procedure to measure qualification score in reading, mathematics and sciences. The test is a triennial international survey which aims to evaluate education systems worldwide by testing the skills and knowledge of 15-year-old students. The age of 15 was chosen because, in most of the countries, students can decide whether they want to continue their education. In fact, one of the objectives of PISA testing is to identify how "prepared they are for real-life situations in the adult world" (PISA official website) . The results can be an important barometer for the quality of a

country's human capital based on which the decision makers could improve policies and strategies in the field of education. The role that PISA tests have had in initiating processes of change in education is also highlighted in the literature. For example, Germany, "after its students were ranked below the OECD average in 2000, its enacted policy to implement comprehensive reforms in the education system, including the establishment of an educational standards monitoring mechanism. The United States (US uses state-level

standardized testing, and it has national testing regimes. Following these examples, Israel introduced a policy of setting standards, including evaluation measures for scholastic achievement, school efficiency, and growth" (Yaffe and Burg, 2018)

Regarding Romania's score in the period under review, it was highlighted in the table below in comparison with the OECD average score and the highest and lowest scores that were obtained by the participants (see Table 3)

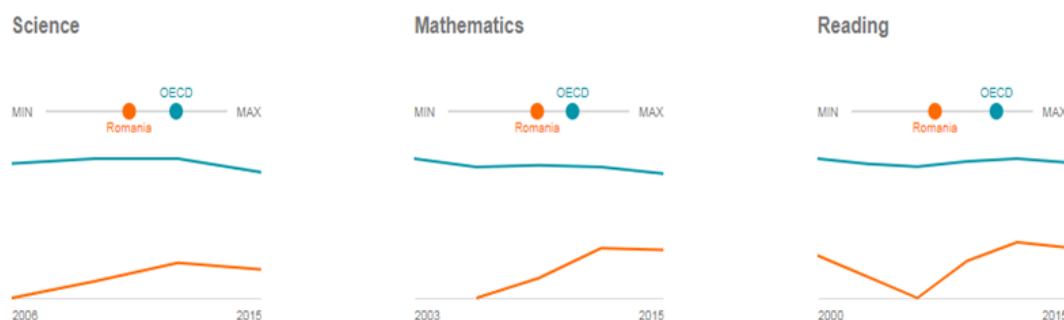
Table 3. The scores obtained in the Pisa tests by the Romanian pupils (2006-2015)

	Reading				Mathematics				Sciences			
Year	2006	2009	2012	2015	2006	2009	2012	2015	2006	2009	2012	2015
<b>OECD average</b>	492	492	496	493	498	496	494	490	500	501	501	493
<b>Highest score</b>	556	556	570	535	549	600	613	564	563	575	580	556
<b>Lowest score</b>	285	314	384	347	311	331	368	328	322	330	373	332
<b>Romania score</b>	396	424	438	434	415	427	445	444	418	428	439	435

Source: OECD Test Reports on PISA Tests

The results obtained by the Romanian pupils highlights a medium - low quality of education compared to the OECD average and many others participating countries.

Figure 8. The average performance OECD - Romania



Source: OECD Test Reports on PISA Tests

For the period under review, the OECD's PISA test reports indicate that Romania has improved its education performance over 2006 but is slightly down on 2012. Tests, conducted in 2015 and compared to 2006 results, show that Romanian improved its rate in math and reading performance, along with students from Colombia, Israel, Portugal, Qatar and Macao (China). Unfortunately, in 2015, the upward trend has not been maintained, the 2015 results as compared to 2012 indicate a slight decrease in all three disciplines: mathematics, science and reading.

According to Marian Stas, an expert in education, low performance results from the fact that the two educational structures are practically decoupled. "The way the PISA program is designed has no structural link with what is in Romanian educational system. Exercises involving PISA tests are completely different from those in textbooks or exercises with which Romanian pupils are used, and this may indeed be the explanation for modest performance".

Therefore, it is necessary to bring the Romanian education system closer to that of the countries with high scores in the PISA tests. In these countries, educational management is based on a transdisciplinary or interdisciplinary approach, which is also the basis of PISA tests, while in Romania the educational system is built on a disciplinary basis.

The change implies a whole restructuring system, from public policies to the creation of teacher's competences needed to implement a system based on interdisciplinarity and interactivity. For these profound changes, the Ministry of Education decision-makers together with kindergarten, schools and high schools' managers must outline the directions and concrete actions to

implement the new model as soon as the necessary resources have been created for these (human and financial resources). "The adaptive change of education is a deep-seated, collective-based learning exercise based on trust, honesty, competence, performance and courage, designed to generate irreversible gains - short, medium and long-term for all individual and institutional actors involved" (Stas, 2012). These changes are therefore necessary to create a human capital development environment through initial training that will be able to develop the future country's economy. A well-prepared human capital offers potential for entrepreneurial development, innovation, and relieves the state of future social spending (unemployment, social assistance, additional health care, etc.)

### Conclusion

The educational analyses indicate a limitation of its evolution. The data highlights several problems identified within each analyzed pillar.

The enrollment rate indicates a loss of more than 800,000 of the total pupils / student population in just 10 years. The enrollment rates are decreasing for most education levels and may be explained by lower birth rates, increased migration (for primary and secondary levels), and loss of attractiveness of education especially for higher levels (high school and higher education). In this case, the lack of interest in education is not only a cause of the content of the curriculum at these levels, but also the consequences of poor or inadequate content and methods for primary and secondary education.

In the light of these issues, there is also a high dropout rate, which fluctuated over the

period under review, but overall, the trend continues to rise at the level of the whole educational system. This can be correlated with an increase in youth vulnerability to poverty, as they are at a higher risk of becoming unemployed or earning a low salary at the limit of subsistence. Moreover, the results of those who continue school are not among the highest. Analyzing the results obtained by Romanian students in PISA testing, they indicate a low - average performance score.

Considering the problems highlighted in the analyzed period, it is necessary to reconsider the policies and educational strategies for creating a better environment for the development of human capital. These changes must be done in conjunction with direct decision makers (school directors, school inspectors, members of education committees, etc.), as well as teachers and students who can indicate the real problems they face daily in the educational process. Also, a second step should include better and a more efficient financial investment needed to implement change and create a better educational system. Thirdly, the education system must become more attractive through a more interactive, interdisciplinary content and with greater emphasis on the ability to be used in practice. For these, a possible solution would

be the development of human resources skills through specialized training and exchanging experience and good practice. It is also necessary to identify an education model to be used as source for guiding principles of change.

Therefore, the decision-makers need to change the myopia that has characterized them in the past decades with a realistic strategy that requires a better understanding of the real needs of the beneficiaries and better involvement of all levels of management responsible for planning and implementing the new strategy for education. The mission is not an easy one, it involves many challenges, but by efficiently utilizing the competencies of those involved, Romania will be able to have a high-performance education system, aligned with European strategy standards.

A better educational capital will bring higher development conditions for Romania to cope with a digitized economy, an economy where innovation and competitiveness of human resources are important factors of progress. Also, ensuring better conditions for development and use of human capital will also help to reduce poverty and migration levels, which are currently common in the Romanian economy.

## REFERENCES:

1. **Barro, Robert** (1997), *Determinants of Economic Growth: a Cross-Country Study*, MIT Press, Cambridge, U.S.A.
2. **Barro, Robert** (1999), *Human capital and growth in cross-country regressions*, Swedish Economic Policy Review, 6(2)
3. **Becker, Gary** (1997), *Capitalul uman. O analiză teoretică și empirică cu referire specială la educație*, ALL Publishing House
4. **Benhabib, Jess and Spiegel Mark** (1994), *The role of human capital in economic development: evidence from aggregate cross-country data*, Journal of Monetary Economics, Amsterdam, Elsevier Sciences



5. **Davenport, Thomas** (1999), *Human Capital. What It is and Why People Invest It*, San Francisco, Jossey-Bass Publishers
6. **Hanushek, Eric and Woessmann Ludger** (2012), *Do better schools lead to more growth? Cognitive skills, economic outcomes and causation*, Journal of Economic Growth, 17(4): 267-321.
7. **De Silva, Indunil and Sumarto Sudarno** (2014), *Dynamics of Growth, Poverty and Human Capital: Evidence from Indonesian Sub-National Data*, MPRA Paper No. 65328, <http://mpra.ub.uni-muenchen.de/65328/>
8. **Haitham, Issa** (2005), *Human Capital Demographic Transition and Economic Growth*, Journal of Economic Development, Volume 30, Number 2, December 2005
9. **Lee, Jong-Wha and Robert Barro** (2001), *Schooling Quality in a Cross-Section of Countries*. *Economica* 68, no. 272: 465-488.
10. **Stas, Marian** (2012), *Real Leadership: The Adaptive Change of Education – A Strategic Argument for the Transformation of the School System in Romania*, REVISTA DE POLITICA ȘTIINTEI SI SCIENTOMETRIE – SERIE NOUA
11. **Vágvölgyi, Réka and Coldea Andra, Dresler Thomas, Schrader Josef, Nuerk Hans-Christoph** (2016), *A Review about Functional Illiteracy: Definition, Cognitive, Linguistic, and Numerical Aspects*, *Front Psychol.* 2016; 7: 1617.
12. **Vlaston, Stefan** (2016), *Rezultate teste PISA. Comparație între anii 2009, 2012, 2015*, [https://adevarul.ro/educatie/scoala/rezultate-teste-pisa-comparatie-anii-2009-2012-2015-1\\_584925ae5ab6550cb8395a41/index.html](https://adevarul.ro/educatie/scoala/rezultate-teste-pisa-comparatie-anii-2009-2012-2015-1_584925ae5ab6550cb8395a41/index.html)
13. **Wickramasekara, Piyasiri** (2011), *International migration of labour: The missing link in globalization*, <https://heimatkunde.boell.de/2011/05/18/international-migration-labour-missing-link-globalization>
14. **Yaffe, Yosi and Burg David** (2018), *What more can we learn from PISA tests? A comparative analysis of the long-term dynamics of Israeli international educational achievements*. Available from: [https://www.researchgate.net/publication/330579668\\_What\\_more\\_can\\_we\\_learn\\_from\\_PISA\\_tests\\_A\\_comparative\\_analysis\\_of\\_the\\_longterm\\_dynamics\\_of\\_Israeli\\_international\\_educational\\_achievements](https://www.researchgate.net/publication/330579668_What_more_can_we_learn_from_PISA_tests_A_comparative_analysis_of_the_longterm_dynamics_of_Israeli_international_educational_achievements)
15. **Zhang, Jie., Zhang Junsen, and Lee Ronald** (2003), *Rising Longevity, Education, Savings, and Growth*. *Journal of Development Economics*, vol.70(1)
16. Eurostat (2018), *Education and Training MONITOR 2018 Romania*, [https://ec.europa.eu/education/sites/education/files/document-library-docs/et-monitor-report-2018-romania\\_en\\_0.pdf](https://ec.europa.eu/education/sites/education/files/document-library-docs/et-monitor-report-2018-romania_en_0.pdf)
17. *Legea 1/2011, Educației Naționale (Law 1/2011, Law of National Education)*
18. Ministry of Education (2016), *Raport privind starea învățământului superior în România*, p. 10, [https://www.edu.ro/sites/default/files/\\_fi%C8%99iere/Minister/2017/transparenta/Stare\\_sup%20%202016.pdf](https://www.edu.ro/sites/default/files/_fi%C8%99iere/Minister/2017/transparenta/Stare_sup%20%202016.pdf)
19. OECD Insights: *Human Capital*, p. 26, <https://www.oecd.org/insights/37967294.pdf>
20. PISA, 2015, *Country overview*, <http://www.compareyourcountry.org/pisa/country/oecd?lg=en>
21. *Reducerea părăsirii timpurii a școlii în Uniunea Europeană*, Parlamentul European, Comitetul pentru Educație și Cultură, 2011

# Social Media and Destination Marketing: Today Advancements for Tourism Future

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

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

~ Ph. D. Senior Researcher **Marius Surugiu** (*Institute of National Economy, Bucharest, Romania*)

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

~ Ph. D. Senior Researcher **Raluca Mazilescu** (*Institute of National Economy, Bucharest, Romania*)

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

**Abstract:** The development of information and communication technology has a significant impact on marketing strategies implemented by economic operators and decision makers. Tourists may change their way of accessing information, planning holidays or/and their tourism consumption patterns, but they can influence the behaviour of other consumers by sharing experiences. Social media platforms allow them to communicate these experiences. Based on this information, the travel planning process is facilitated. This paper presents features of the social media channels, and the importance of social media in the tourism industry is underlined.

**Keywords:** social media, tourism, destination marketing

**JEL Classification:** L83, L86

## 1.Introduction

Social media has greatly influenced the activity of the enterprises, offering the possibility to maintain direct contact with customers at a relatively low cost, thus allowing the development of long-term relationships. By using social media, customers can actively contribute to content creation and can communicate freely with businesses.

Web 2.0 refers to the possibility to interact and collaborate on web pages, also known as the “social web”. Globally, web 2.0 has an important and visible place, and the implementation of social technology is now a must-have and must-do by all businesses, regardless of the operating sector, but even more in the hospitality and tourism industry. Companies build their presence in the social environment and need to manage very carefully their image, knowing the long-term impact that social media actions have or may have on their development.

## 2.Features of the social media channels

Businesses are facing more and more challenges, such as social media marketing, involving social media tools that may be successfully used to improve customer communication, brand awareness, interact with customers, get feedback to improve the quality of products and services, transparency in decision-making, etc.

Baruah (2012) considers that the term “social media” refers to the use of web and mobile technologies to transform communication into an interactive dialogue. Social media takes different forms, including magazines, Internet forums, social blogs, microblogging, wiki, podcasts, photos or pictures,

video, rating and social bookmarking. The specific tools, such as Facebook, Twitter, Myspace, Skype, etc. are widely used for communication purposes. Nowadays, people are addicted to different social media tools to keep in touch with each other.

Organizations use different social media (such as websites, blogs, message boards, podcasts, microblogs, bookmarks, social networks, communities, wikis and vlogs, online encyclopaedias) to reach their marketing and business objectives.

Social media refers to the content created and consumed by various people. These include comments on posts, photos uploaded to sites, conversations between friends in a social network. Thus, all individuals may become publishers and content referees simultaneously (Singh, 2010).

Another definition describes social media as a collaborator, created by online users (Roberts and Kraynak, 2008). According to other authors, social media consists of a group of Internet-based applications, allowing the creation and change of user-developed content based on the technological and ideological foundations of the Internet (Kaplan and Haenlein, 2010).

Ellison and Boyd (2013) specifically distinguish social networking sites as communication platforms that provide users with unique profiles, public connections, and the ability to create and consume user-generated content. Other researchers underline the difference between social media and narrower terms such as social networks or social sites (Treem et al, 2016).

Several classifications of social media tools have been identified in the literature. Kaplan and Haenlein (2010) identify six types of social media sites, namely: collaborative

projects; blogs and micro blogs; content (creative) communities; social networks; virtual worlds of games and virtual communities. Razmerita et al (2014) classifies social media services based on their usage, respectively for: social networking sites; wiki - online collaboration and crowd-sourced content; blogs; microblogging (Twittering); content communities (Ccom). Beer (2008) considers categories of wikis, folksonomies, mashups, and social sites as distinct types of applications within the broader web 2.0 framework that can function as an umbrella concept, including a broader set of online applications that facilitates expression and interaction.

In the literature, social media tools have been categorized as follows: social networking sites (Facebook, LinkedIn, MySpace, Friendster, Orkut, Tribe, Hi5, Ning, Classmates, Flixster, Dribbble), blogs (Wordpress, Blogger, LiveJournal, Tumblr), content communities (e.g. YouTube, Flickr, Scribd, Slideshare, Instagram, Photobucket, Pinterest, Snapchat), collaborative projects (Wikipedia, Wikitravel), virtual worlds (e.g. Second Life), virtual games (e.g. World of Warcraft). However, there are other types of social media, such as microblogs (Twitter, Digg, Reddit), review sites, votes, user recommendations (e.g. TripAdvisor, Epinions), forums and announcements (ThornTree, Fodor's Travel Talk, Softpedia, Olx, Tocmai) (Živković et al., 2014).

Social network sites (SNS) provide web platforms for building social relationships between individuals, for example, having common interests or activities (Baruah, 2012). SNS offer the means of interacting on the Internet, email, and even using mobile phones (Baruah, 2012). This allows a user to create profiles or personal pages online and

to establish a social network. Site apps enable the user to invite others to join the site, to access other users' profiles, to share information instantly. The site owner controls the site access and online group discussions (Dao, 2015). Actions in a SNS remain strongly socially driven by the desire to communicate better with colleagues and build a social and professional identity, as well as a reputation. The most popular social network sites are currently MySpace, LinkedIn, Facebook and Twitter (Baruah, 2012). Facebook, Ning, LinkedIn and MySpace are considered the most common SNS. These are called social network sites because they are social communication sites (Dao, 2015).

Blogs are online journals and are considered personal webpages where people can communicate with each other, through various information (Dao, 2015). Blogs can be dedicated to politics or news, tourism, sharing opinions or technical developments. Most blogs are primarily textual, although there are other forms of blogs (e.g., photo blogs, video blogs and MP3 blogs for music collections) (Baruah, 2012). The blog or forum owner can upload information, while other users can view, download, and post comments on messages. Some of the blogs and forums are Wordpress.com, Blogger.com and Yahoo! Groups (Dao, 2015). An important feature of the blogs is the possibility for readers to leave comments, allowing the author to engage in an interaction with his audience. Blogging offers people an opportunity to develop an online identity that they may promote in a wider "social" space (blogosphere) (Baruah, 2012). Microblogs (like Twitter.com) enable users to share information such as short sentences, images or videos (Kaplan and Haenlein 2010), with a

maximum of 140 characters per message, to communicate about their daily activities, to advertise events and / or to share information. Microblogging can play a key role in rapid dissemination of ideas within the social network through viral marketing mechanisms (Huberman et al, 2008). Blogs, microblogs and internet forums are considered the oldest forms of social media sites (Dao, 2015).

Content communities (content generation and sharing sites) include a strong social dimension and they are based on user-generated content (Chiu et al, 2006). The distribution of media content is done by sending a link to other people (Baruah, 2012, Dao, 2015). Examples of content communities are: BookCrossing (text), Youtube (for videos), Flickr, picasaweb.google.com (for photos), Audiobase (audio), Slideshare (for PowerPoint presentations), docstoc.com (document sharing site) (Baruah, 2012, Dao, 2015). Content communities allow users to share different types of resources, ideas, and opinions from an individual perspective, to share experiences and best practices, and to discuss issues with others. Communities may be classified as interest, relationship, transaction, and fantasy communities for knowledge sharing, brainstorming, friendship, or trade management (Hagel and Armstrong, 1997).

Collaborative projects (multi-user projects). This category includes online encyclopaedias. A Wiki is a typical example of a collaborative project site (e.g. Wikipedia) (Dao, 2015). Wikis allow several participants to collaborate in the same project (e.g., research analysis, writing a dictionary or a group project). Project participants can edit the entire content of the project anytime and anywhere (Dao, 2015). Wikipedia is the most popular wiki application, this type

of user-generated content being known as crowd-sourcing (Baruah, 2012).

Virtual games are online platforms where users may participate with avatars; there are virtual worlds. Individuals may interact with others as in the real world. Virtual social worlds allow Internet users to choose personalized avatars, their behaviour, their lives, and their activities in the virtual lives that are similar to the real life. Users can meet in a certain place in the virtual world to do things together, as in real life (Dao, 2015).

Review sites, votes, and user recommendations serve as platforms for evaluating various products and services (e.g., websites such as [www.mouthshut.com](http://www.mouthshut.com) or [www.pagal-guy.com](http://www.pagal-guy.com)). The information on these sites may influence the consumer's decision regarding the products or services they intend to buy (Baruah, 2012).

The use of social media becomes widespread and the number of users increases. According to Sahin and Sengün (2015), the number of Internet users is 2.5 billion, and 1.8 billion of them have an account on social media networks. Among the most popular social media platforms are Facebook (1.2 billion), Whatsapp (400 million), LinkedIn (259 million), Twitter (232 million), and Tumblr (230 million).

### **3.The importance of social media in the tourism industry**

In the area of marketing, a considerable number of organizations, from companies, non-profit organizations and government agencies, use social media in specific communication activities, always keeping in touch with customers and other stakeholders. In the pursuit of raising awareness, and

developing messages that become viral, the organizations are actively involved in the development of web 2.0 tools and the social web. The latter changes the rules of the game, and companies build social media campaigns, but also pay attention to traditional marketing campaigns (Evans and McKee, 2010).

According to Zouganeli et al (2011), "Travel 2.0" is related to the term "web 2.0" and promotes a many-to-many communication model. Within the context of the expansion of social media use in tourism, the professionals have to recognize and use the specific tools, for enhancing the promotion strategies. Marketing through social media requires a shift in concentration, a reallocation of resources, and the development of new strategies. Research shows that two-thirds of travellers using the Internet are present on Facebook, reaching 90% in the 18-24 age group and retaining an important presence in almost all age groups (Nielsen, 2009).

The marketing of tourism services is very important. Tourism businesses should use social media effectively to create official accounts and hire staff to manage these accounts (Sahin and Sengün, 2015). Because the social media is overcrowded and overloaded with information, it is very difficult to draw attention (Kiráľová and Pavlíčka, 2015).

