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SURVEY ARTICLE



OECONOMICUS VS. ACADEMICUS: A DIACHRONIC PERSPECTIVE OF THE RELATIONSHIP BETWEEN KONDRATIEFF CYCLES AND THE STRUCTURAL REFORMS OF HIGHER EDUCATION

Ion POHOAȚĂ*, Constantin HĂLĂNGESCU**

***Abstract:** The aim of this paper is to present, in the general, non-exhaustive manner, the diachronic relationship between the macroeconomic phenomenology of the Kondratieff cycles and the higher education targeted educational reforms. Historical evidence, presented by the specialty literature, prove these reforms took place in the decline phases of the Kondratieff cycles, to the social-economic subsumed phenomena characteristic to each of them. Adhering to the idea of passing through the fifth cycle, the second part of the paper raises several questions that could be fully debated upon in future research, such as: in the academicus vs. oeconomicus debate of the beginning of this millennium, influenced by the economic and financial crisis, are we in the cyclic phase ascension, given the global quasi-structural reforms in the higher education systems (regionally USA-Europe-Asia/Pacific polarized in the triangle)? Could globalization and higher education massification through internationalization be considered paradigms of the current Kondratieff long wave?*

Keywords: Kondratieff cycles, economic cycles, higher education, academic reforms, economical decline, globalization, internationalization, macroeconomy

JEL Codes: E65, F44, I23, I25, N30, O11

1. FOREWORD

Even though it was begun long before the start of the new millennium, the global reform of higher education is still one of the structural policies that are of key interests for many national authorities. Especially in the major industrialized countries of the world this is a primordial interest even since the start of the 1980s and many ideas emerged as a consequence of the public speech aired in the rest of

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the similar national systems, with its forms: privatization, decentralization, deregulation and diversification.

As we know, social phenomena appears undivided by the broad economical, political, cultural and historical context, hence, the „contextualization” of the educational reforms. Without deeply understanding the size and the background of this contextualization, the theoreticians, as well as the practitioners of higher education, may become short-sighted in their actions. History as a chronological collection of facts and events, but as well defined interpretations and re-interpretations of theoretical economical models and constructs, can offer some assistance. The diachronic intervention of educational thinking and practice at higher education level, in the context of their relationship with major eras of change in modern capitalist economies, cannot make abstraction of the model quasi-used by major economists when “the long” gives dimension to the phenomenon: Kondratieff cycles (also known as *Long waves* or *Kondratieff waves*).¹ These cycles explain a periodic model, recurrent of ups and downs in the evolution of industrial capitalism beginning as far back as the end of the 18th century. Until now, economists have identified four Kondratieff cycles: 1798-1849, 1849-1894, 1894-1945 and 1945-1995.² Of course, each of these cycles is determined by the generality of the phenomenon (raise then downfall in intervals of 50-60 years) but it also has the specifics that distinctly marks it, particularity recognized as social-economic paradigm, as follows: *first cycle*: industrial revolution and the birth of a new economic order; *second cycle*: social Darwinism, monopoly or *laissez-faire* capitalism; *third cycle*: humanist-progressive movements and the extinction of monopoly capitalism; *fourth cycle*: etatism (the Welfare State) and scientism and *fifth cycle*: (1995-2045/50): postpositivism and neo-liberal capitalism of global scale. Of course, there is an on-going debate between the economists, whether we are or not in the fifth Kondratieff cycle. A thorough investigation of these cycles for determining their potential value in the explaining of the educational thinking models, of the transformations that took place in the reforms implied by the industrialization, and then the globalization phenomenon, is a pretty valuable but and not easy test.

¹ A pertinent, *in extenso*, analysis on the problematic of Kondratieff cycles can be found in Andrey V. Korotaev, Serghey V. Tsirel, (2010), “A Spectral Analysis of World GDP Dynamics: Kondratieff Waves, Kuznets Swings, Juglar and Kitchin Cycles in Global Economic Development, and the 2008–2009 Economic Crisis”, in *Structures and Dynamics*, vol.4, nr.1, pp.1-55, <http://128.48.120.222/uc/item/9jv108xp> [accessed at 09.03.2011]

² See to the *Appendix* Kondratieff cycles structure, with regression and ascent phases for each of them, in the explicit vision of Andrez V. Korotaev, according to the fore mentioned article.