Tourists need to know, from trustworthy sources, what to expect of the new tourism destinations or experiences, in order to reduce uncertainty associated with the provision of tourist services and to have enough information for making the right travel decision in respect to the future travel destination. Modern tourists have more confidence in the opinion of other travellers, using social media rather than the advice given by official

marketing experts. As social media becomes more and more expressive, the consumers may increasingly influence more consumers with their own opinions and experiences (Živković et al, 2014).

Destinations may use social media as an important tool in communicating with tourists. Social media has a special significance for the marketing activities of a destination. Marketers may use social media to inform tourists about the facilities available at a particular destination, but also after a holiday, to help them recall their pleasant moments at that destination.

Kiráľová and Pavlíčka (2015) believe that new media offer a less costly marketing approach at destination level, as well as numerous opportunities to involve visitors in attracting other individuals. Until now, visitors had no confidence in advertising focused on the benefits and special features of destinations. Visitors needed a personal, intelligent, creative, and interactive communication and message approach, including empathy and emotions. They want to participate in the creation of tourist products and want to buy based on that relationship. Social media may help destinations to remain competitive if they have interesting content, use creativity and support, and motivate interactive communication.

Companies use social media in marketing and management actions because of their potential for engaging and collaboration with consumers (Živković et al, 2014). Social media is highly effective if it is used as a marketing tool and has many functions, such as: supporting consumers to obtain information on goods and services, increase awareness, communicate their opinions, the behaviour, online purchasing decisions, and the



assessment of the purchases. For institutions, social media is a tool used to market products, brand consolidation, and customer relationship development (Sahin and Sengün, 2015).

Social media influences both the demand and supply of tourism services. These platforms offer opportunities for tourists to share experiences that other tourists can use in travel planning. A recommendation of a tourist about a destination can have a significant impact on holiday planning of other.

Social media offers tourism businesses opportunities to gain new customers, to maintain the existing ones, to understand the market reaction to their offers, and may use this information for their own development. Tourism companies can use social media to get a better position on the market.

In the tourism industry, social media enables tour operators and destinations to directly interact with visitors on different platforms, to monitor and react to visitors' opinions and assessments in terms of quality of services (Kiráľová and Pavlíčka, 2015). In addition, social media represents an important tool for analysing the attitudes of tourists and this is confirmed by the increase in the number of purchases and recommendations to other users. Building a successful tourism brand means that each offer should contain a unique value proposition, based on customer experience (Živković et al, 2014).

Social media plays an important role in customer communication. Tourism activity is influenced by the message sent by tourists about a destination, by opinions and recommendations made on social media platforms.

Using social media channels, tourism businesses are focusing on increasing their online presence, thus becoming much closer

to their own consumers, with a positive influence on the business.

Businesses can use social media as an important advertising tool, as there is a high potential, thanks to positive reviews. Organizations gain an important advantage over their competitors when using social networking sites for marketing purposes (Mangold and Faulds, 2009, Sahin and Sengün, 2015). Social media allows destinations to contact visitors with relatively low costs and higher levels of efficiency compared to those that can be obtained through traditional communication tools (Kaplan and Haenlein, 2010).

Using social media may have a major impact on marketing activity, especially as companies/organizations can develop marketing strategies tailored to different social platforms, in order to better reach target consumers.

More and more destinations are changing their traditional communication strategy, based on radio, television, the print media and others, to internet and social media, because of the reduction of marketing budgets. According to Kiráľová and Pavlíčka (2015), the most commonly supported social media campaigns objectives at tourist destinations can be summarized as follows: creating / increasing awareness of the destination; global advertising; encouraging visitors to plan their trip; enhance the destination image as a preferred destination; targeting a new / specific market; increasing the number of visitors; increasing the number of subscribers by email; increasing the number of Facebook fans; improving the visitors' perception regarding the destination's features; regaining a higher place in consumer preferences.



#### 4. Conclusions

Social media is an effective marketing tool that may be used to increase brand awareness, brand loyalty, service quality, and sales. It can help organisations to present a business brand/identity to millions of people around the world. As social media continues to grow, so will be the importance of using it as a marketing tool for all industries. The tourism industry is prepared to take advantage of the social media because it was largely based on the reputation of the destination, the consumer's opinion, the dissemination of information and positive mouth-to-mouth advertising (Gohil, 2015).

Social media allows other consumers to be influenced by online ratings, their experience with the products or services being relevant, as well as the degree of their improvement because of the assessments received. The ratings of consumers on social media platforms influence the company's market situation, its performance, but also opinions and comments of future consumers.

One of the most important benefits of using social media is the online exchange of knowledge and information between different groups of people. This online sharing of information promotes the growth of communication skills among people. Social media has the potential to change the character of our social life, both at interpersonal and community level (Baruah, 2012).

With social media platforms, businesses can get feedback from customers instantly. Customer reviews may represent an important source of information for companies, based on which services and products offered can be constantly improved.

Social media may contribute to boosting brand awareness and access to a wider

audience. Companies are increasingly acting in this sphere, trying to understand and analyse customer information on the services and products offered, and to take action accordingly.

Many companies have realized that there are high opportunities offered by social media and social media presence, and started to implement measures to improve the strategic use of it. Tourism companies may actively participate in social media to engage tourists by developing exciting content, providing appropriate information and timely responses to their concerns and questions. Such approaches may require adopting new business models to reach customers, and an adequate selection of the social media applications to be used, depending on the desired impact, target groups, and message to be communicated.

## REFERENCES:

1. **Baruah, T.D.** (2012), *Effectiveness of social media as a tool of communication and its potential for technology enabled connections: A micro-level study*, International Journal of Scientific and Research Publications, 2(5): 1-10
2. **Beer, D.** (2008), *Social Network(ing) sites. Revisiting the Story So Far: A Response to Danah Boyd and Nicole Ellison*, Journal of Computer-Mediated Communication 13: 516-529.
3. **Chiu, C.M., Hsu, M.H., Wang, E.T.G.** (2006), *Understanding knowledge sharing in virtual communities: An integration of social capital and social cognitive theories*. Decision Support Systems 42(3):1872-1888
4. **Dao, D.** (2015), *Social Media Classification Scheme in Online Teaching and Learning Activities: A Consideration for Educators*, International Journal of Education and Social Science, 2(4): 85-94.
5. **Ellison, N., Boyd, D.** (2013), *Sociality through social network sites*, in The Oxford Handbook of Internet Studies, eds. Dutton, W.H., Oxford, UK: Oxford University Press, pp. 151-172.
6. **Evans, D., McKee, J.** (2010), *Social Media Marketing: The Next Generation of Business Engagement*, Wiley Publishing, Inc., Indianapolis, Indiana.
7. **Gohil, N.** (2015), *Role and Impact of Social Media in Tourism: A Case Study on the Initiatives of Madhya Pradesh State Tourism*, International Journal of Research in Economics and Social Sciences, 5(4): 8-15
8. **Hagel, J., Armstrong, A.** (1997), *Net Gain: Expanding Markets through Virtual Communities*. Harvard Business Press.
9. **Huberman, B., Romero, D., Wu, F.** (2008), *Social networks that matter: Twitter under the microscope*. First Monday 14(1).
10. **Kaplan, A.M., Haenlein, M.** (2010), *Users of the world, unite! The challenges and opportunities of Social Media*. Business Horizons 53(1):59-68.
11. **Kiráľová, A., Pavlíčka, A.** (2015), *Development of Social Media Strategies in Tourism Destination*, International Conference on Strategic Innovative Marketing, IC-SIM 2014, September 1-4, 2014, Madrid, Spain, Procedia - Social and Behavioral Sciences 175: 358 – 366
12. **Mangold, W.G., Faulds, D.** (2009), *Social Media. The New Hybrid Element of the Promotion Mix*. Business Horizons, 52, 357-365.
13. **Nielsen** (2009), *Global Faces and Networked Places*. A Nielsen Report on Social Networking's, New Global Footprint.
14. **Razmerita, L., Kirchner, K, Nabeth, T.** (2014), *Social Media in Organizations: Leveraging Personal and Collective Knowledge Processes*, 24(1): 74-93.
15. **Roberts, R.R., Kraynak, J.** (2008), *Walk like a Giant, Sell like a Madman*, Hoboken, NJ:Wiley.
16. **Treem, J., Dailey, S., Pierce, C., Biffl, D.** (2016), *What We Are Talking About When We Talk About Social Media: A Framework For Study*, Sociology Compass, 10(9): 768-784
17. **Sahin, G.G., Sengün, G.** (2015), *The Effects of Social Media on Tourism Marketing: A Study among University Students*, Management and Administrative Sciences Review, 4(5): 772-786.
18. **Singh, S.** (2010), *Social Media Marketing for Dummies*, John Wiley and Sons Canada, Ltd.
19. **Živković, R., Gajić, J., Brdar, I.** (2014), *The Impact of Social Media on Tourism*, Sinteza, E-Business in tourism and hospitality industry, p 758-761.
20. **Zouganeli, S., Trihas, N., Antonaki, M.** (2011), *Social media and tourism: the use of Facebook by the European national tourism organizations*, Tourism Today, p. 110-121.

# Industry 4.0 - A challenge or a risk for the involvement of women in management and business

~ Ph. D. **Cristina Veith** (*Academy of Economic Studies, Bucharest, Romania*)

**E-mail:** christineveith@yahoo.de

~ Ph. D. **Daniel Costea** (*Academy of Economic Studies, Bucharest, Romania*)

**E-mail:** daniel@thelawchamber.com

**Abstract:** In the context of "Industry 4.0", applying the principles of diversity management is a very important topic for all developed countries. This paper focuses on the involvement of women in the professional activities of the future. The cultural differences between the developed economies of the world is one of the main causes of the percentage differences related to the involvement and the role of women in ensuring a long term sustainable development. Even if the adoption of regulations intended to increase the number of women in different management positions is discussed at the government level, the culture of each individual organization is a deciding factor for the chances of women's success. Secondary sources consisting of statistical data, scientific articles and relevant sources and materials were used for them. Aspects such as traditions, customs and beliefs influence both the share of women involved in professional life, but also the different level of payment. This leads to another much-debated topic, namely equality in chances and rights. Our country, even though it is not one of the largest economies in the world, has understood the benefits of gender diversity in order to ensure a healthy and sustainable development. This is also the case of the generally man dominated IT sector.

**Keywords:** Management, IT industry, woman role, Industry 4.0

**JEL Classification:** M12, M14, M54

## Introduction

This subject is widely debated among researchers and specialists, especially the aspect of the difference in chances between women and men in the economic field. Discrimination, equal opportunities for women and men, differences in remuneration and the feminist movement are some of the controversial notions discussed.

In this paper, we make a comparative analysis of the degree of involvement of women in business in different countries compared to Romania. This is done in order to determine the potential development advantages that our country has in the context of the fourth industrial revolution. For this analysis, we considered the involvement of women in management and business in Japan, USA, Germany and Romania. Those countries were chosen based on their major cultural differences, their recent history and their high level of economic development.

In the context of the fourth industrial revolution, or briefly in the context of "Industry 4.0", the challenges facing all economies are particularly important, involving all branches of economic activity. The changes brought about by this new era of digitalization, happen very quickly and demonstrate a wide reach both within companies and in the daily life of every citizen.

During the 2011 fair in Hanover, the term "Industry 4.0" was first presented and opened the way for many debates (Pfeiffer, 2017). "Industry 4.0" aims to initialize the fourth Industrial Revolution. Authors such as Wolfgang Halang, who uses an alternative definition of „the second stage of the third industrial revolution“, because the technological base, the microelectronics, is the same,

have criticized the term. "Industry 4.0" represents an organizational concept, which comprises four principles: interconnection, information transparency, technical assistance and decentralized decisions. Being an organizational and topical concept, it has a direct and inevitable impact on the management of each organization.

The report of the World Economic Forum (WEF) presents that Industry 4.0 presents a higher risk for the jobs occupied by women. The report estimates that by 2026 1,4 million jobs will be affected by digitization in the USA alone. Of these, 57% are jobs occupied by women (WEF, 2018). Generally, in the so-called jobs of the future, the percentage of women is much lower.

### The impact of "Industry 4.0" on the jobs occupied by women in Germany

In Germany, during the conference organized in 2018 on the International Women's Day, it was presented that the jobs occupied by women are affected largely than those occupied by men (Waschbusch, 2018). In terms of top management positions, women occupy only 11.7%, and the share in Industry 4.0 is only 7.2%, according to the 2016 Bisnode study (Heinemann, 2016).

A very controversial topic in Germany is if this situation can be improved by the law, which stipulates that women must hold 30% of the mandates of the board of directors of a company listed on the stock exchange. For companies for which this law does not apply and are among the top 200 companies in Germany, we find in top management positions about 8% women. In the case of companies listed on the stock exchange and of companies where the state is a shareholder,

the number of women in top management positions is approx. 13% (Waschbusch, 2018).

An important element is the fact that employers in the IT sector in Germany want to increase the number of women employed in this field. Thus, at present, 17% of all IT employees in Germany are women. For every open position, only every seventh candidate is a woman. This means that only 15% of the candidates are women (BITKOM, 2019). Even though between 2015 and 2017 there was an increase of approx. 4% in the number of female employees in this field and even an increase in management and top management (Waschbusch, 2018), in the last two years the interest of women to enrol, respectively to graduate computer studies has decreased (BITKOM, 2019).

### **Women in managerial positions in Japan in the context of "Industry 4.0"**

Japan is one of the biggest world economies today by nominal GDP, in third place in the world, after China and the United States. Japan's economy is highly developed and market-oriented. It is also the fourth-largest economy by purchasing power parity (PPP) and the world's second largest developed economy. Japan is the world's third largest automobile manufacturer and has the largest electronics industry. Japan is often ranked among the world's most innovative countries (CBRE, 2018). The Bank of Japan (BoJ) expects an economic growth between 1.3% and 1.5% in the 2018 fiscal year (FOCUS, 2018).

In the case of Japan, there is not only the problem of a small number of women in management positions, but of the entire cultural and professional vision of this country. Even though Japan is one of the most

developed economies in the world, the presence of women in professional life and especially in a management position, is perceived as being against tradition.

According to Hofstede's definition for "Masculine", it indicates a society driven by competition, achievement and success. Success is defined here by being the winner / the best in the field. This value system starts with the education at home, then in school and continues throughout organisational life. In opposition to this, a Feminine society has as dominant values: caring for others and the quality of life. By quality of life, in a Feminine society, we understand that success and to be the first is not the goal (Hofstede Insight, 2018).

According to Hofstede's analysis, Japan has the highest score of 95 points in the category "Masculine" in the world. This score, associated with the score of 54 in the category of collectivism, makes us not observe the competitive and individualistic behaviour. Such behaviour was associated with ease of a "Masculine" culture. Japan is, however, a collectivist country, even if does not have a very high score in this direction. Even small children are taught to participate in sports competitions in order to prepare them for later life experiences.

In business life, Japanese employees reach the highest levels of motivation, when they fight as members of the winning team against the competitors. Another aspect of "Masculinity" in Japan is the permanent tendency towards perfection and excellence. This tendency is met both in the case of "material production", called in Japanese "monodukuri", in "material services", hotel and gastronomy, but also in offering gifts and food presentation (Hofstede & Minkov, 2010).

The Japanese are considered by definition workaholics, which is another form of "Masculinity". Thus, they explain that it is difficult for a woman to climb up the hierarchy in a Japanese company, which involves sustained hard work and a large workload.

Even in the year 2000, a woman in a management position in Japan was an absolute exception. Keiko, who held a senior management position in an American health care company in Japan, faced a number of issues surrounding subordinate men being humbled to be coordinated by a woman (Hirsch, 2000).

The statistical data shows that women represent 42.7% of the Japanese workforce. This exceeds the proportion of women working in the USA. Most of the jobs occupied by married women are part-time jobs. On average, a woman in Japan is paid 40% less than a man (Soble, 2015).

Japan ranks 110th in the world in terms of the pay gap between men and women, an important component of gender inequality. The recruitment company HAYS has published on its site an article about employment opportunities offered to women in Japan. The Government of Japan's initiative to increase the share of women in management positions in both the state and private sectors by 30% is underlined (HAYS, 2017). At present, the number of women in IT is very low.

### **Women in managerial positions in the USA in the context of "Industry 4.0"**

In the USA, almost, 47% of workers are women, this means 74,6 million women. 39% of women work in occupations where women make up to 75% of the workforce. Women are well represented also as entrepreneurs

and own close to 10 million businesses, accounting for \$1.4 trillion in turnover.

Women's participation in the U.S. labour force has climbed since 1948 from 32,7% to 56,8% in 2016. More than 40% of women in the labour force had college degrees in 2016, compared with 11% in 1970. The range of occupations women workers hold has also expanded, with women making notable gains in professional and managerial occupations. In 2016, more than one in three lawyers was a woman compared to less than 1 in 10 in 1974.

Nevertheless, women are still under-represented in STEM occupations, with women's share of computer workers actually declining since 1990. The unemployment rate for women is currently 4,8%, down from a peak of 9,0% in November 2010 (Statistics, 2019).

Seventy percent of mothers with children under 18 participate in the labour force, with over 75% employed full-time. Mothers are the primary or sole earners for 40% of households with children under 18 today, compared with 11% in 1960 (DeWolf, 2017).

The gender pay gap persists, although there has been some progress: according to a 2017 report from the Bureau of Labour Statistics, women now earn 82 cents for every dollar earned by men -- 20 cents more than in 1979, the first year for which figures were available. However, not all jobs offer the same opportunities for working women. Although the focus around women's pay checks tends to be centred on how they match up to those of men, there are also discrepancies between what women in different careers make compared to one another.

According to that same report, various careers bring in high salaries for women:



healthcare occupations, law, management, and technology jobs are among the top money-making positions (Doyle, 2019).

### **Women in managerial positions in Romania in the context of "Industry 4.0"**

Romania is a top electronics producer in Central and Eastern Europe. In the past 20 years, Romania has also grown into a major centre for mobile technology, information security, and related hardware research. The country is a regional leader in fields such as IT and motor vehicle production. According to the Labour Ledger as at 1 January 2018, the active civilian population amounted to 8 717 900 persons, representing 44.7% of the resident population. Out of the total active population, 54.7% were men and 45.3% were women (EURES, 2019).

31.4% of the management positions in Romania are held by women. This percentage puts us in the 53rd place out of 126 countries, but far ahead of Germany, Austria, the Netherlands, USA or Japan (Wall-Street, 2019). In terms of top management positions, Romania can be proud of a much better position than most European states, with a share of 31.1% of positions held by women (Wall-Street, 2019).

At the top management level, Romania has the smallest pay gap between women and men among European Union states. The difference in our country is only 5% while the EU average is 23% (Mihai, 2017). Romania exceeds the EU average in terms of the share of employees in the ITC sector. The EU average stands at 16%, and in our country, every fourth ITC employee is a woman (Agerpress, 2018).

All these statistical data underline the advantage and potential of our country to further develop the ITC sector.

### **Methodology**

The present article includes an analysis of the documentation found in various publications and scientific articles in order to illustrate the potential advantages of our country.

Therefore, we used a comprehensive search into numerous sources of secondary data, such as articles, reports and books from the domains of "Industry 4.0", management, including intercultural management and sociology.

For the research, we used also electronic databases, such as Springer, Academia.edu, BRILL and Wiley Online Library. Other sources were the archives of different journals and conferences, such as the journal "Manager", the conference "BASIQ", "ICBE" and "ETIMM".

The method used is a descriptive and quantitative one, given the fact that the subject is very widely discussed.

### **Results and discussions**

The relationship between sexes, their individual evolution and the interdependence between them had an important influence of the development of society (Săseanu, A., Toma, S.-G., Marinescu, P., 2014). Because corporate cultures define and reinforce typical roles in the working environment and influence social actions of organizational members, they play an essential role in rethinking gender stereotypes within organizations (Wolf, A., Trenkmann, J., Boos, L., 2017).



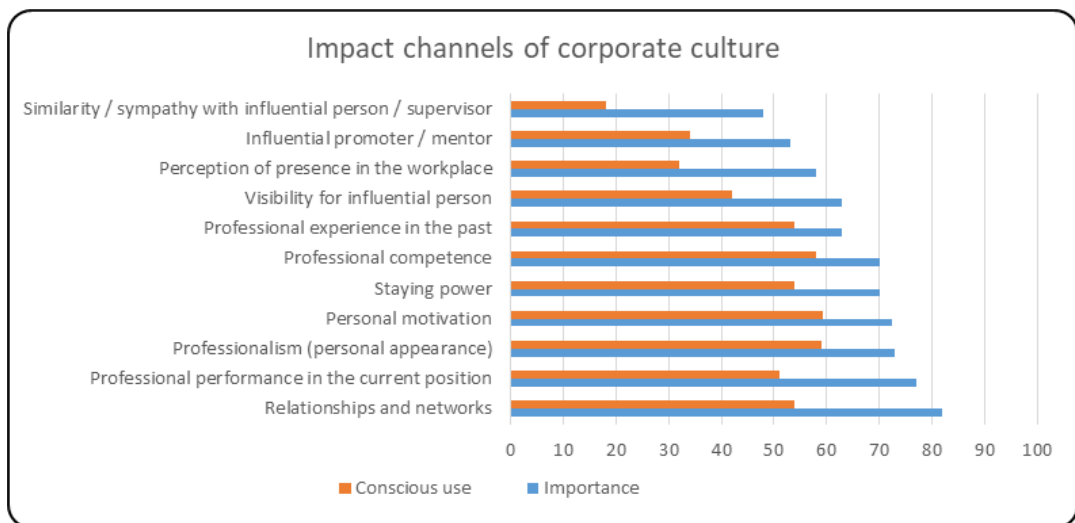
In all four countries presented, it is noted that the number of women employed, especially those in management positions, depends on the culture of each organization and enterprise.

The following graph shows the channels of action of the company culture that influence the chances of promoting women.

In the research conducted by Kohaut and Möller, the answers to the following two questions were evaluated:

- Which of the following factors are important for your professional advancement in your company?
- Which factors have you ever consciously used to advance professionally?

Figure 1: Impact channels of corporate culture (Wolf, A., Trenkmann, J., Boos, L., 2017)



According to the report of the Institute for the Labour Market and Professional Research (IAB), in the East German part, even almost 30 years after the fall of the Berlin wall and the Reunification of Germany, there are still differences in the organizational culture (Kohaut, S., Möller, I., 2016). The explanation appears to be related to the role of women in the communist period, when everyone, regardless of gender, level of preparation, etc., had a job.

Women rarely occupy management positions simply because their male colleagues, bosses or subordinates do not accept them

and because women, instead of perfecting their leadership and implicit managerial skills, are comfortable in this situation. However, the literature offers enough material to reduce this negative impact of stereotypes (Coman, 2016).

The results clearly show that companies do have an impact on the proportion of women in leadership positions in designing their corporate cultures and adapting their gender equality measures accordingly (Wolf, A., Trenkmann, J., Boos, L., 2017).

## Conclusion

In Romania this difference does not exist in this form, which is demonstrated by the much larger number of women in management and top management positions, as well as in the industries of the future, compared to the rest of the highly developed industries.

In this context, the differences in leadership styles can be said to be an advantage, both for men and women, as they develop the leadership skills needed today for a good manager.

In the current economic context, in which the changes occur much faster, certain

features of the female leadership style, such as flexibility, intuition, ability to communicate, care for detail and last but not least the ability to motivate and promote staff, are mandatory for a successful management. But no less important are the masculine traits, such as risk taking, the general vision, the establishment of general strategies, the understanding of the technological processes.

Thus, as stated in the Huber study, diversity, including gender, is one of the recommended solutions to face the challenges of the future (Huber, 2018).

## REFERENCES:

1. Agerpress, 2018. *România, peste media UE în ceea ce privește ponderea femeilor în sectorul ITC*. [Online] Available at: [https://www.economica.net/romania-peste-media-ue-in-ceea-ce-priveste-ponderea-femeilor-in-sectorul-itc\\_160744.html](https://www.economica.net/romania-peste-media-ue-in-ceea-ce-priveste-ponderea-femeilor-in-sectorul-itc_160744.html) [Accessed on 30 September 2019].
2. BITKOM, 2019. *IT-Fachkräfte: Nur jeder siebte Bewerber ist weiblich*. [Online] Available at: <https://www.bitkom.org/Presse/Presseinformation/IT-Fachkraefte-Nur-jeder-siebte-Bewerber-ist-weiblich> [Accessed on 30 September 2019].
3. CBRE, 2018. *CBRE Releases Q2 2018 Japan Investment MarketView*. [Online] Available at: <https://www.cbre.co.jp/en/about/media-centre/cbre-japan-investment-marketview-q2-2018>
4. Coman, A., 2016. *Stereotyping Woman in Leadership Postions: What We Know And What We Can Do About It*. Manager, 24(1), pp. 151 - 161.
5. DeWolf, M., 2017. *12 Stats About Working Women*. [Online] Available at: <https://blog.dol.gov/2017/03/01/12-stats-about-working-women> [Accessed on 30 September 2019].
6. Doyle, A., 2019. *High Paying Careers for Women*. The Balance Careers, 20 May.
7. EURES, 2019. *The European Job Mobility Portal*. [Online] Available at: <https://ec.europa.eu/eures/main.jsp?catId=9545&acro=Imi&lang=en&countryId=RO&regionId=RO0&nuts2Code=null&nuts3Code=null&regionName=National%20Level> [Accessed on 30 September 2019].
8. FOCUS, 2018. *Japan - Investment*. [Online] Available at: <https://www.focus-economics.com/country-indicator/japan/investment>
9. HAYS, 2017. *'Womenomics' boosts job opportunities for women in Japan*. [Online] Available at: [https://www.hays.co.jp/en/press-releases/HAYS\\_226667](https://www.hays.co.jp/en/press-releases/HAYS_226667)[Accessed on 30 September 2019].
10. Heinemann, S., 2016. *Frauen im Management weiterhin deutlich unterrepräsentiert*. [Online] Available at: <https://www.bisnode.de/ueber-bisnode/ueber-uns/presse/studie-frauen-im-managment-weiterhin-deutlich-unterreprasentiert/> [Accessed on 30 September 2019].

11. **Hirsch, J. L.**, 2000. *Culture, Gender, and Work in Japan: A Case Study of a Woman in Management*. Ethos, 28(2), pp. 248 - 269.
12. **Hofstede Insight**, 2018. *Country Comparison*. [Online] Available at: <https://www.hofstede-insights.com/country-comparison/japan,romania/>
13. **Hofstede, G. & Minkov, M.**, 2010. *Cultures and organizations: software of the mind: intercultural cooperation and its importance for survival*. New York: McGraw-Hill, 3rd edition.
14. **Huber, V.**, 2018. *Lohnt sich Gender-Diversity?*. Springer Gabler Hrsg. St. Gallen: Christian Keuschnigg.
15. **Kohaut, S., Möller, I.**, 2016. *Im Osten sind Frauen öfter an der Spitze*. [Online] Available at: <http://doku.iab.de/kurzber/2016/kb0216.pdf> [Accessed on 30 September 2019].
16. **Mihai, A.**, 2017. *O femeie manager din Romania castigă cu 5% mai puțin decât un manager bărbat*. [Online] Available at: <https://www.zf.ro/profesii/o-femeie-manager-din-romania-castiga-cu-5-mai-putin-decat-un-manager-barbat-16185022> [Accessed on 30 September 2019].
17. **PFEIFFER, S.**, 2017. *The Vision of "Industrie 4.0" in the Making a Case of Future Told, Tamed and Traded*. Nanoethics, Springer Open Choice(PMC5383681), pp. 107 - 121.
18. **Săseanu, A., Toma, S.-G., Marinescu, P.**, 2014. *Feminine leadership and organisational culture*. Manager, Band 19, pp. 144 - 150.
19. **Soble, J.**, 2015. *To Rescue Economy. Japan Turns to Supermom*. The New York Times, 1 January, pp. 7 - 8.
20. **Statistics, B. o. L.**, 2019. *Employment status of the civilian population by sex and age*. [Online] Available at: <https://www.bls.gov/news.release/empstat.t01.htm> [Accessed on 06 October 2019].
21. **Wall-Street**, 2019. *Romania, pe locul 53 dupa numarul femeilor manager, dar depaseste tari din Occident*. [Online] Available at: <https://www.wall-street.ro/articol/Careers/178162/romania-pe-locul-53-dupa-numarul-femeilor-manager-dar-depaseste-tari-din-occident.html#gref> [Accessed on 30 September 2019].
22. **Waschbusch, L. M.**, 2018. *Industrie 4.0 braucht mehr Expertinnen*. [Online] Available at: <https://www.industry-of-things.de/industrie-40-braucht-mehr-expertinnen-a-693190/> [Accessed on 30 September 2019].
23. **WEF, ( E. F.**, 2018. *Towards a Reskilling Revolution - A Future of Jobs for All*, Geneva: Inside report.
24. **Wolf, A., Trenkmann, J., Boos, L.**, 2017. *Corporate cultures and their impact on women in top management positions – Theoretical review and empirical findings*, Berlin: HTW.

# Beyond Charismatic Leadership: The Case of Jack Ma

~ 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

~ Ph. D. Lecturer **Ionuț Constantin** (*Faculty of Business and Administration, University of Bucharest, Romania*)

E-mail: ionut.constantin@drept.unibuc.ro

~ Ph. D. **Daniel Costea** (*Academy of Economic Studies, Bucharest, Romania*)

E-mail: daniel@thelawchamber.com

**Abstract:** *The twenty-first-century business world requires a new leadership paradigm based on elements such as vision, extra effort, commitment and pro-action. Consequently, the leaders should be not only visionary and positive, but also charismatic and transformational. The theorization of charismatic leadership has become a challenging subject in the literature in the last decades. The goals of the paper are to define the concept of charismatic leadership and to exemplify it in the case of Jack Ma, a famous Chinese entrepreneur. The methodology was based on a quantitative research method and a case study. The paper underlines the existence of a strong relationship between the charismatic leader and his followers. Also, it identifies some of the key characteristics of a charismatic leader by analysing the case of Jack Ma.*

**Keywords:** *charismatic leadership, leader, Jack Ma, Alibaba*

**JEL Classification:** M1, M19

## 1. Introduction

Leadership has always been a topic of interest for various stakeholders (e.g., researchers, academics, businessmen, policy makers). Just as today's companies are redesigning in order to become more flexible and adaptive, leadership is expected to be open to incessant changes. In this respect, the twenty-first-century business world requires a new leadership paradigm based on elements such as vision, extra effort, commitment and pro-action (Cooper, 2005). Consequently, the leaders should be not only visionary and positive, but also charismatic and transformational (Lane et al., 2006).

In the face of increasing levels of uncertainty and risk leaders need the ability to identify, define and solve a multitude of problems in today's unpredictable business environment. This is why today's leaders should "continually create and manage change" and, consequently, have to "constantly evolve, finding new ways to engage, motivate, inspire, influence, and transform" (Northeastern University, 2019, p. 5). In this sense, charismatic leaders are important as they not only provide direction and energy for their companies, but they also have the capacity to inspire loyalty to other people, convince them to follow him and obtain their commitment to his vision (Willner and Willner, 1965; Nadler and Tushman, 1990; Conger, 1991). Thus, the theorization of charismatic leadership has become a challenging subject in the literature in the last decades (Tucker, 1968; Conger, 1989; Den Hartog et al., 1995; Conger and Kanungo, 1998; Choi, 2006; Judge et al., 2006). Alexander the Great, Napoleon Bonaparte, John F. Kennedy, Nelson Mandela, Eva Perón, Johan Cruyff, Jim Jones, Lee Iacocca, and Steve Jobs have

been considered charismatic leaders in different domains such as politics, religion, sport and business (Howell and Avolio, 1992; Popper, 2000; Toma and Marinescu, 2013).

The goals of the paper are to define the concept of charismatic leadership and to exemplify it in the case of Jack Ma, a famous Chinese entrepreneur. The structure of the paper is as follows: the next section illustrates the literature review. The third section deals with the research methodology. The results are presented in the fourth section. The paper ends with conclusions.

## 2. Literature review

Especially after the end of the Second World War, the level of interest in leadership has significantly increased in society. Since then, leadership has been seen both as a research domain and a skill of an individual/a team, both an art and a science (Schmitt, 2017). There are numerous theoretical approaches regarding the concept of leadership, in general, and the concept of charismatic leadership, in particular. Thus, charismatic leadership has been explained in different ways by various researchers (Choi, 2006). Charisma is a Greek word and means "divinely inspired gift" (Yukl, 2013). It is an "attribute of astonishing power and capacity ascribed to the person and personality of extraordinarily magnetic leaders" (Enciclopedia Britannica, 2019, p. 1). Charismatic leadership can be defined as:

- "any leader who has ..."charismatic effects" on followers to an unusually high degree" (House, 1976, p. 9).
- "an attribution based on followers' perceptions of their leader's behaviour" (Conger and Kanungo, 1998, p. 47).

• “a possible and indeed probable product of the leader–disciple relationship in a situation where there is ideological or social schism” (McCulloch, 2014, p. 8).

All these mentioned definitions emphasize the existence of a strong relationship between leader and his followers. It is said that charismatic leaders influence and motivate their followers in various ways such as:

“(a) Increasing the intrinsic valence of effort.

(b) Increasing effort-accomplishment expectancies.

(c) Increasing the intrinsic valence of goal accomplishment.

(d) Instilling faith in a better future.

(e) Creating personal commitment.” (Shamir et al., 1993, pp. 582-583)

This is why charismatic leaders’ attitude and behaviour represent key factors in inspiring and persuading their followers. They include the following:

“(1) articulating an appealing vision,

(2) using strong, expressive forms of communication when articulating the vision,

(3) taking personal risks and making self-sacrifices to attain the vision,

(4) communicating high expectations,

(5) expressing optimism and confidence in followers,

(6) modeling behaviors consistent with the vision,

(7) managing follower impressions of the leader,

(8) building identification with the group or organization, and

(9) empowering followers.” (Yukl, 2013, p. 312)

Consequently, charismatic leaders should possess specific abilities and competencies. They are persons who (Atwater et al.,

1991; Raelin, 2003; Shastri et al., 2010; Morrill, 2010; Marinescu and Toma, 2012; Robbins and Judge, 2013; Marinescu and Toma, 2015; Lipinskiene, 2015):

- Have a clear vision.

- Are willing to take risks in order to accomplish their vision.

- Are magnetic personalities.

- Possess good communication and negotiation skills.

- Have the capacity to make a strong impression on their followers.

- Inspire, influence and motivate their followers.

- Build trust and commitment among their followers.

- Demand full devotion from their followers.

- Express their sensitivity to follower needs.

- Are extremely self-confident.

- Show passion and high energy.

- Are self-supporting people.

- Exhibit unconventional behaviours.

- Firmly believe in the rightness of their convictions and decisions, etc.

In this respect, Jack Ma constitutes a valuable example.

### 3. Research methodology

In order to reach the aims of the paper the authors employed a quantitative research method and a case study. The information was acquired by desk research. The secondary data were collected through the deployment of a significant literature review from various sources such as journals and books from the fields of management and leadership, political science, sociology and psychology, and were found in electronic databases

(e.g., ProQuest, Emerald Insight, JSTOR) and libraries (e.g., British Council, the Central Academic Library "Carol I" Bucharest).

#### 4. Results

Born as Ma Yun on September 10, 1964, in Hangzhou, Zhejiang province, located in southeast China, Jack Ma is considered the richest person in China with a net worth of \$38.5 billion (Stone et al., 2019). He has an older brother and a younger sister. Since as a young boy, Ma has shown great interest in the English language. In spite of the fact that he grew up in a poor family and passed on the third try his university exam, he has become a very successful entrepreneur and an exponential business leader.

Ma finally attended Hangzhou Normal University (former Hangzhou Teachers College) and graduated with a B.A. in English in 1988. Between 1988 and 1993, he was a lecturer in English and International Trade with Hangzhou Dianzi University (former Hangzhou Institute of Electronics and Engineering). Ma got an MBA from Cheung Kong University in the early 2000s (Clark, 2016a). He established his first company, the Haibo Translation Agency, in 1994 (Gregersen, 2019).

As the co-founder and former executive chairman of Alibaba Group and the head of the shopping site Taobao.com, Ma is a charismatic leader as he mixes the joy of showmanship with the defy of stereotypes (Clark, 2016b). This assertion is supported by numerous elements as follows:

I. Ma is a visionary leader. After visiting the United States of America and navigating for the first time on the world wide web, he realized that the Internet provided

an enormous potential for business. At his return to China, he raised money and founded his first Internet company, China Yellow Pages. Ma had the vision to "build a marketplace connecting the world's small- and medium-sized businesses engaged in global trade" (Erisman, 2015, p. 17). Later, Alibaba became a gigantic e-commerce company with hundreds of million customers all over the world. It is said that "Alibaba brought the dream of using the internet to conduct business globally for Chinese based companies to reality" (Clark, 2016a, p. 18).

II. He is a brilliant communicator. Ma always speaks freely without notes. His speaking style is highly effective because his messages are so easy to agree with. Many of his quotes circulate widely on the Internet. In this respect, Ma stated: "When you are 20 to 30 years old, you should follow a good boss [and] join a good company to learn how to do things properly. When you are 30 to 40 years old, if you want to do something yourself, just do it. You still can afford to lose, to fail... when you're 40 to 50 years old, my suggestion is you should do things you are good at. When you are 50 to 60 years old, spend time training and developing young people, the next generation. When you are over 60 years old, you better stay with your grandchildren." (Mejia, 2018, p. 1)

III. Ma has a magnetic personality. Nicknamed "Jack Magic", he possesses a lot of charm and charisma. His ability to "charm and cajole played an important role in attracting talent and capital to the company, as well as building his own fame" (Clark, 2016b, p. 23). The basis of his charismatic authority is emotional because Ma often appeals to people's emotions (Clark, 2016b).

IV. He is an inspirational leader. In spite



of the fact that Ma was rejected many times by different companies when he applied for a job and he failed twice at the university entrance exam he never gave up. He affirmed: "If you don't give up, you still have a chance. Giving up is the greatest failure." (Clark, 2016a, p. 12). He always motivates his employees in order to overcome various obstacles in their activity and professional life.

V. Ma behaves in an unconventional way. He learned "the most fundamental parts of life from questioning, observing and experimenting with situations that pushed the status quo" (Clark, 2016a, p. 12). Most of his decisions are made quickly, "based on instinct and gut" (Erisman, 2015, p. 20). Ma encourages a sense of informality at the work place as employees are asked to have a nickname (Clark, 2016b). Also, Ma has given his businesses the image of a fun adventure because he often tells jokes and anecdotes. Humour is an intrinsic part of his challenging businesses.

VI. He shows ambition, passion and energy. Ma succeeded only when "the task was something he had passion for" (Clark, 2016a, p. 12). In this respect, he learned English from his childhood mostly through informal

education. Since the first day when Ma has opened Alibaba's operations he vigorously declared his three key business objectives: "We want Alibaba to be one of the top ten websites in the world. We want Alibaba to be a partner to all businesspeople. And we want to build a company that lasts 80 years!" (Erisman, 2015, p. 20).

Thus, charismatic leadership has played an important role in the Jack Ma's successful business story.

### Conclusions


Charisma represents a rather rare characteristic of people. The appearance and development of charismatic leadership as a field of interest in the business literature has led to the emergence of numerous studies.

The paper makes two contributions to the development of the literature related to charismatic leadership. First, it underlines the existence of a sound connection between the charismatic leader and his followers. Also, the paper briefly analyses the case of a famous Chinese entrepreneur and identifies some of his key characteristics as a charismatic leader.

### REFERENCES:

1. **Atwater, L., Penn, R., Rucker, L.** (1991) *Personal qualities of charismatic leaders*, Leadership & Organization Development Journal, 12(2): 7-10.
2. **Choi, J.** (2006) *A motivational theory of charismatic leadership: Envisioning, empathy, and empowerment*, Journal of Leadership and Organizational Studies, 13(1): 24-43.
3. **Clark, B.** (2016a) *Alibaba: How Jack Ma Created his Empire*, Scotts Valley: CreateSpace Independent Publishing Platform.
4. **Clark, D.** (2016b) *Alibaba the House that Jack Ma Built*, New York: Ecco Press.
5. **Conger, J. A.** (1989) *The Charismatic Leader: Beyond the Mystique of Exceptional Leadership*, San Francisco: Jossey Bass.

6. **Conger, J. A.** (1991) *Inspiring others: The language of leadership*, Academy of Management Executive, 5(1): 31-45.
7. **Conger, J. A., Kanungo, R.** (1998) *Charismatic Leadership in Organizations*, San Francisco: Jossey Bass.
8. **Cooper, C. L.** (ed.) (2005) *Leadership and Management in the 21st Century*, Oxford: Oxford University Press.
9. **Den Hartog, D. N., Koopman, P. L., Van Muijen, J. J.** (1995) *Charismatic leadership: A state of the art*, Journal of Leadership and Organizational Studies, 2(4): 35-49.
10. Enciclopedia Britannica (2019) *Charisma*. Available at: <https://www.britannica.com/topic/charisma> (retrieved 02 October 2019).
11. **Erisman, P.** (2015) *Alibaba's World: How a Remarkable Chinese Company is Changing the Face of Global Business*, New York: Palgrave Macmillan.
12. **Gregersen, E.** (2019) *Jack Ma Chinese entrepreneur*, Enciclopedia Britannica, 06.09.2019. Available at: <https://www.britannica.com/technology/computer-network> (retrieved 02 October 2019).
13. **House, R. J.** (1976) *A 1976 theory of charismatic leadership*, Working Papers series 76-06. Available at: <https://files.eric.ed.gov/fulltext/ED133827.pdf> (retrieved 10 October 2019).
14. **Howell, J. M., Avolio, B. J.** (1992) *The ethics of charismatic leadership: Submission or liberation?* Academy of Management Executive, 6(2): 43-54.
15. **Judge, T. A., Woolf, E. F., Hurst, C., Livingston, B.** (2006) *Charismatic and transformational leadership: A review and agenda for future research*, Zeitschrift fur Arbeits- u. Organisationspsychologie, 50: 203-214. Available at: <http://www.panglossinc.com/Judge,%20et%20al.%20PUBLISHED.pdf> (retrieved 03 October 2019).
16. **Lane, H. W., Maznevski, M. L., Mendenhall, M. E., McNett, J.** (eds.) (2006) *The Blackwell Handbook of Global Management: A Guide to Managing Complexity*, Oxford: Blackwell Publishing.
17. **Lipinskiene, D.** (2015) *Leadership and Change Management*, Klaipėda: SMK University of Applied Social Sciences.
18. **Marinescu, P., Toma, S.-G.** (2012) *Leadership and the sources of power*, Revista Economică, 4-5(63): 7-19.
19. **Marinescu, P., Toma, S.-G.** (2015) *Unconventional leadership*, Manager, 21: 135-144.
20. **Mejia, Z.** (2018) *Self-made billionaire Jack Ma: How to be successful in your 20s, 30s, 40s and beyond*, CNBC, 30.01.2018. Available at: <https://www.cnbc.com/2018/01/30/jack-ma-dont-fear-making-mistakes-in-your-20s-and-30s.html> (retrieved 03 October 2019).
21. **McCulloch, A. D.** (2014) *Charisma and Patronage: Reasoning with Max Weber*, Surrey: Ashgate.
22. **Morrill, R. L.** (2010) *Strategic Leadership: Integrating Strategy and Leadership in Colleges and Universities*, Maryland: Rowman & Littlefield Publishers.
23. **Nadler, D. A., Tushman, M. L.** (1990) *Beyond the charismatic leader: leadership and organizational change*, California Management Review, 32(2): 77-97.
24. Northeastern University (2019) *A Guide To What You Should Know: Effective Leadership in the 21st Century*. Available at: [https://pages.northeastern.edu/rs/558-EBH-425/images/GR1902-ebook-leadership\\_final.pdf](https://pages.northeastern.edu/rs/558-EBH-425/images/GR1902-ebook-leadership_final.pdf) (retrieved 08 October 2019).
25. **Popper, M.** (2000) *The development of charismatic leaders*, Political Psychology, 21(4): 729-744.
26. **Raelin, J. A.** (2003) *The myth of charismatic leaders*, T + D, 57(3): 46-54.
27. Robbins, S. R., Judge, T. A. (2013) *Organizational Behavior*, 15th edition, New Jersey: Pearson.