2. KONDRATIEFF CYCLES AND EDUCATIONAL REFORMS. A DIACHRONICAL PERSPECTIVE

2.1. Kondratieff I (1789-1894)

This first cycle, as well as the next one, took place during the British hegemony worldwide (Kindleberger, 1996:50) and the main innovation was the introduction of the steam engine, the mechanization, and the raise of coal demand. In a broader way, those were the capitalism years with a new production manner, set *in se, ad se, per se*, and according to Berry (1991:35) “*this was the long wave of industrial revolution itself*”. In other words, the industrial revolution grew its roots into the agricultural society of the 18th century but it didn’t significantly alter its structure. As such, at the educational level, due to the jobs trend in that time, there was no focus on formal education (Mitch, 1999: 242), although a little more visible accents have existed in Central and Northern Europe (Germany, Sweden and Switzerland). In this first cycle, education was an activity or a privilege of high class, the curricula being mostly religious in content and traditional in means of transmitting it, things not being very much different in the USA (Mc.Adams, 1993:31). We should note that in the second half of this economic cycle (1824-1849), which surely corresponds to a decline phase followed by a much to little raise, the famous *common schools* have gained a lot of field in the US. Marcus (1983) even refers to the phenomenon as “*an educational rebirth*” (p. 92), in the context of the dramatic socio-economical changes imposed by industrialization, immigration and urbanization, which fundamentally changed the aspects of an agricultural life, hence a much different evolution from Europe. It can be easily noticed that, during this first Kondratieff cycle, declared as a transitory period from feudal agricultural society to industrial society, emphasized during the second cycle, three major evolutions produced effects:

- the birth of nation state with the French revolution from 1789 (with much more visible implications during the fourth Kondratieff cycle, at the appearance of the *Welfare State*);
- the forming of differences in education types between Europe (the invention of professional, technical, vocational education) and the USA (the idea of free public school in the same time with the movement of those *common schools*);
- the birth of the *grade level* concept for the urban education in the USA (in the regression phase of the first cycle).

2.2. Kondratieff II (1849-1894)

Defined as „top of free capitalist system” or that of apparition of trusts, oligopolies and monopolies, this economic cycle, marked by new technologies

(apparition of the railway, steel industry, maritime ship construction) marked the unprecedented raise of the economies of Europe and USA. During this period, most of the companies were small, important in a local market, not integrated vertically or horizontally, although economic power developed on the invention of concepts such as limited responsibility, professional management, integrated corporation (Sterman, 1985:154). At an ideological level, this cycle corresponds to the Marxist analysis elaborated at the predictions level about the capitalist system, the main Marxist thesis being promoted by Engels towards the end of this second Kondratieff cycle. And, as it is well known, the Marxist analysis of capitalism has outlined the major weaknesses of the system: the aggressive, monopolistic character; this *laissez-faire*, which caused a big poverty and misery between active population, has created an unjust social system in which a big part of the wealth was given to a minority, inequity corrected through the installment of the Welfare State (by the writings of Keynes) in the West around the 1930s.

At the educational systems level, we're witnessing the second Renaissance era and again in the regression period of the cycle (1872-1894). Firstly, it's about the apparition of the idea of *public high school* (James Pierce in Michigan, 1871, acc. Cohen, 197:21) and then of the birth of progressive education concept which was to become the trademark of American education for the entire next century. In the last 25 years of the 19th century, powerful competitors for the USA have emerged: Great Britain and Germany (Hopkins and Wallerstein et al., 1996, passim; Kindleberger, 1996: 48). Having its roots in Parker's theories, continuing with Pestalozzi, Froebel and Herbart, progressivism manifested as an answer to the social crisis in the cities having as main axis a new type of society (collectivist-cooperative, centered groups) and a new conception of educational pedagogy (perfected by Dewey in the laboratories of the University of Chicago in 1896). At that time, the British hegemony was about to end and most of the specialists correlate this with the fact that the adversity of Great Britain towards technical education, as opposed to the manifestations from USA and Germany, is not accidental (Kindleberger, 1996:146). Only after 1895 technical sciences, mathematics and chemistry found a place in British universities curricula. During this time, on American soil, the „marriage” between science and industry was already taking place, so the effect of new use of scientific progress with direct applicability in industrial production led to the impressing raise of invention patent numbers (Tylecote, 1993:65).