28. **Shamir, B., House, R. T., Arthur, M. B.** (1993) *The motivational effects of charismatic leadership: A self-concept based theory*, *Organization Science*, 4(4): 577-594.
  29. **Schmitt, D.** (ed.) (2017) *The Art and Science of Leadership*, New York: Library Press.
  30. **Shastri, R. K., Shashi Mishra, K., Sinha, A.** (2010) *Charismatic leadership and organizational commitment: An Indian perspective*, *African Journal of Business Management*, 4(10): 1946-1953.
  31. **Stone, M., Clark, C., Rogers, T. N.** (2019) *Alibaba cofounder Jack Ma- the richest person in China -is retiring with a net worth of \$38 billion*, *Business Insider* 10.09.2019. Available at: <https://www.businessinsider.com/inspiring-life-story-of-alibaba-founder-jack-ma-2017-2> (retrieved 01 October 2019).
  32. **Toma, S.-G., Marinescu, P.** (2013) *Steve Jobs and modern leadership*, *Manager*, 17: 260-269.
  33. **Tucker, R. C.** (1968) *The theory of charismatic leadership*, *Daedalus*, 97(3): 731-756.
  34. **Yukl, G.** (2013) *Leadership in Organizations*, New Jersey: Pearson.
  35. **Willner, A. R., Willner, D.** (1965) *The rise and role of charismatic leaders*, *The Annals of the American Academy of Political and Social Science*, 358(1): 77-88.
- 

## Competitive Cooperation – Market Development Instrument

~ **Gheorge-Florentin Miulescu** (*Faculty of Business and Administration, University of Bucharest, Romania*)

E-mail: N/A

~ 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:** The essential information relating to the work that the authorities regulating competition carries out in an economic sector, particularly when talking about the protection of economic actors against anti-competitive behaviours and making sure that they, as well as the consumers can benefit from a fully open internal market facilitate the collaboration of national competition authorities that become vectors of market development policies. In the context of a market-oriented policy, it is very important to strengthen the position of manufacturers in the product supply chain. We must highlight how legislation in the analysed field and in competition law is compatible with a view to achieving fairer and more efficient results for both producers and consumers. The superior satisfaction of consumers' interests aims to develop a market for products or services that offer facilities to both manufacturers and consumers. The approach in terms of competitive cooperation specific to the theory of games, emphasizes the benefits of companies that are actively involved in influencing the market, in creating an environment where the end result contributes to increasing profitability of the economic operators and in achieving certain benefits for consumers. The paper briefly presents several theoretical aspects specific to the concept of competitive cooperation accompanied by relevant examples.

**Keywords:** cooperation, competition, business development, added value.

### 1. Introducing the concept of competitive cooperation

Competitive cooperation represents the act of collaboration between competing companies; here, we are referring to the enterprises that undertake both in the competition and cooperation area. Certain businesses gain an advantage by using a strategic mix of cooperation with suppliers, customers and companies that produce complementary or related products. Cooperation represents a type of strategic alliance, which is usually used by software and hardware firms.

In business, the concept of competitive cooperation also takes into account the results obtained from the application of game theory. Cooperative games are statistical models that consider the ways in which synergy can be created through targeted partnerships with competitors, on a particular topic of interest to consumers/future customers (Kaseouglu et al., 2019). Such tactic is considered to be a good business practice between two companies, as it can lead to the expansion of the market and the formation of new business relationships. From this perspective, agreements are needed on the use of standards and partnerships on product development within an industry or between two competitors to facilitate their cooperation (Crick, 2019).

Statistical modelling carried out in processes leading to competitive cooperation analyses the benefits of cooperation and the allocation of market share between competitors to maximise the market share of companies.

Defining a model of competitive cooperation, in the form of diamond graphics, in which customers, suppliers, competitors and complementary products were positioned

One of the models of competitive cooperation was designed using a diamond form in which customers, suppliers, competitors and complementary products were subsumed. This model is considering building a strong space through the development of cooperation links (Brandenburger and Nalebuff, 1977). The purpose of the competitive cooperation itself is to orient the market, which is in a null-sum game, towards an environment where the end result increases the profitability of economic operators and brings benefits to all participants by facilitating its extension.

The support point of the model is maintained by the understanding of input variables influencing its players when they are in competition, but also when they are cooperating. Understanding this model leads to knowing the forces that will influence competition between players, but also the forces that will influence its cooperation.

Two professors from Harvard and Yale, Adam M. Brandenburger and Barry J. Nalebuff launched the idea of competitive cooperation. Loss and gain are two extremes that must be analysed permanently within an enterprise. The abovementioned authors argue that in most companies the transactions lead to results located between the two extremes. They defined the concept whereby it is not necessary at all costs that what constitutes the competition of an enterprise to fail in order for it to win. They also considered the fact that, in a competitive plane, the failure of an enterprise could lead to the weakening of competition. The two game theory specialists have repeatedly stated that in most cases the ideal situation requires the existence of competition, but also the necessary cooperation to expand the market.

Therefore, within a business strategy based on competitive cooperation, rules, players and partnerships can be changed to the advantage of an enterprise by building a relationship on a competitive level (Barnet, 1986).

Competitive cooperation is the most common in the field of technology. Cooperation between competitors allows for synergies between the hardware and software domains, as mentioned above. Many companies, especially in the fields of advanced technologies, are on a competitive market in which elements of the theory of games are working, obtaining outstanding competitive advantages. Two competitors can have complementary strengths, and a co-operation agreement can contribute to profit growth and distribution of advantages (Toma and Marinescu, 2013). Cooperation between two technology companies can enhance the chance of increasing the number of users of each company's products by promoting on multiple channels.

Often, in the start-up area of the technical industry, two or more competitors are struggling with a larger competitor. In view of this aspect, technology companies can interact by establishing cooperation against a much larger competitor (Toma et al., 2018). Competitive cooperation within the technological industry is widespread, so it is common for two competitors to be purchased or merged, thus building up a stronger entity (Dagnino, 2009).

It is important to point out that there are also competition regulators so that a keep a balance at market level is kept. In Romania, the Competition Council (autonomous administrative body) manages and implements the Competition Law (no. 21/1996), which

aims at protecting, maintaining and stimulating competition and a normal competitive environment in order to promote the consumers' interests. Cooperative competition is in full agreement with these legal regulations, its purpose being the superior satisfaction of consumers' interests by developing the mix that characterizes the products or services market.

## **2. The way in which the cooperative competition develops the market**

In an era of globalisation, which has led to the emergence of new markets and business models, companies are looking for new opportunities that can gain them competitive advantages. Traditionally, most contributions to the development of strategic management have dealt with the concept of competition in opposition to the concept of cooperation when it comes to identifying resources to achieve competitive advantages (Caves and Porter, 1977).

Over time, there has been an increased concern about this issue (Marinescu and Toma, 2008). There are even studies that consider both aspects, but tend to distinguish between concepts (competition and cooperation), considering them to be opposite or different in terms of their content.

Thus, there are specialists describing competition form to encourage the search for new income through combinations of resources, skills and processes while cooperation allows access to rare and complementary resources (Corte, 2016). Thus, within the tourist industry, starting from the assumption that a destination has some distinctive features, it is necessary to understand the relationships that may arise between companies

carrying out the same activity as collaborators or as competitors (e.g. accommodation).

Cooperative competition represents a great potential for creating and attracting value, representing a special potential in the compatibility of the relationship between competition and collaboration – the duality of competition and collaboration (Galkina, 2017). Cooperating enterprises can share resources and use complementary resources to create value (at each partner level) and compete more efficiently with economic operators in the field. The example of good practice can encourage other companies to work more through joint partnerships and strategies (Cygler, 2018).

The creation of value through competitive cooperation refers to the total value created by all partners, conceived as a super-imposed value and/or to the creation of individual value at company level consolidated by cooperation (Bouncken, 2019).

The long-term planning with impact on partner companies is considering resource sharing or distribution of values. Some companies have specific conditions

that determine how they can optimize added value from a favourable context. These conditions may not only be achieved through the outstanding relationships between companies, but through specific development configurations, configurations that can be developed through cooperation.

Experiences influence the levels of aspiration or expectations in terms of the ability to create value within a cooperation (Marshall, 2019). The companies benefiting from experiences from previous partnerships will channel their attention to the development of the next competitive partnership where the objectives of the common performance of the market and the capture of corporate-level values are as clear as possible.

In this respect, four approaches envisaged in the analysis of market evolution are presented in the following figure: competition, cooperation, value creation, value capture. These four approaches underpin the development of the market highlighting the characteristics of each highlighted perspective.

Figure 1 Four types of interaction within cooperative competition

	Value creation	Value capture
Competition	Product proliferation Attracting suppliers away from competitors Patenting any innovative product	Fight for customers Fight for lower prices from suppliers Fight for market share
Cooperation	Strategic alliances Building a favourable environment for the development of a common product/service	Collision on pricing policy Partnerships between competitors to get better deals from suppliers

Source: Adaptation after R. Casadesus-Masanell, *A Note on strategic interaction*, Harvard Business School, 2013



Value added refers to the value that a company creates and introduces in the market. The actual added value is “The value that would disappear if the company ceased to exist”. Should a company disappear, then suppliers, customers and complementary partners would be at a standstill at the moment and would try to replace it. If they cannot completely replace the value brought into the market by the missing company, then what is left is the added value that can be attributed to the missing company (Guo et al., 2019). Therefore, cooperation at competitive level avoids the situation stated above and over time a market development is established to satisfy customers and the company’s targets through strategic partnerships (Casadesus-Masanell, 2013).

### 3. Cooperative competition models – examples from the market

Most people are familiar with the iOS platform created by Apple. This platform connects multiple products (iPhone, iPad, and iPod), as well as third-party apps. Apple’s applications consumer popularity has strengthened the demand for Apple products, which, in turn, attracted several app developers in the Apple ecosystem. The interdependencies are particularly strong and obvious when a company creates a successful platform because it encourages a whole ecosystem of players. A situation of cooperative competition is created in one way or another by this value-added flow (Evand and Gand, 2019).

Samsung, a direct competitor of Apple, but also other companies, purchased in 2014 SmartThings, while Google acquired Nest. Both SmartThings and Nest create products

for smart homes. Samsung is, also, the Google partner through a patent licensing agreement and partnership on Android software for Galaxy mobile phones.

Therefore, the most accurate description of the working relationship between Samsung and Google is that the two organisations enjoy a dynamic, competitive and cooperative relationship in which they compete for smart-home customers, while there are good partnerships established and an open cooperation regarding patents. Therefore, we can state that the connection between Samsung and Google constitutes a simultaneous competitive and cooperative relationship.

Another competitive case is the situation between Tesla and BMW companies. While Tesla introduced the first luxury electric car at a high price, BMW introduced the I3 car to enter the electric car market offering quality at a lower and more reasonable price. Tesla considered the consequences of its own options to respond to the market entry of BMW by assessing the exact points (price and quality) to which its business model competes with the model of the car offered by the competitor. The current Tesla strategy is linked to the focused differentiation on its own interest, but also on finding some forms of collaboration, more accurately, selling luxury electric cars at high prices, without entering the competitor’s niche. This strategy is supported by Tesla’s performance in the field of engineering. An important objective for Tesla is to develop a cheaper or more accessible electric car that widens its markets, but for such goal to be achieved, a huge investment is needed, while other competitors need to not capture this part of the market in a dominant way. In this case there

is cooperative competition whereby the two competitors focus their resources on perfecting the finished product, and do not necessarily desire to enter the competitor's niche. With this approach, customers become loyal to a specific product and appreciate the Tesla and BMW brand through the uniqueness they offer, avoiding direct comparisons and confusion at consumer level.

Another enlightening example is the partnership between the Ford company and the Volkswagen group that officially catalyst their resources by making a partnership on the construction of commercial trucks and vans. Companies will build these types of vehicles together and explore potential collaborations on the construction of motor vehicles and electric vehicles. None of the companies receives a percentage of the other company's shares, as is the case in the Renault-Nissan-Mitsubishi Alliance, the Ford-Volkswagen partnership being a purely competitive cooperative partnership. The Ford and Volkswagen partnership will be supervised by a joint committee, with an equal number of persons representing each automobile manufacturer. The average-sized truck is expected to be built for both companies starting with the year 2022. This partnership appears in a time full of dramatic changes within the automotive industry. Almost every car builder turns their attention to electric vehicles and explores autonomous technology. Many of the competitors are increasingly addressing the idea of new mobility services, such as common fleets of cars, bicycles and scooters.

Both companies have researched the necessary technology for electric and autonomous vehicles, but there have been different approaches. Ford invested \$1 billion in Argo, a company that initiated artificial intelligence

in the process of handling a motor vehicle and is developing its own software package for cars. Volkswagen has a number of different partnerships with self-conductive companies, while Audi develops a number of internal technologies. The German producer did not do so many tests in the real world as the Ford company. Ford and Volkswagen may already have plans to work together on electric cars and all kinds of cars.

The Ford-Volkswagen case represents a case of current cooperative competition, situation suggesting the development of future partnerships and other forms of sustainable development in the interest of both parties involved. While Ford benefited in 2018 of a lower profit rate, Volkswagen found that it was behind in the technological race for electric and autonomous cars. Starting from these findings, Ford and Volkswagen join forces to continue to represent two independent and powerful companies both strategically, and competitively.

#### 4. Conclusions

Within the successful competitive cooperation, there is a concern for the creation of a prosperous business environment through value added and market development. The attitude of being independent should not be obstructed by partnerships but, on the contrary, it can be sustained through ethical and long-term collaborations. Development through research, technological progress and access to resources must be constant, and, by cooperative competition, the activity of such companies may be intensified. Cooperation between two companies can improve the chance of increasing market share for both companies by promoting the collaboration on multiple channels.

Solutions developed through cooperative competition can exist in industry, agriculture, transport, tourism, education, etc.; the facilities that this type of collaboration creates can help lower costs by transferring know-how and improving processes within collaborative companies. Corporate skills and resources can be distributed through competitive partnerships with the aim of obtaining complement resources necessary for organizational activity. In addition to the objective of added value in the market, companies opt for cooperation at competitive level in order to satisfy consumers' interests by developing the mix that characterizes the products or services market. The automatization of production processes, the increasing of the quality of products and services through cooperative competition will result in a solid market growth being protected by

consumers' interests together with the interests for development from the organisational environment.

Cooperative competition represents a promising approach in this respect. Cooperation between competitors allows the transfer of knowledge and resources, but also encourages the competition between partner companies. Many companies that are functioning on similar markets find the advantages of competitive collaboration and conclude partnerships that can represent opportunities in the organizational environment from the perspective of the common objectives that such companies may have. Two competitors can be complementary, and a co-operation agreement can be realised to increase profits, to ensure common gains, but also to ensure definite advantages for customers.

## REFERENCES:

1. **Barney, J.**, *Strategic factor markets: expectations, luck, and business strategy*, Management Science, Vol. 32, Issue 10, 1986.
2. **Bouncken, R.B., Fredrich, V., Kraus, S.**, *Configurations of firm-level value capture in coopetition*, Long range planning, 2019.
3. **Brandenburger, A.M, Nalebuff, B.J.**, *Co-opetition*, Currency Doubleday, 1977.
4. **Casadesus-Masanell, R.**, *A note on strategic interaction*, Harvard Business School, 2013.
5. **Caves, R., Porter, M.**, *From entry barriers to mobility barriers: conjectural decisions and contrived deterrence to new competition*, The Quarterly Journal of Economics, Vol. 91, Issue 2, 1977.
6. **Corte, V.D., Aria, M.**, *Coopetition and sustainable competitive advantage. The case of tourist Destinations*, Tourism Management, 2016.
7. **Crick, J.M.**, *Moderators affecting the relationship between coopetition and company performance*, Journal of Business & Industrial Marketing, Vol. 34, Issue 2, 2019.
8. **Cygler, J., Sroka, W., Solesvik, M., Debdowska, K.**, *Benefits and Drawbacks of Coopetition: The Roles of Scope and Durability in Competitive Relationships*, Sustainability, 2018.
9. **Dagnino, G.B., Rocco, E.**, *Coopetition Strategy: Theory Experiments and Cases*, Routledge, 2009.
10. **Evand, A.E., Gand, D.G.**, *Cooperation and decision time. Current opinion in psychology*, Vol. 26, 2019.

11. **Galkina, T., Lungren-Henrikson, E.V.**, *Coopetition as an entrepreneurial process: Interplay of causation and effectuation*, Industrial Marketing Management, 2017.
12. **Guo, T., Guo, M., Zhang, Y., Liang, S.**, *The effect of aspiration on the evolution of cooperation in spatial multigame*, Physica A: Statistical Mechanics and its Applications, Vol.525, 2019.
13. **Kaseouglu, M.A., Yildiz, M., Okumus, F., Barca, M.**, *The intellectual structure of coopetition: past, present and future*, Journal of Strategy and Management, Vol. 12, Issue 1, 2019.
14. **Marinescu, P., Toma, S.-G.**, *Implementing Lean Management in the Romanian Industry*, in: T. Koch (ed.)- *Lean Business Systems and Beyond*, Springer, New York, 2008, pp. 269-276.
15. **Marshall, G., Parra, A.**, *Innovation and Competition: The Role of the Product Market*, International Journal of Industrial Organization, Vol.64, 2019.
16. **Toma, S.-G., Marinescu, P.**, *Global strategy: the case of Nissan Motor Company*, Procedia Economic and Finance- Science Direct, vol. 6, 2013, pp. 418-423.
17. **Toma, S.-G., Marinescu, P., Constantin, I.**, *Entrepreneurship and Economic Growth*, in: L. Chivu, C. Ciutacu, V. Ioan-Franc, J.-V. Andrei (eds.)- *Issues and Innovative Trends in Sustainable Growth- Strategy Challenges for Economic and Social Policies*, Proceedings ESPERA 2016, Part 2, Peter Lang AG, Frankfurt am Main, 2018, pp. 155-165.

## The Success of the Freemium Business Model. How Riot Games flourishes with a free to play game.

~ Ph. D. **Falko Lucht** (Leuphana Universität Lüneburg, Lüneburg, Germany)

E-mail: [falko.lucht@googlemail.com](mailto:falko.lucht@googlemail.com)

**Abstract:** Freemium is an emerging business model mostly used in the online software market and mobile application market that offers a free basic version and premium version of a product or service. One of the most successful companies that uses the freemium business model is Riot Games Inc. with their multiplayer online game League of Legends. The growing number of successful freemium businesses requires scientific analysis and evidence. In this paper, first we analyze the general concept of the business model, especially focussing on the benefits of paying and non-paying customers and second, we analyze the fast-growing and still young market of eSports which contributes to the success of the game. The finding then will be compared to the actual business model of Riot Games. The results show that Riot Games success is based on several factors that are all affiliated with the freemium business model: micropayments, sunk cost and network effects, data collection and sophisticated reward systems that foster customer retention.

**Keywords:** Freemium Business Model, Riot Games, Network Effects, eSports

**JEL Classification:** L11, L86

## 1.Introduction

From October 1st until November 3rd 2018, the official League of Legends World Championship took place for the 8th time in Seoul, South Korea (Riot Games Inc. 2018). Almost 100 million people watched the final game during last year's championship and a total prize pool of more than \$6.7 million was given to the most successful teams (Goslin 2018). League of Legends is a multiplayer online battle game (Moba), developed by Riot Games Inc. which is available for both Microsoft Windows and MacOS. But how can a company like Riot Games finance such a huge event with a game that is free to play and has no in-game advertising (Riot Games Inc. 2017)? This question is quite important if considering the immense financial success of many of these games and the coherent significance for the economy. Complete new markets, jobs and opportunities arise through this new business model that therefore cannot be ignored anymore. The underlying concept of League of Legends is the freemium business model which is a neologism of the words free and premium. More precisely, freemium is a pricing strategy that offers a basic product or service free of charge, but costs money for additional benefits, features, goods or services (La Marín de Iglesia et al. 2009). It is an emerging business model that is mostly used in online markets, like for software, mobile applications, entertainment, social networks and gaming businesses (Chen et al. 2018). The companies mainly generate their revenues through the users that convert from the free to the premium version or that buy other features. Depending on the industry and on the product or service, a conversion rate of 5% is already enough to cover the costs of the basic version (Anderson 2009;

Pechtl 2014). Since there is no premium version of the game and consequently there is no income through regular subscription fees the business model needs to generate the profits elsewhere. But the paying customers are not the only ones who contribute to a game or a company's success. Depending on the respective business model, the non-paying customers can likewise create considerable benefits and values for a company, for example through data, advertising or customer attraction, and therefore cannot be neglected.

The aim of this article is to analyze how Riot Games is using the freemium business model to create one of today's most successful video games and how the company generates profits through its paying, and especially through its non-paying, customers. In order to do so, in section 2, we first review prior literature on the topic of freemium. The subsequent section 3 describes the used research methodology. This will be followed by the results and discussion in section 4 which show the financial situation of Riot Games and the esports market in general as well as the main factors that are related to the freemium model. Finally, section 5 concludes the findings and considers limitations and provides an outlook for possible future research.

## 2.Literature Review

The concept of business model gained prominence in the literature in the late 1990 (Toma & Marinescu 2012; Toma & Tohanean 2019). Innovation has become a key element of today's business models (Tohanean & Toma 2018). When using the freemium business model, companies offer a free basic version of a product or service and a

value-enhanced version of the same product or service wherefore the customers have to pay (Koch & Benlian 2017). Different examples of this will be given in the following sections. Research showed that many of today's well-known brands, products or services are based on a freemium business model, especially in the area of software and internet services (e.g. Skype, YouTube, Facebook, Google, Dropbox, LinkedIn, Spotify, Microsoft OneDrive, Survey Monkey, Trello, League of Legends and Candy Crush). The existing

research of the freemium business model underlines the success of this relatively new way of doing business (Voigt & Hinz 2016; Holm & Günzel-Jensen 2017). Although the underlying business model of these products is based on the same core idea, the companies generate their profits through different types of the freemium business model. Pujol (2010) differentiates between three separated types of freemium:

*Table 1 Three types of freemium models*

Category	Description
1	Quantity differentiation is simply the free giveaway of either a product unit, like free samples, or a restricted time that a user can use a product or service, like a beta phase in software or gaming. The quantity limitation serves as a restricted sample which will be gone after it is used or after a determined time frame is over.
2	For the distribution differentiation, the split between the free and the commercial model occurs in the way how the consumer uses the product, for example "software may be free to use but not to re-distribute or embed" (Pujol 2010, p.2). This differentiation occurs mainly between a non-commercial and a commercial use.
3	The feature differentiation separates the product or service functionalities that are accessible to the customer. The free user only has limited functionality while the paying customer enjoys all features of the product or service (Pujol 2010). This type is mostly used and therefore represents the majority of all freemium business models nowadays.

Despite the differences, all three business model types depend on premium customers in order to generate enough profit. Therefore, the number of paying premium customers needs to reach a critical level (or critical mass), so that all costs can be covered, or the business risks failure. Whether freemium works or not, depends on a firm's ability to actually monetize the advantages of basic users and to raise the conversion rate, for example through a high fit between both

versions (Wagner, Benlian & Hess 2014). The conversion rate shows how many of the total amount of users convert from the free to the premium version of a product or service. A successful freemium model does not only depend on the number of its paying customers. Those customers that only use the free or basic version of a product or service, (referred to as non-paying customers) also create huge value for a company, and sometimes they are as necessary as the paying customers.



Therefore, the following section will focus solely on non-paying customers in order to analyze how they create value for a company.

First of all, a company can benefit from non-paying customers by collecting, selling and displaying their data. This can be done either officially or secretly. Social networks, for example, like Xing or LinkedIn show personal user information (at least a part of it) to paying headhunters or companies (Xing SE 2019a). On the unofficial side, many mobile applications secretly collect user data as an investigation by the Yale Privacy Lab showed. They proved that more than 75% of the tested apps contained secret trackers (O'Brien & Kwet 2017). Even if a company does not sell or display the personal information of its users, it is still very valuable in terms of knowledge. The data can be used to get a better understanding of the individual or the community, thereby leading to more effective advertising, which ultimately raises the chances of getting more premium customers.

This leads to another big advantage: the use of advertising. Many freemium business models base the idea that the user is exposed to a lot of advertising if the basic version is used and that, if upgraded to premium, the product or service is ad-free. A perfect example for this is the music streaming service Spotify. Non-paying users have to listen to visual and auditory commercial breaks that appear every 15 minutes and last for approximately 30 seconds (Verhovnik 2017), while paying users can enjoy ad-free streaming (Spotify AB 2018). Depending on the popularity of the product or service, the company can sell expensive advertising spots, meaning that a high number of users (paying and non-paying) makes the spots more attractive to potential advertising firms. Thereby

Spotify is still making profit by selling these advertising slots to external companies.

One of the biggest benefits originates through so called network effects which state that the value of a product or service changes with the amount of other people that also use the same product or service (Tiwana 2014). Positive network effects increase the value for every user (e.g. the increase of value for every person that also uses a telephone), while negative network effects decrease the personal value (e.g. the decline of exclusivity of luxury products). Furthermore, network effects can be distinguished between direct and indirect effects. Direct (horizontal) network effects influence the personal value for every additional member, while indirect (vertical) network effects influence the value of a complementary product or service which in turn can influence the value of the original product (e.g. DVD and DVD player). Most platform markets are characterized by indirect network effects (Tiwana 2014). Taking the theoretical concept of network effects into practice, means that the non-paying customers add value for the paying customers and therefore make it more attractive to them. Xing serves as a great practical example for this because it highly depends on these network effects, since the value for their paying customers, like headhunters and recruitment agencies, increases with every new member of the network. That is one of the reasons why Xing was able to acquire almost one million premium members with a base of more than 16 million basic members (Xing SE 2019b). Another great example of the benefits of network effects can be found in the free-to-play mobile games area. These games get most of their profit by a small number of users, called "whales", that spend a good deal

more money for in-game purchases than the average user (Fields & Cotton 2011). Whales only represent 10% to 15% of the players, but account for about 50% to 70% of in-app purchases (Shi, Xia & Huang 2015; Shaul 2016). But in order to obtain and satisfy these players, they need other players that they can compete, cooperate, or compare with. That is why the non-paying users are still very valuable for a company.

Another reason why the non-paying users are valuable for a company is actually quite logical: companies can still convert non-paying users from their free version to a premium version, especially if those same users already made a big – or even a small – investment into the product or service. The psychological sunk cost effect states that there is “a greater tendency to continue an endeavor once an investment in money, effort, or time has been made” which indicates that users are more likely to make an investment in order to justify their expenses (Arkes & Blumer 2000). So for example, if a person already spent many hours playing League of Legends in order to get a specific playable character, the chance of buying an adaptable skin for this character is higher than before. Summarizing the mentioned benefits, a company should not only focus on its paying customers, but also on its non-paying customers, since they contribute immensely to the company’s success. Therefore, companies should strive for a well-balanced combination of the two different groups.

### 3. Methodology

The underlying scientific approach of this article follows the designs and methods for case studies of Robert K. Yin (2018).

Since it is not always possible to acquire scientifically validated data on up-to-date key figures, the researchers used well acknowledged business sources, like Business Insider or Deloitte Insights. The analysis of League of Legends’ success will solely focus on the factors that are related to the freemium business model. The researchers used quantitative research methods that focused on secondary data which was mainly gathered through scientific papers and articles, through company statements and financials as well as Internet sources. Furthermore, the League of Legends game was downloaded and carefully analyzed to compare the theoretical findings with the actual praxis, especially the concept of the ingame shop. Therefore, we combined the theoretical aspects of a quantitative analysis with the more practical case study approach.

### 4. Results and Discussion

In order to understand the economical and the financial relevance of games like League of Legends, a short analysis of today’s eSports market was necessary. eSports (short for electronic sports) is a “form of sports where the primary aspects of the sport are facilitated by electronic systems; the input of players and teams as well as the output of the eSports system are mediated by human-computer interfaces” (Hamari & Sjöblom 2017). Nowadays eSports competition takes places in professional league structures between professional players either in teams or individually. The global eSports market is expected to reach a market volume of \$1 billion in 2019 with a market growth of more than 35% in regions like North America (Arkenberg 2018). Considering the fact that

most of the consumers of the market are respectively young, it can be estimated that this growth will go on in the next years or decades (Tran 2018). The eSports market was able to create a gigantic ecosystem of different players and platforms. Meaning that there are not only the game producing companies that are mainly responsible for the international and national tournaments, but also countless third-party suppliers that build completely new businesses around these video games. There are, for example, companies that sell private, professional coaching for League of Legends players in order to improve their personal gaming skills (e.g. Gamer Sensei or LoL Academy). As one of the major players on the eSports market, Riot Games employs more than 2,500 employees in 24 offices around the globe. Riot Games Inc. is a 100% affiliated company of Chinese tech giant Tencent Holdings Limited that generated revenues of more than RMB 312.7 billion (\$45 billion) in 2018 (Tencent 2019). Unfortunately, a separate financial statement of Riot Games was not published, but according to a financial analysis of SuperData, League of Legends accounted for \$1.4 billion in 2018 (SuperData Research Holdings, Inc. 2019). Since League of Legends is the only product of Riot Games, it can be concluded that this number conforms to the annual revenue of the company. Although revenues decreased from 2017 to 2018, the numbers still indicate the success of the company and its freemium business model.

In order to analyse the freemium business model success, the aforementioned theoretical concepts of value or profit generation were compared with the actual business model of Riot Games. Therefore, certain aspects of the game itself had to be examined

and evaluated: first of all, League of Legends is a free-to-play game that is playable on almost every personal computer. In a usual game every player controls one out of 145 different champions and fights against a team of computer or player-controlled champions. The goal of the game is to destroy the enemy nexus which can be reached by three different lanes and which is protected by towers and repeatedly spawning minions that automatically walk towards the enemy base. The champions earn gold by killing minions, towers or other players which they can spend on items that raise the champion's strength (Riot Games Inc. 2019a).

The first important finding is that League of Legends is not a pay-to-win game, meaning that players can not buy any in-game advantages with real money, which is the case for many freemium games, especially in the mobile application area. Thus, the game is still enjoyable for the players that are not willing to spend money on it. The underlying strategy is to obtain and to preserve a larger player base of satisfied players that are not forced to spend any more in order to be good at the game. Hence, there are probably many players that do not spend a single dollar on the game, which does not necessarily mean they are not bringing in any value. Taking the concept of network effects into account, the large player base makes the game more attractive for paying customers, especially whales.

The game does not contain any advertising slots, which means that Riot Games is not monetizing this aspect of the freemium business model. However, the company is the host of many eSports tournaments and events which indeed have a lot of advertising and sponsorships. The European

Championship 2019, for example, is sponsored by well-known brands like Red Bull, Shell, Kia, Logitech and Alienware (Hayward 2019). Thus, the company is able to earn money through its game.

Riot Games also utilizes its large player base to consistently gather a great amount of information about the game. On a short-term view to prevent, analyse and fix system errors and bugs and on a long-term view to improve the game's overall quality and direction. Video games belong to a fast-changing environment where speed and quick reactions are necessary to not lose unsatisfied customers because of system or game-play errors. Hence, bugs need to be fixed as soon as possible and all champions have to be balanced in terms of strengths and weaknesses. As a result, Riot Games is uploading small patches twice a day and big patches with major changes and new content every Wednesday. Since the game is already well developed, most patches try to keep every champions win rate at about 50% (Claypool et al. 2016). The best example for Riots ability to react to players behavior is the permanent implementation of a new game mode that started as a community movement (Riot Games Inc. 2019b). All of this shows again that the company is able to successfully exploit the given benefits of the freemium business model.

League of Legends freemium business model can partially be associated with the third freemium type because players do not have full access to the total content of the game. Despite the benefits that were explained before, this is a key factor of the game's business model as well as its success and thus will be explained in more detail. The content that is not accessible can be

unlocked through two different ways: either by playing the game or by spending real money. The blocked content includes playable champions, champion skins, stickers, rune pages, name and server changes, ward skins, profile pictures and leveling boosts. However, there is a weekly rotation of 14 different champions that are free to play for all players. For the purpose of unlocking content Riot Games implemented a system with three different currencies that can be spent in an in-game shop. (1) The basic currency that can only be used to unlock champions and rune pages is called blue essence. Players can earn blue essence by simply playing the game. They earn a small amount after every game based on win or loss, a decent amount for the first win of the day (which encourages players to play every day) and a decent amount through seasonal events. The currency basically awards players with more playable champions if they spend a lot of time playing (e.g. unlocking a new champion can take weeks). (2) The second currency that can be obtained in-game is orange essence which can only be spent to get aesthetic modifications, like champion skins and ward skins, that normally need to be paid for. However, it is much harder to obtain this currency compared to the blue essence. Riot Games implemented a complex system in which players have to collect treasure chests and respective keys. This gathering takes a long time and effort and usually players either have too many chests and no keys or too many keys and no chests which in turn leads them to buy what they are missing. This reward system is another well-conceived instrument to bind players to the game and allure them to spend money. (3) The most important currency are the so-called Riot Points that can

be bought with real money. These points can be used to buy every kind of blocked content and are therefore the easiest and fastest way to unlock things. The purchase of virtual goods with usually small amounts of money are called micropayments. The idea behind this is that the profits of micropayments outweigh the profits that would have been made with a one time payment for a game (Kim et al. 2016).

Due to the typically low amount of money, micropayments are tempting and fast decision purchases with low cognitive involvement. The purchase of Riot Points through the in-game shop is designed to be convenient and fast. Riot Games follows the fixed prices strategy that is determined for a long term of constant prices to ensure customer loyalty (Marinescu et al. 2010). Riot Points can be purchased in fixed packages that are less expensive (per single Riot Point) if more points are bought. For example, one package contains 650 points for 5€ while another package contains 7200 points for 50€ (700 additional points). The fixed package sizes lead to another benefit for the seller: the amount of Riot Points in a package does not always match the price for the desired skin, meaning that the customer has to buy more Riot Points than needed. Many skins, for example, cost 975 Riot Points while the most suitable package contains 1380 Riot Points. This system leads players to buy more points than they actually need, which brings more money to Riot Games. These micropayments are the main income source for Riot Games which the company highly depends on. As a result, the company frequently publishes new skins, especially for the most favored champions. The players' high willingness to pay for these skins can be seen on the example of 2018's

world championship where more than \$4.2 million of the prize pool were collected through the sales of event specific skins (Goslin 2018). A possible explanation for the players' willingness to pay can be the mentioned sunk cost effect. After analyzing how much time and effort a player has to invest to unlock free content, either champions or skins, it seems to be logical or at least tempting to continue spending money on the game.

Besides the psychological constructs of microtransactions and the sunk cost effect, a study of Frederiksen (2017) analyzed the main reasons for players to spend money on skins. According to this, hedonic motives, like fun and excitement, along with the wish for customization are the main reasons. For many others, it is simply a habit to buy skins and others again want to support eSports or do it for attention. The least amount of players do it because of social pressure. Taking these findings into consideration, it can be concluded that Riot Games matches the players' reasons with its unique reward system and its frequent and creative skin releases. The players are able to customize their champions and these skins at the same time offer excitement and fun due to their changing themes and models. The eSport team-specific skins that get released for every big tournament fulfill the players' wish to support their own team and to identify with them in-game, like wearing a soccer jersey. Therefore, the game successfully matches what the players want, which is one of the reasons why it is so successful.

## 5. Conclusion

In conclusion, the case paper provides a general overview of how Riot Games created

a prosperous business based on a freemium business model which itself is the key factor for the success. The fact that League of Legends is not a pay-to-win game attracts a huge playerbase that is not forced to spend any money in order to become good at the game, but still does so. The system of free giveaways combined with the rewarding concept of microtransactions and the fixed packages leads to a high number of paying customers. The fulfilled psychological needs of the players together with the effects of the sunk cost effect lead to a relative high number of customers that are willing to pay for the premium service. Yet, Riot Games also effectively utilizes its non-paying customers by collecting data, selling advertising slots during tournaments and using them to attract whales. The general concept of freemium comes in handy for all the factors that lead to the game's success and thereby the business model is perfectly suitable for Riot Games.

Further research of the general concept of micropayments and microtransactions, that are based on many psychological factors that influence the amount and frequency of those payments, are necessary. In order to understand how and why players do such purchases, further research should be conducted to see whether and if how much the success of League of Legends is based on that

construct. Since League of Legends is not the only successful multiplayer online battle-game that is based on a freemium business model, further research in the form of conceptual case studies could provide more insights of how these companies use the advantages of the business model. A comparison with Dota or Fortnite, the two biggest competitors of League of Legends, could provide further knowledge about the topic. In order to grasp the effectiveness of League of Legends business model, the actual conversion rate of the game should be analyzed, meaning to see how many players are willing to actually pay for the game.

A major limitation of the paper is the fact that only business model related factors were taken into evaluation. Since there are many other factors that strengthen or weaken the success of the game, the results give an incomplete picture. Other factors that contribute to League of Legends success are the well-balanced game design, the unique gameplay, the complexity of the game, the constant changes, the strong link between Riot and the community and huge amount of game related advertising and storytelling. Since the research methods focussed primarily on secondary data, further studies using primary data should be conducted.

## REFERENCES:

1. **Anderson, C.** (2009), *Free: The future of a radical price*, 1st ed., Hyperion, New York.
2. **Arkenberg, C.** (2018), "On your marks, get set, game! eSports and the shape of media in 2019. TMT Predictions 2019", available at: <https://www2.deloitte.com/insights/us/en/industry/technology/technology-media-and-telecom-predictions/esports-viewership.html> (accessed 12 May 2019).
3. **Arkes, H.R. and Blumer, C.** (2000), "The Psychology of Sunk Cost", in Connolly, T., Arkes, H.R. and Hammond, K.R. (Eds.), *Judgment and decision making: An interdisciplinary reader*, Cambridge series on judgment and decision making, 2nd ed., Cambridge University Press, Cambridge, U.K, New York, pp. 97–113.



4. **Chen, W., Hua, Z., Zhang, Z.G. and Bi, W.** (2018), "Analysis of Freemium Business Model Considering Network Externalities and Consumer Uncertainty", *Journal of Systems Science and Systems Engineering*, Vol. 27, No. 1, pp. 78–105.
5. **Claypool, M., Kica, A., La Manna, A., O'Donnell, L. and Paolillo, T.** (2017), "On the Impact of Software Patching on Gameplay for the League of Legends Computer Game", *The Computer Games Journal*, Vol. 6, No. 1-2, pp. 33–61.
6. **Fields, T. and Cotton, B.** (2012), *Social game design: Monetization methods and mechanics*, Elsevier/Morgan Kaufmann, Amsterdam.
7. **Frederikson, E.** (2017), "Den store spørgeskema guide 2017", available at: <http://www.e-solution.dk/den-store-spoergeskema-guide-2017/> (accessed 12 May 2019).
8. **Goslin, A.** (2018), "The 2018 League of Legends World Finals had nearly 100 million viewers", available at: <https://www.rifthermal.com/2018/12/11/18136237/riot-2018-league-of-legends-world-finals-viewers-prize-pool> (accessed 7 May 2019).
9. **Hamari, J. and Sjöblom, M.** (2017), "What is eSports and why do people watch it?", *Internet Research*, Vol. 27 No. 2, pp. 211–232.
10. **Hayward, A.** (2019), "Red Bull to Sponsor League of Legends European Championship", available at: <https://esportsobserver.com/red-bull-sponsor-lec/#> (accessed 11 May 2019).
11. **Holm, A.B. and Günzel-Jensen, F.** (2017), "Succeeding with freemium. Strategies for implementation", *Journal of Business Strategy*, Vol. 38 No. 2, pp. 16–24.
12. **Kim, H.S., Hollingshead, S. and Wohl, M.J.A.** (2017), "Who Spends Money to Play for Free? Identifying Who Makes Micro-transactions on Social Casino Games (and Why)", *Journal of gambling studies*, Vol. 33 No. 2, pp. 525–538.
13. **Koch, O.F. and Benlian, A.** (2017), "The effect of free sampling strategies on freemium conversion rates", *Electronic Markets*, Vol. 27, No. 1, pp. 67–76.
14. **La Marín de Iglesia, Jose Luis and Labra Gayo, J.E.** (2009), "Doing business by selling free services", in Lytras, M.D., Damiani, E. and Ordóñez de Pablos, P. (Eds.), *Web 2.0: The Business Model*, Springer-Verlag US, Boston, MA, pp. 1–14.
15. **Lytras, M.D., Damiani, E. and Ordóñez de Pablos, P.** (Eds.) (2009), *Web 2.0: The Business Model*, Springer-Verlag US, Boston, MA.
16. **Marinescu, P., Toma, S-G. and Mihai, N.S.** (2010), "Pricing strategy used as a tool for building customer satisfaction in the retail sector", *Annals of Faculty of Economics*, Vol. 16, No. 1, pp. 1122-1127, available at: <http://steconomiceuoradea.ro/anale/volume/2010/n2/179.pdf>.
17. **O'Brien, S. and Kwet, M.** (2017), "#BlackFriday Announcement from Privacy Lab", available at: <https://privacylab.yale.edu/trackers.html> (accessed 9 May 2019).
18. **Pechtl, H.** (2014), *Preispolitik: Behavioral Pricing und Preissysteme*, utb-studi-e-book, Vol. 2643, 2., überarb. und erw. Aufl., UVK-Verl.-Ges, Konstanz.
19. **Pujol, N.** (2010), "Freemium. Attributes of an Emerging Business Model", *SSRN Electronic Journal*.
20. **Riot Games Inc.** (2017), "League of Legends Terms of Use", available at: <https://na.leagueoflegends.com/en/legal/termsofuse> (accessed 7 May 2019).
21. **Riot Games Inc.** (2018), "2018 WORLD CHAMPIONSHIP KOREA CITIES & DATES", available at: <https://eu.lolesports.com/en/articles/Worlds-Korea-Cities-Dates> (accessed 7 May 2019).
22. **Riot Games Inc.** (2019a), "New Player Guide. Getting started on Summoner's Rift", available at: <https://na.leagueoflegends.com/en/game-info/get-started/new-player-guide/> (accessed 11 May 2019).