What must be reported, as specific for this economic cycle, is the fact that the nation-state played a major role in the settlement of educational and social matters (see the situation in USA, when state by state adopted laws regarding all three steps of education, acc. McAdams, 1993:32). What's interesting it's the fact that while the state showed real interest in what concerned education, on an

economic level we couldn't find the same commitment until after the Great Depression, this showing that educational reforms have taken place in the times of regression and the early stages of growth in every Kondratieff cycle.

2.3. Kondratieff III (1894-1945)

This third cycle (with growth stage 1894-1923/4 and regression between 1923/4-1945, acc. Schumpeter, 1939 apud Kleinknecht, 1985:217; Sterman, 1985:142), is associated with the expansion of trusts, monopolies, being called „monopolistic capitalism”. During this cycle takes place probably the most abrupt industrial economic crisis of the capitalism and the most active involvement of the state in economic activity (especially after the Second World War), through centralized measures of regulation. Roosevelt administration adopted, in 1935, the *Wagner Act*, which resettled the capital-work relationship on new grounds, as part of a greater social program, known as the *New Deal*. British economist J.M.Keynes even makes an impressive description of the state's role on a macroeconomical level for this period (*General Theory*) which later extended the *New Deal* to an extensive set of regulations regarding well-being. All these created later the *Welfare State* (or Keynesianism), after the Second World War, during the fourth Kondratieff cycle, until the mid 70s, which lead to the start of another regress in western economies. Another major innovation during this cycle was what Tylecote (1993: passim) called “*the Fordist style*”, a broader conception of Taylorism, which focused of mass production, thus implying the creation of a new organizational style and which, as Freeman noticed (1985:147), was a very powerful auxiliary of the economic growth in the USA in 1920, becoming a paradigm only after the adaptation to the major structural crisis from the 30s, blaming the emergency of keynesistic techniques of leveling the economic systems.

At the educations systems impacting policies level, we must notice that the New Deal was „*a form of governance in which the citizens may aspire to reach the minimal level of social well being, including education, health...*” (Morrow and Torres, 1999: 95) and that is why education has been seen as an investment which assures long term individual and social well being. Strictly, the measures from the end of the second Kondratieff cycle were continued, so higher education was confronted with the first signs of massification: „education for the entire American youth”, for example (Connell, 1980:353). The Fordist style also marked this time by leading to the management of a continuously expanding public schools and universities system, given progressive ideas of the proposed or suggested organizational models. For the regression period of this cycle we can retain, from the specialty literature, some very important initiatives for the higher education reforms: increasing of the etatism, scientism and behaviorism in education, hierarchy, organizational centering in universities administrations, recurrent

coordinated measures for the stimulation and the encouragement of student mobility, major curricular reforms in almost all educational systems. We may thus conclude that, if during the first Kondratieff cycle the apparition and growth of public elementary education stood out, in the next cycle there was a great focus on public high-school education, in the third cycle on the massification of higher education with focus on *open access*.

2.4. Kondratieff IV (1945-1995)

Being associated with the famous state monopolistical capitalism or with the growing state intervention, this economic cycle witnessed both the raise of the central planned socialist state and the expansion of multinational corporations. The complete supremacy of the nation-state is the key feature of this economic cycle, up until the outburst of the Vietnam War, the student protests and the installment of oil embargo in 1973, when western economies started a constant regress, which took about 20 years. At an ideological level, we must observe the revival of liberalism through the writings and ideas of the Austrian school, represented mostly by L. Von Mises, F. Von Hayek and than by M. Friedman. Offer doctrine, assimilating Friedman's idea of expensive money, emerges as the new religion. Adopted by the Thatcher regime in England and the Reagan administration in the USA, the new paradigm lead to essential mutations which climaxed even with the 1989 collapse from the socialist countries in Eastern Europe, thus becoming an universal paradigm, which ultimately led to the free market paradigm, specific to the actual cycle which we're passing.

Scientism or scientific positivism, as an extraordinary exception characteristic to the previous cycle, develops as a real structural functionalism during this cycle and marks the entire evolution of the policies, practices and reforms from the global higher education systems. The massification of American higher education (the transformation „*from the institution for an elite, to one which served a mass population*”, acc. Marcus, Leone and Goldberg, 1983:10) gave the start to this irreversible phenomenon which pulled after itself: the allocation of considerable budgets for education, research and development, the reformation of the curricula, the mobility and the education-industry partnership.