23. Riot Games Inc. (2019b), *"The Howling Abyss"*, available at: <https://na.leagueoflegends.com/en/game-info/game-modes/howling-abyss> (accessed 11 May 2019).
24. **Russ, H.** (2019), *"Global esports revenues to top \$1 billion in 2019"*, available at: <https://www.reuters.com/article/us-videogames-outlook/global-esports-revenues-to-top-1-billion-in-2019-report-idUSKCN1Q11XY> (accessed 7 May 2019).
25. **Shaul, B.** (2016), *"Infographic: 'Whales' Account for 70% of In-App Purchase Revenue"*, available at: <https://www.adweek.com/digital/infographic-whales-account-for-70-of-in-app-purchase-revenue/> (accessed 10 May 2019).
26. **Shi, S.W., Xia, M. and Huang, Y.** (2015), *"From Minnows to Whales. An Empirical Study of Purchase Behavior in Freemium Social Games"*, *International Journal of Electronic Commerce*, Vol. 20 No. 2, pp. 177–207.
27. Spotify AB (2019), *"Spotify Premium"*, available at: <https://www.spotify.com/us/premium/> (accessed 9 May 2019).
28. SuperData Research Holdings, I. (2019), *"SuperData Digital Games and Interactive Media Year in Review—2018"*, available at: <https://superdata-research.myshopify.com/products/year-in-review> (accessed 10 May 2019).
29. Tencent Holdings Limited (2019), *"2018 Annual Report"*, available at: <https://www.tencent.com/en-us/articles/17000441554112592.pdf> (accessed 10 May 2019).
30. **Tohanean, D. and Toma, S.-G.** (2018), *"Innovation, a key element of business models in the Fourth Industrial Revolution"*, *Network Intelligence Studies*, Vol. VI, No. 12, pp. 121–130.
31. **Toma, S.-G. and Marinescu, P.** (2012), *"Business models based on corporate social responsibility: The case of global pharmaceutical companies"*, *"Ovidius" University Annals*, Vol. XII, No. 1, pp. 1221–1225.
32. **Toma, S.-G. and Tohanean, D.** (2019), *"Green business models: The case of a German automaker"*, *Quality-Access to Success*, Vol. 20, Issue 2, pp. 635–640.
33. **Tran, K.** (2018), *"Why the esports audience is set to surge — and how brands can take advantage of increased fans and viewership"*, available at: <https://www.businessinsider.com/the-esports-audience-report-2018-11> (accessed 10 May 2019).
34. **Verhovnik, O.** (2019), *"Spotify Werbung: Welche Einblendungen gibt es und wann erscheinen sie"*, available at: <https://trusted.de/spotify> (accessed 9 May 2019).
35. **Voigt, S. and Hinz, O.** (2016), *"Making Digital Freemium Business Models a Success. Predicting Customers' Lifetime Value via Initial Purchase Information"*, *Business & Information Systems Engineering*, Vol. 58 No. 2, pp. 107–118.
36. **Wagner, T.M., Benlian, A. and Hess, T.** (2014), *"Converting freemium customers from free to premium—the role of the perceived premium fit in the case of music as a service"*, *Electronic Markets*, Vol. 24 No. 4, pp. 259–268.
37. **Xing Se** (2019a), *"Datenschutzerklärung. 5. Wer erhält Daten zu Ihrer Person?"*, available at: <https://privacy.xing.com/de/datenschutzerklaerung/wer-erhaelt-daten-zu-ihrer-person> (accessed 9 May 2019).
38. **Xing Se** (2019b), *"Daten und Fakten. Fact Sheet"*, available at: <https://corporate.xing.com/de/unternehmen/daten-und-fakten/> (accessed 9 May 2019).
39. **Yin, R.K.** (2018), *Case study research and applications: Design and methods*, Sixth edition, SAGE, Los Angeles, London, New Dehli, Singapore, Washington DC, Melbourne.

# Leading Cultural Change in the Newspaper Industry: How Jeff Bezos saved The Washington Post

~ M. Sc. Student **Johanna Burfeind** (Leuphana Universität Lüneburg, Lüneburg, Germany)

E-mail: johanna.burfeind@stud.leuphana.de

**Abstract:** This article deals with the phenomenon of change leadership in the newspaper industry. Many traditional and long-established print newspapers find themselves in a crisis-like situation because the demand in print newspapers is decreasing continuously while digital news content is strongly on the rise. Although the financial situation of many newspapers calls for a change that embraces digital opportunities, many businesses are unable to adapt owing to path dependence and inertia. Large parts of organizational culture in the traditional print industry are not open-minded towards digital evolvement. The aim of this article is to analyze the successful change leadership of Jeff Bezos at The Washington Post since his takeover in 2013 in order to find implications for other newspaper businesses that find themselves in a similar situation of digital inertia. The adopted research method is the case study approach by analyzing secondary data: Various qualitative sources (e.g. newspaper articles or research papers) regarding the case of the Washington Post are put into the theoretical context of change leadership. The key results implicate that Bezos was able to save the company from a financial downward spiral by setting a strong and motivating vision that focused on digital performance, changing workplace structures and incentive systems, hiring technological affine employees and fostering digital experimentation. A change in the culture was, however, only possible because Bezos found the right balance between introducing new and keeping traditional values to not overstrain the employee's change ability.

**Keywords:** newspaper industry, Jeff Bezos, The Washington Post, change leadership, cultural change  
**JEL Classification:** L82

## Introduction

Within the past decades, the traditional newspaper industry has come under severe pressure (van Weezel, 2009; Wadbring & Bergström, 2015). Various scholars and journalists even regard to the situation as undeniable “crisis” (e.g. Jones, 2009; McChesney and Pickard, 2011). Many newspapers around the globe are facing significant drops in readership and lower circulation which, in turn, lead to lower revenue streams, staff dismissal, or even bankruptcy and closure of once established newspaper businesses (Macnamara, 2010; Siles & Boczkowski, 2012). Various factors have led to this desperate state in which many traditional newspapers around the world still find themselves today. The media landscape has changed drastically, and we are far from living in a society in which we only inform ourselves by reading printed newspapers. The first wave of transformation occurred in the last century with the emergence of radio and television (Muehlefeld et al., 2012). This audience-fragmentation has become even more significant with the disruptive appearance of the internet: Ever since, online newspapers, blogs and social media are challenging the traditional print media industry drastically. Socio-demographic changes have altered the way in which people, especially among the millennial generation, perceive and interact with news content (Lauf, 2001; Macnamara, 2010). The smartphone or the computer as source of information have overtaken the importance of traditional newspapers for many people who are thus not willing to invest money and time into reading printed newspapers (Schlesinger & Doyle, 2015). Apart from having less subscribers, newspapers are struggling with their financial sourcing model as

advertising incomes are diminishing, too. Declining newspaper audiences and comparably high advertising prices make other advertisement spots (e.g. online) more appealing (Ryfe, 201; Thurman and Myllylahti, 2009). These developments have forced the traditional newspaper companies to rethink their business models in order to survive on the market. Such an organizational change demands a corporate culture which facilitates the strategic reorientation (Küng, 2008).

Today it can be said that some newspapers are very successful in combining the online and the offline world since they have embraced the required changes whereas others are still struggling or have already vanished from the surface. How can this phenomenon be explained? Why are some newspapers able to fruitfully adapt and some are not? This question is too big and possibly could not be answered since there are countless individual factors playing a role. The aim of this article is to light into the topic by analyzing the successful case of The Washington Post which was taken over in 2013 by none other than Jeff Bezos, founder and CEO of Amazon. This case represents a journey of a regionally focused print newspaper which was close to failure and got back on its feet to playing in the global top-league by becoming a major digital player (Cassidy, 2018; Pope, 2016). It will be outlined which role Jeff Bezos as the new company leader played in this change and whether he was able to change the cultural mindset in this company. The thesis of this article is that it requires visionary change leadership in order to change a newspaper’s culture to embrace digital opportunities.

First, a literature review will clarify the concepts of organizational culture and inertia

regarding the newspaper industry. Further, theory on change leadership will be presented. After a short explanation of the methodology, the case of The Washington Post will be described in detail and will be connected to the theoretical concepts that have been presented before. A conclusion summarizes all findings and derives recommendations for other newspapers which are stuck in a cultural state of inertia.

### Literature Review

Organizational culture represents a topic of interest in the literature in the last decades (Marinescu and Toma, 2015). It is the rather invisible but an impactful force influencing organizational member's behavior, choices and routines. E. Schein defined organizational culture "[...] as a pattern of shared basic assumptions learned by a group as it solved problems of external adaption and internal integration, which has worked well enough to be considered as valid[...]" (2010, p. 18). Thus, culture evolves with the historical learning process of an organization and is gradually shaped internally by the member's beliefs, norms and values, as well as the external context the organization is confronted with. It helps the organizational members to collaborate with each other by providing shared behavioral guidelines to reach a commonly accepted goal. Further, it fosters identification with the organization and its choices. By this, a common culture supports organizational stability (Cameron & Quinn, 2011). However, organizational cultures that have been proven to be successful for some time can be challenged by external developments and require adaption in order to stay competitive. Especially in today's digitalized and

connected world, the pace of global developments has accelerated strongly and become unpredictable in great parts. This requires firms to be flexible, also in terms of their underlying organizational culture (Cameron & Quinn, 2011). If a firm's culture tends to rather embrace stability instead of flexibility, a cultural change may be necessary. An alteration of organizational culture, however, cannot be forced upon organizational members and is a complex process (Sebastian & Niculina, 2011). The reason behind this is that humans strive for cognitive stability. Changing the fundamental values and assumptions can thus lead to a mental state of upheaval and even promote anxiety (Schein, 2010). Therefore, cultural adaption needs to be undertaken in a sensitive and careful manner to not overstrain the cognitive capabilities of the organizational members (Alvesson & Sveningsson, 2015). The execution of such change therefore demands a strong, suitable and proficient change agency.

In 2003, R. Caldwell introduced a four-fold classification of change agency models in which he differentiates between leadership, management, consultancy and team change agents. This article focuses on the leadership change agency model in which Caldwell defines leadership change agents as "[...] leaders or senior executives at the very top of an organization who envision, initiate or sponsor strategic change of a far-reaching or transformational nature" (2003, p. 140). This theory especially attributes the change leader with a strong ability to create and sustain a vision leading to commitment among organizational members. J. P. Kotter has argued into a similar direction: "Leadership defines what the future should look like, aligns people with that vision, and inspires them to

make it happen despite the obstacles" (1996, p. 35). Having a strong vision and bringing this to the people is the fundament on which strong change leadership is built (Behling and McFillen, 1996; Marinescu and Toma, 2015; Toma, Marinescu and Constantin, 2016). This goes in line with the leadership triad, according to which leaders must be able to produce vision, motivation and momentum in a group (Ionescu, 2014). In order to accomplish this, leaders should possess native charismatic traits which foster their role to be respected by the organizational members (Behling and McFillen, 1996). An empathic orientation towards the human resources is crucial, too. Besides this, the change leader needs to understand leadership in its architectural function and know how to successfully transform the required organizational structures and tasks (Holten & Brenner, 2015). Kanter highlighted that leaders must signal availability and time investment to their organizational members, since a lack of these attributes can impede credibility and lead to a loss of the workforce's motivation (1984). According to Balogun and Johnson, the neglect of the organizational culture in a major change process is a typical reason of its failure (2004). Thus, change leaders need to be familiar with the organizational culture and introduce change initiatives that consider the firm's cultural prerequisites while sensitively altering certain values if necessary. Dulewicz and Herbert (1999) stress the importance for a change leader to take risk in order to promote innovation. Schein also points out that a change leader needs to overcome learning anxiety by creating a setting in which failures are embraced. Such a risk-embracing environment promotes psychological safety among organizational members when

failures are seen as part of the learning process (Garvin, 1993; Schein, 1996; Newman et al., 2017). According to Edmondson and Lei, psychological safety fosters employees "to feel safe at work in order to grow, learn, contribute, and perform effectively in a rapidly changing world" (2014, p. 23). Thus, psychological safety is also a moderator for innovation and performance: When psychological safety is high, employees tend to embrace the integral steps of the learning process more. Also, it is important not to confront the workforce with too many changes in a short time frame as this could diminish the employees' psychological safety and may even lead to a state of anxiety (Frazier et al., 2017; Schein, 2010).

Taking now a closer look at the newspaper landscape: This industry looks back on a very long and successful history. The traditional print newspaper has been a well-established and respected institution in which journalists saw their morale task in educating and informing society through elucidating local and global topics of importance, by which they were serving a great function to support democratic values and freedom of opinion (Ryfe, 2012). Journalistic freedom and integrity were upheld privileges and the newsroom was strictly separated from marketing and sales departments in order not to undermine this crucial concept (Gade, 2004; van Weezel, 2009). Until the end of the last century, most traditional newspaper businesses were able to trust in the stable demand of their product. Thus, there was no need to scrutinize the long-established and underlying working structures and values. Even when the new media put pressure on print media, most journalists were not taking the threat seriously as they were clinging to

the thought that “there will always be newspapers” (Jones, 2009, p.1). However, the reality started to look different and there was a need to change. Many newspapers were still unable to adapt their once successful traditional print business model owing to path dependence and inertia (Gilbert, 2005; Nguyen, 2009). Path dependence describes the process in which an organization establishes a certain action pattern over time (Sydow et al., 2009). This leads to organizational inertia, meaning that the organization sticks to these patterns whereby it becomes resistant to change (Rumelt, 1995). According to Nguyen (2009) and Gilbert (2005), the majority of print newspaper businesses have tried to adapt, however, in a rather defensive manner: Instead of perceiving the new media as an opportunity and acting proactively in order to utilize the full scope of new possibilities, most newspapers have regarded to the phenomenon of online news as a threat and did not want to destroy their own revenue streams by delivering their content online. It took time until most newspapers joined the online world in some way and, by then, new entrants have already shaped the online news landscape and offered perks which the traditional print media had not been able to offer yet: latest news around the clock, tailored content and new interfaces to search for and interact with news (e.g. by comment threads), just to mention a few. Nguyen ascribes the slow and defensive adaption process in the newspaper industry to their “long-established fear-driven innovation culture” (2009, p. 91) which goes hand in hand with Curran’s view of newspaper businesses being in a state of “ostrich-like denial” (2010, p. 467) and Gilbert’s perception of large industry parts being a victim to inertia (2005). These

authors suggest that traditional newspaper cultures tend to oppose moving into the digital world by changing established patterns. Various scholars have made clear that fundamental changes in newspaper organizations demand a strong leadership which departs from old newsroom structures, norms and values while providing a solid visionary direction (e.g. Kanter, 1984). This may include a new owner or leader who is able to bring in a new perception to the newspaper business while not strictly abiding by traditional newspaper values. To be successful in the era of new media it is important to have a business model which also promotes digital content. Finding the right business architecture can be compared to walking the tightrope, since there are countless options to construct the multichannel model (e.g. paywalls, free content, social media presence etc.) (Karimi & Walter, 2016; Macnamara, 2010)

### Methodology

This article’s underlying research methodology is the case study approach according to Yin (1984). It presents the case of The Washington Post while focusing on the leadership of Jeff Bezos. First, established literature regarding change leadership and the situation of the newspaper industry was gathered and is being described in the literature review. For the analysis of the case of The Washington Post, the author gathered historical and current information about this specific newspaper while focusing on the change initiatives since Jeff Bezos’ takeover, the newspaper’s culture and the leadership traits of the new owner. These findings are being presented and concludingly analyzed within the theoretical context. The analysis



combines qualitative and quantitative findings. Only secondary data, such as research papers and newspaper articles on the case, as well as interviews with employees of the Post, are being used.

### **Results and discussion**

The Washington Post is a newspaper legacy which was founded in the year of 1877 in Washington, America. In 1933, the paper went into the hands of the Graham family and has stayed there for eight decades. By this, it was one of the last major newspaper players which was run as a family business (Fahri, 2013). It has flourished under the Graham leadership and become a successful newspaper institution which stood for democratic values and investigative, high-quality journalism. Although covering national and international stories while running bureaus all over the world, the paper's distribution was primarily focused on the Washington area (Huber, 2018). The rise of the internet, which led to financial downturns among most parts of the newspaper industry, did not spare The Washington Post. The business was dealing with years of continuous staff dismissal and strong diminution of newspaper circulation (Remnick, 2013). As a result, the Post's newspaper division had suffered a decline of 44 percent in operating income between 2009 and 2013 (Fahri, 2013). Further, the public opinion on the quality of the Post's journalism was questioned (Carr, 2014; Sherman, 2010). Donald Graham, the CEO of the newspaper, secretly started looking for a buyer in 2012 as he saw no other option to save the paper from being victim to the downward spiral. In 2013, Graham announced the immediate sale of the paper to Jeff Bezos for 250 million

Dollar. This buy-out was followed by internal and public discussions on whether it was possible for the digital revolutionist Bezos to successfully turn around the Post without having prior knowledge in the newspaper industry (Richter, 2013). Michael Schrage, a former journalist at the Post, promulgated his concerns in the Harvard Business Review: He was concerned that the digital mogul Bezos and his data-driven, innovative approach would clash with the newsroom culture at the Post. He referred to the Post journalists' self-image as being "proud, defiantly elitist and self-righteously professional" which would most likely be resistant to change (Schrage, 2013). In contrast, one year later the first success stories about Jeff Bezos' leadership and his ability to turn around the paper's defeat were being published (e.g. Carr, 2014). The success continued up until today as it has risen to a pioneer in the digital newspaper domain and continues to expand its cutting-edge innovation capabilities (Pope, 2016). The business has been profitable for three years now and it has been able to hire instead of fire staff (Landwehr, 2018). In the following, the strategic change leadership of Jeff Bezos will be outlined in terms of introduced measures and their results.

Right after the deal was announced, Jeff Bezos addressed an open letter to the Washington Post's employees (Bezos, 2013). In this letter he mentioned integral points regarding his upcoming leadership. He understood that it is only natural to worry when such a long-established leadership of the Graham family suddenly breaks away. However, he wanted to reduce the employee's fear by highlighting that "the values of The Post do not need changing", since the journalistic focus to bring truth to the readers



would remain and he would not interfere with any decisions on content (Bezos, 2013). The leading team of editors and directors would remain the same and he would only get in touch with them every two weeks because he kept his day-to-day business at Amazon. Still, he mentioned that the new leadership will demand business changes in future, especially regarding the internet and its demolishing effects for the printed newspaper: "We will need to invent, which means we will need to experiment. Our touchstone will be readers, understanding what they care about [...] and working backwards from there." (Bezos, 2013)

Although he proclaimed in the same letter that the underlying values would remain, the call for innovation, experimentation and reader-centricity would challenge The Post's cultural ideals. Despite having a digital presence, the working and thinking patterns within the newspaper were still based on traditional newspaper publishing principles. To give examples: It was up to the journalist's and editor's choices on which topics to write about and not depended on data-driven results depicting which topics matter most to

the readers. Further, the newspaper was focused on journalistic quality, not on digital revolution (Pope, 2016; Stewart, 2017). Hence, one could already understand that some fundamental values would have to change.

Despite valuing his broad digital know-how, Donald Graham chose Jeff Bezos for his ability to create and follow long-term visions. Shortly after his start as the new CEO, Bezos set the main vision: Becoming the new 'Newspaper of Records'. Hereby, Bezos targeted to beat the leading American newspaper The New York Times regarding online audience (Hazard-Owen, 2015). At this time, this goal seemed rather utopian because The New York Times had almost twice as many employees and the Washington Post was lacking forty percent of The New York Times' online audience (Doctor, 2015). However, in October 2015, The Washington Post reached the goal to surpass the main competitor by counting 66.9 million multi-platform unique visitors which represents an increase of 59 percent within one year (cf. figure 1) (Valinsky, 2015). In March 2019, the paper was able to increase this number to 86.6 million unique visitors (WashPost PR, 2019).

Figure 1: U.S. multiplatform online traffic: The Washington Post vs. The New York Times (October 2014 until October 2015); Source: Vailinsky, 2015.



What led the tarnished paper to become so successful this rapidly? Right in the beginning, Jeff Bezos decided to take a fundamental new approach: Move away from the regional focus and target the national and international readership. He argued for this change by highlighting the integral advantage of the internet for the newspaper industry: global distribution channels free of cost (Huber, 2018; Kennedy, 2016; Stewart, 2017). Still, Bezos has not come empty-handed. It is no secret that he has helped The Post with a capital injection to make the intended changes happen. How much he invested is not known, however he made clear that the money should not be invested over-generously and that it should be regarded to as a “runway” since the business should sustain itself in the long-run (Pope, 2016). With Bezos’ private investment the paper was able to hire around 200 new employees until today (Lee, 2019). The selection of new staff was focused especially on digital-affine journalists and editors, as well as engineers and employees with a background in data processing and IT (Pope, 2016; Wiczer, 2017). Also, he quickly initiated a move of the headquarters from the rather outdated facilities into a modern office with open workspaces. Employees of different divisions, such as editors, journalists and IT staff should share workspaces in order to boost synergy effects and break down the departmental silo-mentality (Kennedy, 2016; Kolb, 2016; Pope, 2016). These synergy effects aimed at accelerating his probably most important goal: Foster innovation and digital excellence by promoting experimentation. Bezos had stressed that his three fundamental values at Amazon would apply for The Post as well: “Put the customer first. Invent. And be patient” (Bezos, quoted by Fahri in

The Washington Post, 2013). When experimenting, the employees should try out many digital opportunities and not fear to fail. But if a project was failing, the employees should not hesitate to let go of it and look for new possible ways to innovate (Kennedy, 2016; Pope, 2016). The strategic focus on experiments was not only embodied in the mission but was also implemented in the new compensation model for employees: Instead of only meeting operating income targets like before, the employees now had three further criteria which valued their performance: 1) pace of moving (which is rather subjective); 2) push for experimentation; 3) commitment to agreed on decisions (whereas prior debates are welcome) (Pope, 2016). This culture of experimentation has brought the newspaper to introduce various successful measures in terms of digital competences. To name an example: The Post has established a content-management system called “Arc” which consists of an interconnected set of tools. It has proven so successful that today it is being licensed to newspaper businesses around the globe and thus creates a new revenue stream (Kennedy, 2016). Joey Marburger, the Post’s director of product, highlighted that Bezos would not usually delegate specific improvements to the workforce but rather give guidance and challenge the employees. However, he occasionally brought up ideas to advance the digital performance. For instance, he demanded that the loading-time of the online articles should be diminished to the least possible minimum in order to enhance readership numbers. This measure turned out to be very effective (Kennedy, 2016; Pope, 2016).

In the following, these findings will be evaluated regarding the theoretical context and provide insights on the leadership

characteristics of Jeff Bezos at The Washington Post.

As outlined previously, it is very important to provide a suitable vision which is clear, motivating and which gets adopted by the workforce of the regarding organization (Behling and McFillen, 1996; Kotter, 1996; Schein, 2010). Bezos did so quickly after his career at the paper started by outlining the goal: to become the "Newspaper of Records". By this, he was setting the new focus of the paper, namely digitalization. Coming from a time where defeat and downsizing were accompanying daily business for the Post's employees, having a leader stating that this ambitious target can be reached filled many employees with hope and motivation. Belief in the people is a major catalyst for embracing a vision among organizational members (Kanter, 1984). Also, a vision needs to be inspiring (Kotter, 1996). Without a doubt, Jeff Bezos counts to the most visionary and inspiring figures in today's business world as his vision led Amazon to being named among the most innovative firms globally (Ringel et al., 2017). Joey Marburger, the Post's director of product, stated the following in an interview with Kyle Pope of the CJR in 2016: "The sheer thought of him spread throughout the company. Over night, we thought there wasn't much we couldn't do". Thus, it can be argued whether the vision itself was inspiring or whether it was rather the personality of Jeff Bezos that inspired and motivated the employees to pursue this vision.

Still, inspiring employees does not turn around a businesses' underlying mindset. As described above, the paper's main focus under the Graham leadership was to deliver high-quality journalism and rely on stable values and structures. Bezos' call for

innovation, instead, questioned many of the old cultural foundations as it required innovation and experimentation by overcoming learning anxiety (Dulewicz and Herbert, 1999; Schein, 2010). The new CEO boosted creativity and innovative capabilities by establishing the cross-departmental workspaces and introducing the new payment scheme, which also included experimentation marks. Also, the mission that has led Amazon to its success was applied for the Post and guided the employees according to which mindset tasks should be accomplished. What also helped was the hiring of new staff: Not only did more employees with digital skills have a major impact on the paper's orientation to innovate. Also, the sole fact that staff was hired let the employees worry less about their job security because financial recovery was being signaled. These factors fostered psychological safety among the staff and let more room to experiment, which goes in line with the arguments of Edmondson and Lei (2014). This psychological safety was further promoted by keeping the same people at director's level and Bezos' approach to not interfere with the journalistic content. By this, the employees did not have to adapt themselves to new characters in the direct leadership level and the journalistic autonomy, the possibly most integral part of newspaper cultures, remained the same. Instead, the change was being initiated by Bezos but carried out by the same leaders as before. By this, a good balance between new and old values could be reached and the change was smoothly integrated into existing patterns and structures.

The prior described points hint that Bezos' change leadership embraces main change leadership characteristics. However, Kanter (1984) proposed that high time

investment and availability are crucial aspects of leading change successfully. Since Bezos is highly occupied with Amazon and other projects, his direct contact to the Post's managers is mainly limited to a one-hour call every fortnight (Stewart, 2017). On one hand one could argue that Bezos' approach fails ideal change leadership in this regard. On the other hand, one could dispute this argument by stating that his change leadership is exceptionally efficient since he is able to transform the organization sustainably even with such little time investment. Also, within these time-restricted meetings it appears that he was able to set the right impulses and provide valuable knowledge.

Shailesh Prakash, the Post's chief information officer and vice president of technology, put his thoughts on Jeff Bezos' change leadership into the following words: "So what has he really done? I personally think that the biggest thing Jeff has done is to set the right tone for our culture—which is one of experimentation, which is one of encouragement, which is one of 'find the positive surprises and double down.' We believe we have an owner who respects the past but at the same time wants us to be innovative." (Prakash quoted by Kennedy, 2018, p. 222)

This quote underlines the above discussed findings of the presented case. Jeff Bezos was able to bring about a major change at The Washington Post by respecting the old newsroom culture while, at the same time, altering certain values and patterns in the right pace. With his visionary change leadership and profound digital knowledge, he was able to turn around the paper's mindset from being a victim to digitalization to becoming a first mover that shapes the digital news landscape and utilizes its full scope of opportunities.

## Conclusion

The Washington Post was a newspaper that had suffered financial downturns for a long time. The newspaper was not able to embrace digitalization since it was in a state of path dependence and inertia. The Post was not alone with this phenomenon since many newspapers find themselves in similar situations. Traditional values and patterns are still predominant in many newsrooms and a shift in the organizational mindset is unlikely to happen if the leadership does not set a new tone for cultural and structural development. By analyzing the successful case of The Washington Post, this paper shows which crucial role leadership plays for traditional newspaper businesses which are trying to capitalize digital opportunities. Jeff Bezos was able to do so and successfully transformed the Post into a major digital newspaper player by his strong visionary change leadership. The paper is of importance since it derives several leadership implications for other newspaper businesses that want to move into a digital future. First and foremost, a change in leadership can prove very valuable, especially when the old leader is not able to promote digitalization. Here, a person with profound digital background can help to set the right parameters and formulate an inspiring vision that focuses on a technology-oriented future. Further, the change leader should try to alter cultural values and structures that stand in contrast to reaching this vision. However, it is not an easy task to change the underlying value system of a company. Thus, it is important for the change leader to diminish learning anxiety and foster a psychologically safe working environment. In order to do so, this paper depicts the following measures: 1) hiring

(tech-oriented) employees; 2) focus on experimentation and innovation (e.g. by adapting the incentive system) ; 3) build open and cross-functional workspaces; 4) formulate according mission and vision statements. The main limitation of this paper is that this exact change leadership would not have been possible without the huge monetary injection and the extensive digital knowhow provided by Jeff Bezos. Thus, the recommendations for other newspapers may not be enforceable in the same way. The speed in which this transformation was conducted is not realistic for newspapers with change leaders yielding

less extraordinary prerequisites compared to Jeff Bezos. For this reason, future research could analyze further cases of successful change leadership regarding newspaper digitalization. The findings of this paper can serve as basis for future research and be compared to further cases. Also, this paper only uses secondary data. Conducting qualitative interviews with leaders and employees of such newspaper businesses can prove very valuable to gain deeper insights of newspaper leadership and its influence on cultural change processes.

---

## REFERENCES:

1. Alvesson, M. and Sveningsson, S. (2015). *Changing organizational culture: Cultural change work in progress*. Second edition. London: Routledge.
2. Balogun, J. and Johnson, G. (2004). Organizational restructuring and middle manager sensemaking. *Academy of Management Journal*, 47(4), pp. 523-549.
3. Behling, O. and McFillen, J. (1996). A Syncretical Model of Charismatic/Transformational Leadership. *Group & Organization Management*, 21(2), pp. 163-191.
4. Bezos, J. (2013). Jeff Bezos on Post purchase. *The Washington Post*, 7 July. (online) Available at: <https://www.washingtonpost.com/national/jeff-bezos-on-post-purchase/2013/08/05/e5b293de-fe0d-11e2-9711-3708310f6f4d> (Accessed 5 May 2019).
5. Caldwell, R. (2003). Models of Change Agency: A Fourfold Classification. *British Journal of Management*, 14(2), pp. 131-142.
6. Cameron, K.S. and Quinn, R.E. (2011). *Diagnosing and changing organizational culture: Based on the competing values framework*. Third edition. San Francisco: John Wiley & Sons.
7. Carr, D. (2014). The Washington Post Regains Its Place at the Table. *The New York Times*, 5 October. (online) Available at: <https://www.nytimes.com/2014/10/06/business/media/the-washington-post-regains-its-place-at-the-table.html> (Accessed 7 May 2017).
8. Cassidy, A. (2018). Wie unabhängig ist die "Washington Post"? *Süddeutsche Zeitung*, 21 September. (online) Available at: <https://www.sueddeutsche.de/medien/journalismus-wie-unabhaengig-ist-die-washington-post-1.4139187> (Accessed 7 May 2019).
9. Curran, J. (2010). Future of journalism. *Journalism Studies*, 11(4), pp. 464-476.
10. Dulewicz, V. and Herbert, P. (1999). Predicting Advancement to Senior Management from Competencies and Personality Data: A Seven-year Follow-up Study. *British Journal of Management*, 10(1), pp. 13-23.

11. Edmondson, A.C. & Lei, Z. (2014). Psychological safety: The history, renaissance, and future of an interpersonal construct. *Annual Review of Organizational Psychology and Organizational Behavior*, 1, pp. 23-43.
12. Fahri, P. (2013). Jeffrey Bezos, Washington Post's next owner, aims for a new 'golden era' at the newspaper. *The Washington Post*, 13 September. Available at: <https://www.washingtonpost.com/lifestyle/style/jeffrey-bezos-washington-posts-next-owner-aims-for-a-new-golden-era-at-the-newspaper/2013/09/02/30c00b60-13f6-11e3-b182-1b3bb2eb474c> (Accessed 3 May 2019).
13. Frazier, M. L., Fainshmidt, S., Klinger, R. L., Pezeshkan, A., & Vracheva, V. (2017). Psychological safety: A meta-analytic review and extension. *Personnel Psychology*, 70(1), pp. 113-165.
14. Gade, P.J. (2004). Newspapers and organizational development: Management and journalist perceptions of newsroom cultural change. *Journalism & Communication Monographs*, 6(1), pp. 3-55.
15. Garvin, D. (1993): Building a Learning Organization. *Harvard Business Review*, Aug. 1993, pp. 78-90.
16. Gilbert, C. (2005). Unbundling the Structure of Inertia: Resource versus Routine Rigidity. *Academy of Management Journal*, 48(5), pp. 741-763.
17. Hazard Owen, L. (2015). Jeff Bezos says The Washington Post's goal is to become the "new paper of record". *Nieman Lab*, 24 November. (online) Available at: <http://www.niemanlab.org/2015/11/spacesuit-wearing-jeff-bezos-says-the-washington-posts-goal-is-to-become-the-new-paper-of-record/> (Accessed 08 May 2019).
18. Holten, A. L., & Brenner, S. O. (2015). Leadership style and the process of organizational change. *Leadership & Organization Development Journal*, 36(1), pp. 2-16.
19. Huber, J. (2018). Jeff Bezos und Donald Trump machen "Washington Post" erfolgreich. *Der Tagesspiegel*, 4 August. (online) Available at: <https://www.tagesspiegel.de/gesellschaft/medien/journalismus-in-den-usa-jeff-bezos-und-donald-trump-machen-washington-post-erfolgreich/22875328.html> (Accessed 8 May 2019).
20. Ionescu, V.C. (2014). Leadership, culture and organizational change. *Manager*, (20), pp. 65-71.
21. Jones, A. (2009). *Losing the news: The future of the news that feeds democracy*. Oxford: Oxford University Press.
22. Kanter, R. (1984). *The Change Masters*. London: Allen & Unwin.
23. Karimi, J., & Walter, Z. (2016). Corporate entrepreneurship, disruptive business model innovation adoption, and its performance: the case of the newspaper industry. *Long Range Planning*, 49(3), 342-360.
24. Kennedy, D. (2016). The Bezos Effect. *Shorenstein Center on Media, Politics and Public - Policy Discussion Paper Series*, June 2016 (online) Available at: <https://shorensteincenter.org/bezos-effect-washington-post/> (Accessed 4 May).
25. Kennedy, D. (2018). *The Return of the Moguls: How Jeff Bezos and John Henry Are Remaking Newspapers for the Twenty-First Century*. University Press of New England.
26. Kolb, M. (2016). Wie Jeff Bezos die "Washington Post" umkrempelt. *Süddeutsche Zeitung*, 3 January. (online) Available at: <http://www.sueddeutsche.de/medien/zeitungsmarkt-eine-wie-keine-1.2803883> (Accessed 9 May 2019).
27. Kotter, J. (1996), *Leading Change*. Boston: Harvard Business School Press.
28. Küng, L. (2008). *Strategic management in the media: Theory to practice*. London: Sage.
29. Landwehr, A. (2018). "Washington Post" unter Jeff Bezos - Alte Zeitung, neu erfunden. *Tagesschau*. (on-



- line) Available at: <https://www.tagesschau.de/ausland/jeff-bezos-washington-post-101.html> (Accessed 9 May 2019).
30. Lee, E. (2019). Washington Post Finds Itself in the Middle of the Jeff Bezos Story. The New York Times. (online) Available at: <https://www.nytimes.com/2019/02/11/business/media/washington-post-jeff-bezos.html> (Accessed 14 May 2019).
31. Macnamara, J. (2010). Remodelling media: The urgent search for new media business models. *Media International Australia*, 137(1), pp. 20-35.
32. Marinescu, P. and Toma, S.-G. (coord.) (2015). *Management*, Bucuresti: Editura Universitatii din Bucuresti.
33. Marinescu, P. and Toma, S.-G. (2015). Unconventional leadership, *Manager*, 21, pp. 135-144.
34. McChesney, R.W. and Pickard, V. (2011). *Will the last reporter please turn out the lights: The collapse of journalism and what can be done to fix it*. New York: The New Press.
35. Muehlfeld, K., Rao Sahib, P. and Van Witteloostuijn, A. (2012). A contextual theory of organizational learning from failures and successes: A study of acquisition completion in the global newspaper industry, 1981–2008. *Strategic Management Journal*, 33(8), pp. 938-964.
36. Newman, A., Donohue, R., & Eva, N. (2017). Psychological safety: A systematic review of the literature. *Human Resource Management Review*, 27(3), pp. 521–535.
37. Nguyen, A. (2008). Facing the Fabulous Monster. *Journalism Studies*, 9(1), 90-104.
38. Pope, K. (2016). Revolution at The Washington Post. *Columbia Journalism Review*, Fall/Winter 2016. (online) Available at: [https://www.cjr.org/q\\_and\\_a/washington\\_post\\_bezos\\_amazon\\_revolution.php](https://www.cjr.org/q_and_a/washington_post_bezos_amazon_revolution.php) (Accessed 10 May 2019).
39. Remnick, D. (2013). Donald Graham's Choice. *The New Yorker*, 5 August. (online) Available at: <https://www.newyorker.com/news/news-desk/donald-grahams-choice> (Accessed 10 May 2019).
40. Richter, N. (2013). Fremder Freund. *Süddeutsche Zeitung*, 12 November. (online) Available at: <http://www.sueddeutsche.de/medien/jeff-bezos-und-die-washington-post-fremder-freund-1.1814423> (Accessed 10 May 2019).
41. Ringel, M., Taylor, A. and Zablitz, H. (2017). *The most innovative Companies 2016*, January. Boston: The Boston Consulting Group. (online) Available at: [http://image-src.bcg.com/Images/BCG-The-Most-Innovative-Companies-2016-Jan-2017\\_tcm9-163125.pdf](http://image-src.bcg.com/Images/BCG-The-Most-Innovative-Companies-2016-Jan-2017_tcm9-163125.pdf) (Accessed 10 May 2019).
42. Rumelt, R. P. (1995). Inertia and Transformation. In: C. Montgomery, ed., *Resource-Based and Evolutionary Theories of the Firm*. Massachusetts: Kluwer Academic Publishers, pp. 101-132.
43. Ryfe, D. M. (2012). *Can journalism survive?: An inside look at American newsrooms*. Cambridge: Polity Press.
44. Schein, E.H. (2010). *Organizational culture and leadership* (2). Fourth edition. San Francisco: John Wiley & Sons.
45. Schlesinger, P. and Doyle, G. (2015). From organizational crisis to multi-platform salvation? Creative destruction and the recomposition of news media. *Journalism*, 16(3), pp. 305-323.
46. Schrage, M. (2013). Can Jeff Bezos and John Henry Teach Old Media New Tricks?. *Harvard Business Review*, 13th August. (online) Available at: <https://hbr.org/2013/08/can-jeff-bezos-and-john-henry> (Accessed 11 May 2019).
47. Sebastian, C. and Niculina, V. (2011). Organizational change and current trends in management. *Man-*



- ager (University of Bucharest, Faculty of Business & Administration), (13).
48. Sherman, G. (2010). Post Apocalypse- Inside the messy collapse of a great newspaper. The New Republic. (online) Available at: <https://newrepublic.com/article/72568/post-apocalypse> (Accessed 11 May 2019).
  49. Siles, I. and Boczkowski, P.J. (2012). Making sense of the newspaper crisis: A critical assessment of existing research and an agenda for future work. *New media & society*, 14(8), pp. 1375-1394.
  50. Stewart, J. (2017). Washington Post, Breaking News, Is Also Breaking New Ground. The New York Times, 19 May. (online) Available at: <https://www.nytimes.com/2017/05/19/business/washington-post-digital-news.html> (Accessed 13 May 2019).
  51. Sydow, J., Schreyögg, G. and Koch, J. (2009). Organizational path dependence: Opening the black box, *Academy of Management Review*, 34(4), pp. 689-709.
  52. Thurman, N. and Myllylahti, M. (2009). Taking the paper out of news: A case study of Taloussanommat, Europe's first online-only newspaper. *Journalism Studies*, 10(5), pp. 691-708.
  53. Toma, S.-G., Marinescu, P. and Constantin, I. (2016). Carlos Ghosn, a leader par excellence, *Manager*, 24, pp. 191-198.
  54. Valinsky, J. (2015). Washington Post tops New York Times online for first time ever. *Digiday*. (online) Available at: <https://digiday.com/media/comscore-washington-post-tops-new-york-times-online-first-time-ever/> [Accessed 22 May 2019].
  55. Van Weezel, A. (2009). Organizational changes in newspaper firms and their relation to performance. *The International Journal on Media Management*, 11(3-4), pp. 144-152.
  56. Wadbring, I., & Bergström, A. (2017). A print crisis or a local crisis? Local news use over three decades. *Journalism Studies*, 18(2), pp. 175-190.
  57. WashPostPR (2015). The Washington Post records 86.6 million unique visitors in March 2019. WashPost PR Blog, 17 April. (online) Available at: [https://www.washingtonpost.com/pr/2019/04/17/washington-post-records-million-unique-visitors-march/?utm\\_term=.1d48b1ad53c0](https://www.washingtonpost.com/pr/2019/04/17/washington-post-records-million-unique-visitors-march/?utm_term=.1d48b1ad53c0) (Accessed 29 May 2019).
  58. Wiczner, J. (2017). How Jeff Bezos Reacts to 'Negative' Amazon Articles in Washington Post. *Fortune*, 27 October. (online) Available at: <http://fortune.com/2017/10/27/amazon-jeff-bezos-washington-post/> (Accessed 12 May 2019).
  59. Yin, R.K (1984). *Case Study Research: Design and Methods*. Beverly Hills, California: Sage Publications

# The Distinct Evolution of Crowdfunding Strategies in Asian Countries

~ M. Sc. Student **Robert Maracine** (Faculty of Business and Administration, University of Bucharest, Romania)

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

**Abstract:** The objective of this article is to look at how crowdfunding has evolved around where it is likely to go. If we treat the most prevalent information from the West as the global standard, we may miss the new intriguing trends that arise from other areas in the world. China and Japan respectively are two such countries that have taken the original concept of crowdfunding and evolved it distinctly within their own cultural spheres. To research into this subject, existing articles about crowdfunding in these respective countries were reviewed extensively and compared to existing standards in the West. At the same time, newer practices employed for Asian crowdfunding that evolved nationally has been migrated and integrated in their international interactions, which may or may not be in concordance with existing crowdfunding forms. From the results we know that the most prevalent form of Western crowdfunding is reward-based, and as such strategies have evolved to increase the project-makers' chances of a successful crowdfunding campaign or project. However, in Asian countries this is not the general case, where donation-based crowdfunding and other forms such as crowdlending and equity-based crowdfunding are more relevant. To fulfil its purpose, the article tries to bring forward from Asia the new and intriguing, yet successful practices of crowdfunding that have emerged and evolved distinctly in their domain. It also leaves the door open for such practices to be replicated in the West.