What must be noticed is the fact that, as opposed to the other economic cycles, in this one, the great education reforms took place between 1940-1960, thus in a growth interval, and not regress, this phenomenon being explained by the specialty literature by the raise of the involvement of the nation state. Also characteristic to this period is the phenomenon of starting of privatization of some of the higher education institutions, the decentralization of the education systems at the end of the 1980s (especially in the USA, England, Sweden and in other Nordic countries, acc. McAdams, 1993:passim), the apparition of some new areas in the structures of the curricula (epistemology, phenomenology) marked by the new

conception of constructivism, the restructuring of national and international organization in higher education, the adopting of corporate management strategies between 1980-1990 (Wallerstein, 1996:224).

2.5. Kondratieff V (1995-2045/50)

For this cycle³, at first glance, it can be noticed that the western economies have started to grow constantly since around the 1990s but the economic crisis from 2007 visibly altered this pace. The innovations of the beginning of the cycle (microelectronics, robotics, biotechnology, genetics, etc) led to an unprecedented informational boom which generated the introduction of new services and surprising emergent markets. All these reposition and rule a rethought of the way to „higher study”: new educational brands, fundamentally modified curricular reforms could appear after 2020. Under the rule of the neo-liberal socio-economical paradigm, the nation state will back off even more, internationalization and globalization of higher education being the key words, governed by privatization and quasi-general decentralization. From this point of view and if other regressive phenomena won't occur, it is almost impossible not to put an accent on the differences between the rich and the poor, the North and the South, so in this new cycle the social differences seem to remind about the 19th century capitalism, but this time at a global scale. But as it was also the case in the other cycles, each developing paradigm can be destroyed by its own anomalies triggered by socio-political movements, obviously... economical, as the present global financial crisis shows.

3. ACADEMICUS VS. OECONOMICUS IN THE PREAMBLE OF THE PRESENT ECONOMIC CRISIS – A POSSIBLE RISE OF THE KONDRATIEFF V CYCLE?

The education and higher education matter (in which the research part is essential) as global priority („internationalization is changing the world of education and globalization is changing the world of internationalization”)⁴ is

³ According to some economists, the global economy hasn't entered the fifth Kondratieff cycle, still being in a transformational recession stage. One of the sustainers of this approach - Wallerstein - argues that the global trend of unfinancial companies profit rate decrease cannot be a characteristic to the long term reinstatement of economic growth. See more in Patomäki H. (2004) „The long downward phase of the capitalist world economy and the potential for future crises and wars” ,University of Helsinki, Fifth pan-european conference, Haga, apud Marin Dinu, Marius Marinaş, “Transformarea economică a Uniunii Europene în contextul ciclurilor Kondratieff”, http://www.dinumarin.ro/pdf/articole/8/4_dinu.pdf [accessed 11.04. 2011]

⁴ In public debate, *globalisation* is often mistaken with *internationalisation*. A pertinent analysis on the subject, see Conf. univ. dr. Remus Pricopie (coord.), „Universitățile în contextul europenizării și globalizării. Analiza diagnostic”, part of the strategic project *Calitate și leadership pentru Învățământul Superior Românesc*, pp. 8-9, 2010, http://www.edu2025.ro/UserFiles/File/PR1/Panel5/diagnostic_panel5.pdf [accessed 10.02. 2011].

unanimously acknowledged. In this Kondratieff cycle, the shaping and redefining of higher education is marked both by the tendencies of the previous cycle (massification, internationalization, transnational education through mobility) and also by new tendencies: life-long at the distance education by e-learning, international classification and rankings, quality assurance, university-industry-private ownership environment relationship, new approaches of the governance, academical freedom and management, intelligence exodus and marketisation/privatization, etc. Each of these challenges seem to „attack” traditional values but they, under the pressure of attractiveness, competitiveness and modernization, redefine the way in which 21st century University can serve the person and the society.