**Keywords:** crowdfunding, strategies, Flash-Sale, funding lifecycle, risk-reduction

**JEL Classification:** M13 O3 O31 O32

## 1.Introduction

The last decades witnessed the rise of crowdfunding around the world (Toma, 2013). Crowdfunding is popularized in the West by huge platforms such as Kickstarter and Indiegogo, which have become as ubiquitous as larger social media platforms such as Facebook and Twitter. They are focused on the now, most prevalent form known as reward-based crowdfunding (Mollick, 2014) where the rewards can either be material, such as the product being promoted by the project, and immaterial, such as recognition the best backers, and founders on their main website. The idea for crowdfunding was popular for financing artists and creative project (Bradford 2012), but it soon spread to many other sectors.

If the investors sympathize with the information of a project which is hosted on an online crowdfunding platform, the investor will have the option to fund the project through the platform. If amount of funds gathered from investors does not reach the target set for the by the end of the campaign, all the funds are returned to the investors. However, if the funding target of the project is reached, then the funding is sent to the project initiator, and the investors then continue to receive reports on the project as it is implemented, and also receive status updates through the same project site as time goes by. And ultimately, the investors will receive products, services or even cash dividends upon the project's success.

Through crowdfunding, businesses that have had difficulty to get funding through traditional forms of finance, now have access to new funding possibilities and tools. As such, crowdfunding is typically used by newly formed companies or even just individuals

with new ideas. Ideas that could, with a little help, result in the birth of a new company.

In recent years, this general notion behind crowdfunding has become ubiquitous on a global scale. However, if we look at how crowdfunding has evolved in different locations around the globe, we tend to see new trends stemming away from this simple formula.

For instance in China, many well-established laptop manufacturing companies have found that by placing their new products, that are close to general domestic launches, on Western crowdfunding platforms they can test the waters beforehand, and thus they are able to see if their domestic products warrant an international launch as well. This is a unique strategy that circumvents general IT product launches and is quickly becoming the standard as it can be achieved with minimal resources allocation.

And although the Japanese market for crowdfunding is not even comparable to the world leading size of the Chinese market, it still has valuable to show how crowdfunding can evolve from donation-based projects instead of purely reward or equity-based Crowdfunding. This can be observed by how crowdfunding in Japan initially became popular due to the donation-based projects that took place in the aftermath of the tsunami and nuclear power plant crisis of 2011.

As this article's main objective is to provide the reader with a look or snapshot of how crowdfunding has evolved in various locations, the main form of research will be quantitative derived from the literature review of past journals and works that cover industrial trends in order to provide references on the importance of each cultural sphere will be provided in order to give a comparison for future discussion.

## 2. Literature review

Crowdfunding's definition has not been standardized (Kraus et al., 2016a). However, the consensus is that an unspecified number of investors gather and provide funds to a

purpose-built business corporation or individual through a mechanism (platform) that utilizes the internet.

For the purpose of this article, the following terms are used and defined as such:

Term/Acronym	Meaning	Background	Inspiration
Project-Initiator (PI) or Project-Maker (PM)	the individual or organization which is using one or multiple crowdfunding platforms to host one of their ideas as a project on them.	A project-maker can typically be a small group of young adults who have not yet created a company but are looking for funding for their idea, or a venture company with multiple sources of funding looking to increase their funding while also focusing on pre-marketing, to even well-established multimillion dollar companies looking to do some free product marketing and marketing research before launching their product.	(Kraus et al., 2016a; Belleflamme, Lambert and Schwienbacher, 2014; Danmayr and Lehner, 2014)
"Investors", "Backers", "Supporters" or "Funders"	the individuals that fund the projects through the various online platforms they are hosted on.	They are the people that invest in the project with the hopes that the project-maker can bring success	(Kraus et al., 2016a; Belleflamme, Lambert and Schwienbacher, 2014)
Chinese Behemoth	China's crowdfunding industry.	The term is used repeatedly in this article in order to emphasise that China's crowdfunding industry is on a scale much larger than even its closest rival in size, the US. And when comparing the two, we can see that China is more than 7 times larger, and it could easily rival even the total Western market if needed.	(Jiazhao G. et al., 2017; Funk, 2019)

Crowdfunding is generally separated into four separate models as follows (Kraus et al., 2016a; Danmayr and Lehner, 2014; Kakakucomu, crowdfunding, 2019):

Donation-based	Donation-based	Crowdlending	Equity-based
In return for support the PM offers acknowledgements or other intangible forms of compensation in return to their funders. The online platform allows the PM to reach a far greater number of potential supporters/	In return for support the PM offers tangible goods based on the amount received. Such as the actual product that is to be developed, but at a smaller price compared to its estimated future retail value.	The supporters become "lenders" to provide loans to small unlisted firms through online crowdlending platforms. The "lenders" can distribute risk by offering loans to multiple projects on such platforms.	The supporters become "shareholders" by receiving shares (ownership) in the PM's company, and will receive dividends. This is done via online platforms and allows for more transparency over traditional cases.

Reward-based crowdfunding tends to be more successful than other organizational forms of crowdfunding (Kraus et al., 2016b). However, although this is the ongoing global trend and the main type of crowdfunding to be covered in this article, other countries such as Japan have actually had crowdfunding become popular within their country due to the successful donation-based crowdfunding campaigns that took place during the aftermath of the 2011 tsunami and nuclear powerplant crisis (Kakakucomu, crowdfunding, 2019).

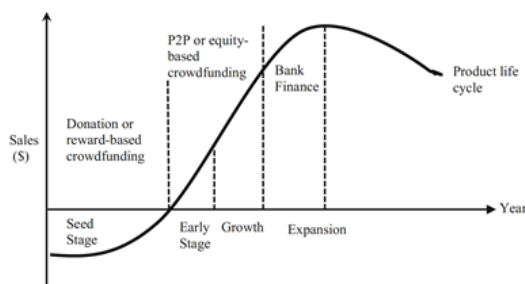
Kraus (2016a) also shows that the inclusion of a video to describe the project is considered to be the benchmark for minimum quality when potential backers look at the video. Not including one will garner very little attention in the project. And as such, the way the video can reach hearts of the backers/supporters is considered to be the main factor in the success of the project. And with a scientific fzQCA approach, they show how a great number of backers is the main factor to the success of a project during its campaign, it also shows the alternative methods for success when backers are scarce. The data

however was limited to a German crowdfunding platform.

There are several works and research articles in English with regards to Chinese crowdfunding. From these, Jiazhao G.Wang (2017) provides a very thorough overview of the crowdfunding behemoth known as China evolved and came to be and where it is likely going to. As such, the work focuses on the issues that have arrived from China's crowdfunding boom, how the risk of projects failing to succeed is high, and how the industry is no longer favoring smaller start-ups, which is in stark contrast with Western platforms. And Funk (2019) provides a deeper insight into the organizational aspects of crowdfunding in China.

From the literature surrounding Japanese Crowdfunding, (Adhikary, Kutsuna and Hoda, 2018a) provide a similarly thorough overview on Japan's side, and shows unique trends in the use of crowdfunding. The work does have more emphasis on the organizational aspect. They also cover how newly starting companies incorporate the various forms of crowdfunding during their various stages of development.

*Crowdfunding in a Funding Life Cycle of a Firm (Adhikary, Kutsuna and Hoda, 2018b, p.11)*



For non-translated materials, there is also the major Japanese company known as kakakuomu which offers a great deal of information regarding online prices of most major goods and services that are available domestically to the general public. As such, they take it upon themselves to order studies on the latest FinTech trades and then freely proliferate the information towards their users. Their study on crowdfunding is comprehensive and has served a great deal for the baseline information regarding Japan (Kakakuomu, crowdfunding, 2019).

### 3. Research Methodology

For the purpose of this article, a substantial amount of literature review was conducted on both past journals, news articles, and data aggregates. Initially, the literature review revolved around journal articles that stated the main success factors for crowdfunding that were either non-specific, global, or local to Western crowdfunding platforms.

The purpose to first focus on the Western area was to create a foundation to correctly see the common denominator that all crowdfunding platforms have. As a result, once the research progressed to Asian countries, it became very clear what was different, hence it was much easier to see what Asian practices stood out as opposed to Western platforms.

The literature surrounding crowdfunding in Asian countries also cited previous Western research for foundation building which meant that correlations between Western and Asian research could be made.

Later, the research delved into statistical data on the success of crowdfunding in China and Japan and it showed clearly that China's crowdfunding industry is in a league of its own, and as such is a great location

for new practices to first appear and evolve through natural selection.

Japan, although much smaller, being true to its nature, it was quick to adopt the best practices around the globe and incorporate them, and due to its closed nature, it continued to evolve and apply Japanese knowledge to its evolution. As such, the research became focused on how both Goliath and David evolved to be unique and stand out from the rest.

## 4. Results and discussion

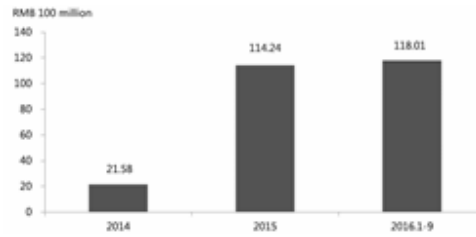
The main areas covered by this article are going to be China, the world leading crowdfunding market, and Japan, the unique evolution that rose up from a social crisis, but has somehow ended up to a similar destination, albeit at a smaller scale. The similar destination can be seen after comparing literature focused on China (Jiazhao G. Wang et al., 2017) and Japan's (Adhikary, Kutsuna and Hoda, 2018a) crowdfunding industries.

### 4.1. The Chinese crowdfunding beehive and its evolution

In China, we can see that the industry had grown from grown from a 2,158 mill rmb to 11,424 mill rmb and then stabilizing to around 11,810 mill rmb, 1.7 billion USD equivalent (Jiazhao G. Wang et al., 2017). And has grown to around 5 billion usd by 2019. Even the sheer number of operating platforms in china is a testament to the total growth of the industry. The current main platforms are run by eCommerce giants such as TaoBao, JD, Xiaomi and 360 which are the industry standard. However there is also DemoHour and ZhongChou which are more similar to Western platforms as they are primarily reward-based platforms.(Floship, Crowdfunding in China, 2019).



*Amount of funds raised by crowdfunding in China (Jiazhuo G. Wang et al., 2017, p.15)*



However, this is merely the base to show that domestic crowdfunding in China is a big industry of great significance. And as such, the phenomenon has evolved to such a scale that even large firms use crowdfunding both domestically and internationally. And more recently, from a Western point of view, we can see that more and more Chinese firms have begun to use Western crowdfunding platforms to do “free” marketing research, and therefore be able to decide whether modifying their existing domestic products for an international market is profitable or not. This a great example how new platforms that are usually consumer and individual driven can be integrated by organizations within their strategic planning cycle.

Many well-established tech companies, such as Xiaomi, Chuwi, Teclast, have been selling some of their domestic products internationally for many years. However, the process is not always straight forward. With the advent of crowdfunding, they have been able to substantially reduce the risk associated with preparing products for international sales substantially. Chuwi in particular has even created brand new products specifically for the international market, such as the Chuwi Aerobook, a limited-edition Laptop to be sold only internationally, that was available for reward-based funding on IndieGoGo

for a limited time before being successful. The peculiarity here is that they are using the Western crowdfunding not so much for the funds themselves, but for the free publicity and market information they can garner from such projects. The reason for this is because they already have companies in place and can develop new products with much larger ease than a fresh new company, or even a similar Western company.

Although evolving a bit away from the general crowdfunding idea, Chinese companies have also made a new form of on-line pre-purchasing known as “Flash-Sales” or “Flash-Deals”, similar to reward-based crowdfunding, they offer products at a cheaper price ahead of the scheduled production. The difference here is that the production will take place regardless of the funding amount reached, as the whole purpose of this flash sales is to simply receive an exact number for the first production run. And another difference is that the “Flash-Sale” has a limited upper margin which is limited by the maximum production capacity of that production segment for the company making the product. The peculiarity here is that from the general consumer’s point of view, this is not much different from a reward-based project on existing Western crowdfunding platforms. The risk of not receiving the product



is much lower as it is only attributed to the actual shipment from China, as the product will be made, nevertheless.

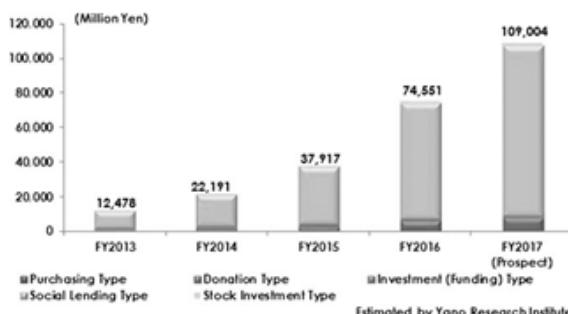
#### 4.2. Japan's crowdfunding evolution and practices

After the tsunami and nuclear power plant crisis of 2011, Japan was in a situation where it had a lot of entrepreneurs who had lost their business due to the disaster. The main force that helped them to recover financially came from donations and charity events. This created a great need to raise funds from individuals all over Japan in the most efficient way possible. As crowdfunding arose in Western platforms with great success, it was immediately adapted to Japan in order to cope with this urgent national need, and it did so with great success. (Kakakucomu, crowdfunding, 2019). As

such, crowdfunding in Japan arose not from consumerism, but from social aid which had marked its evolution going forward to be more focused on helping good causes as they are the most successful, such as crowdfunding campaigns for leukemia research (Japan Times, 2019) and education funding when state subsidies decline (As state subsidies decline, Nagoya University turns to crowdfunding to support student activities, 2018).

Now, Japan's crowdfunding industry had a huge growth spurt as seen in the following graph. It has grown from 12,478 mill yen to 109,004 mill yen in 2017 (996 million USD equivalent). The top three crowdfunding platforms in Japan are Green Funding, Makuake, and Campfire (The Top Three Crowdfunding Platforms in Japan | GlotureBlog, 2018).

*Growth of crowdfunding in Japan 2013-2017 (Adhikary, Kutsuna and Hoda, 2018b, p.54)*



Similarly, this is only to show the growth of Japan's domestic crowdfunding industry in recent years. Going forward however, Japanese start-ups using crowdfunding have had a evolved since the start of the phenomenon and have become accustomed to applying different types of crowdfunding

at different stages of their funding lifecycle. (Adhikary, Kutsuna and Hoda, 2018a). Startups at the initial seed stage are better suited to receive donation or reward-based crowdfunding. And when the firm moves on to the early stage it will move on to equity-based crowdfunding if required. And during

expansion it can rely on tadeonal forms of finance. It is important to note that crowd-funding in general does not exist in order to replace traditional forms of finance, but instead they work much better together. But to make a simple analogy, crowdfunding is the electric motor in a car that is used to start the engine, while traditional forms of finance are the internal combustion engine which takes over and provides locomotion during the expansion phase.

### **5. Conclusion**

As China is more and more going global (Toma, Gradinaru and Papuc, 2013; Toma, Marinescu and Gradinaru, 2017; Toma and Gradinaru, 2018), crowdfunding has become a huge industry and is most likely to lead the global evolution for reward-based strategies and other crowdfunding innovations in the future years to come.

There may well be some legality problems as time goes by, as the international models are not thoroughly regulated at the moment, and they allow room for too much leeway. The risk is that big corporations will continue to use the platforms more and more and provide severe competition to fresh startups simply because they can come up with much more professional products, and much lower risk of non-delivery on promise because they do not truly require crowdfunding for the projects initial promise. And by providing such competition they may be taking potential backers away from regular startups. On the other hand, one could argue that by doing so the big corporations are increasing the total amount crowdfunding backers by bringing in their loyal customers which are not used to crowdfunding. But

only time can tell what the ultimate evolution of this trend will be.

Japan on the other hand, although not as big, has also grown tremendously and is showing the true blend of crowdfunding and traditional finance. And as such, this new model is quickly becoming the norm for the global crowdfunding industry. The crowdfunding phenomenon began in Japan due to the huge need of funds from the SME's that were affected by the tsunami and nuclear powerplant crisis in 2011. Donation-based crowdfunding was at an all-time high and it provided substantial funding for companies that were trying to recuperate from the disaster but were not able to seek traditional financing. On the other hand, however, we can see a synergy taking shape, as companies with successful crowdfunding campaigns are more likely to also obtain regular funding based on the performance of their campaigns.

As such, crowdfunding continues to allow for more and more new ideas and companies based on them to come into existence at a scale which was not possible in previous decade. As the internet grows bigger and multinational companies become bigger and bigger one would think that the barrier of entry for new companies would become harder and harder, but as crowdfunding in China and Japan has shown, it is quite the opposite, as companies have access to more and more form of fund raising and marketing possibilities in order to become new challengers in their respective markets.

## REFERENCES:

1. **Adhikary, B.K., Kutsuna, K. and Hoda, T.,** (2018b). *Crowdfunding: lessons from Japan's approach*. Springer briefs in economics. Singapore: Springer.
2. **Anon** (2018). *As state subsidies decline, Nagoya University turns to crowdfunding to support student activities*. The Japan Times Online. [online] 3 Sep. Available at: <<https://www.japantimes.co.jp/news/2018/09/03/national/state-subsidies-decline-nagoya-university-turns-crowdfunding-support-student-activities/>> [Accessed 4 Jun. 2019].
3. **Anon** (2018). *The Top Three Crowdfunding Platforms in Japan* | GlotureBlog. [online] GlotureBlog | Japanese Market Entry Strategy for Startups. Available at: <<https://blog.gloture.co.jp/the-top-three-crowdfunding-platforms-in-japan/>> [Accessed 4 Jun. 2019].
4. **Anon** (2019). *Crowdfunding campaign aims to help leukaemia patients in Japan have children after treatment*. The Japan Times Online. [online] 5 Apr. Available at: <<https://www.japantimes.co.jp/news/2019/04/05/national/crowdfunding-campaign-aims-help-leukemia-patients-japan-children-treatment/>> [Accessed 4 Jun. 2019].
5. **Anon** (2019). *Floship, Crowdfunding in China*. [online] Floship. Available at: <<https://www.floship.com/crowdfunding-in-china-practices-and-trends/>> [Accessed 4 Jun. 2019].
6. **Anon** (2019). *Kakakucomu, crowdfunding*. [online] kakakucomu. Available at: <<https://kakaku.com/crowdfunding/>> [Accessed 30 May 2019].
7. **Belleflamme, P., Lambert, T. and Schwienbacher, A.,** (2014). *Crowdfunding: Tapping the right crowd*. Journal of Business Venturing, 29(5), pp.585–609.
8. **Bradford, C. S.** (2012). *Crowdfunding and the Federal Securities Laws*. 2012, p.151.
9. **Danmayr, F. and Lehner, O.** (2014). *Archetypes of crowdfunding platforms: a multidimensional comparison*. BestMasters. Wiesbaden: Springer Gabler.
10. **Funk, A.S.** (2019). *Crowdfunding in China*. In: *Crowdfunding in China*. [online] Cham: Springer International Publishing. pp.149–198. Available at: <[http://link.springer.com/10.1007/978-3-319-97253-4\\_5](http://link.springer.com/10.1007/978-3-319-97253-4_5)> [Accessed 30 May 2019].
11. **Jiazhao G. Wang, Hongwei Xu, Jun Ma and Yexia Zhang** (2017). *Financing from masses - Crowdfunding in China*. New York, NY: Springer Berlin Heidelberg.
12. **Kraus, S., Richter, C., Brem, A., Cheng, C.-F. and Chang, M.-L.** (2016a). *Strategies for reward-based crowdfunding campaigns*. Journal of Innovation & Knowledge, 1(1), pp.13–23.
13. **Mollick, E.** (2014). *The dynamics of crowdfunding: An exploratory study*. Journal of Business Venturing, 29(1), pp.1–16.
14. **Toma, S.-G.** (2013). *Economia intreprinderii*. Bucuresti: Editura Universitatii din Bucuresti.
15. **Toma, S.-G., Gradinaru, C. and Papuc, R. M.** (2013). *Corporate China is going global*, Ovidius University Annals- Economic Sciences Series, Vol. 13, No. 2, pp. 520-523.
16. **Toma, S.-G., Marinescu, P. and Gradinaru, C.** (2017). *In search of the global economic supremacy: China versus USA*, Annals of the Constantin Brancusi University of Targu Jiu-Economy Series, Vol. I, pp. 227-233. Available at: <[http://www.utgjiu.ro/revista/ec/pdf/2017-01.Volumul\\_1\\_Special/32\\_TOMAMARINESCU.pdf](http://www.utgjiu.ro/revista/ec/pdf/2017-01.Volumul_1_Special/32_TOMAMARINESCU.pdf)> [Accessed 30 May 2019].
17. **Toma, S.-G. and Gradinaru, C.** (2018). *Chinese economic pragmatism: The Belt and Road Initiative*, Ovidius University Annals- Economic Sciences Series, Vol. 18, No. 2, pp. 70-74.