Specialty literature adopted the term *Emerging Global Model* – EGM (Mohrman et al., 2008: passim) when referring to the new challenges of education in the 21st century. Main features (global mission, intensive research, new roles for professors, diversified funds, worldwide recruiting, raise of complexity, new relationships with governments and industry, partnerships with similar institutions at worldwide level through different collaborations) define new directions in an integrated approach, shape a matrix for globalization and internationalization in higher education, without losing sight of local and national dimension. The strategic role of higher education is to find solutions to the challenges and inherent opportunities of globalization (health, energy, food security, intercultural environment and dialogue). The apparition of truly global universities, which do not only intend to take part at a global level in the resources market (professors, researchers, students, infrastructure), but to also offer advanced knowledge, it is just an answer to the wilderness of emerging economies which have generated asymmetrical interdependencies in the metamorphosis of academic paradigms. The adaptation to financial, commercial, services and beyond national border ideas flows, led to an exponential massification (especially after 1960) marked by the mesmerizing evolution of information technology and new media. Although often in conflict with the society in what regards the mission and roles (ideological conflicts and structural policies), universities seek direct, long term bounds with economy and for the practical needs of society and the value and reward are being offered through academic and institutional means, according with their research productivity. Having become incubators for research and formation, universities put to disposition necessary competencies for a greater and greater number of new jobs that require sophisticated knowledge and abilities, but in the equal opportunity manner, through scholarships, lending programs, PPP etc (Gidley et al., 2010:127).

Inequal economic development with assymetric consequences in the worldwide academic landscape led to a social mobility marked by variations and diversity, discrepancies between educational systems and because of that the global

academic environment is called not only to answer to changes but also to produce changes. Externalization of the benefits through internalization of costs reshaped the functions of higher education and, although sometimes higher education is seen as goods that need to be auctioned, we must highlight that the international academic landscape (Transnational Higher Education - TNE), in the society of the 21st century is launched and orbits around the internationalization, Americanization, Europeanization and globalization paradigms (Deem, 2008:442). Admittance of qualifications, quality assurance, the relationship applied research-research based on partnerships with big industrial consorts, transborder flow of students and study programmes, using English as *lingua franca* for scientific communication, multiculturalism and homogenization, rebuild the mosaic of the vocation of the University in the post-industrialization, informational and globalization era. The path of Platon's Academy from *magistrorum Universitas et scholarium* (community of professors and students) until *multiversity*, *open university* and *e-learning* has known the reactions of Humboldtian or Cardinal Newman's transformations in the 19th century, that still remain structurally defining. The managerial segmentation of the universities by adapting to the new challenges, but especially to the benefits explosion of the TIC sector, by eliminating the need for space-time proximity, led to functional over qualification in which globalization and regionalization compete with internationalization (Peters, 2007: passim).

But the global-local relationship is not at all a disadvantageous one, because universities transplant to the local context what they accumulate through global experience. (Lobera and Escrigas, 2008, passim). They are placed in a space that is not defined strictly nationally or globally, but that involves both. That is why, in the context of globalization, in this Kondratieff cycle that we now pass, the biggest challenge of the higher education institutions is to preserve, develop and improve their role as a *glocal multiversity* (Delanty, 2008:65, passim), by redefining *homo academicus* (Stromquist et al., 2007:137) into a *mundus academicus*. Already recognizable at the radiography of the globalization vectors – economy, culture, ideology, politics, security, social life -, after the abandonment of the great ideology of the Marxist-Leninist hiatus, far from reaching a new *terra promissa*, the today's world configures itself around a fluidization of what was fixed until today: nation-state, converting it in region-state, continental or intercontinental unions.

The direction of the changes that we witness (although the controversies of the present regression are far from over!) comes from non-causal correspondence between events, forming a systems of echoes, repeats and resonances, a system of rules not written *de jure* but recognized *de facto*. And all these can be found in the matrix described by the new established term of *market democracy*, forming a new

matrix-paradigm which, *eo ipso*, suffers continuous modifications and which wants to give the society its own face; and the society, the state, acts not exactly in favor for the capitalist transformation of almost all human values and even man himself, in goods.

The movement and accumulation of capital, the (re)organization of production, commerce and investment are being done more and more at a global scale; still, the shapes of nationality, the *a quo* (from where) – *ad quem* (to where) limits of its autonomy, its (micro/macro) economic policy options are lost on the present development trajectories. So the relative position of countries on the international scale changes, shaping a new world division of work and a new global geopolitics. The time of a unipolar world has passed, has expired; in the last years there has been an increasing regionalization and internationalization of production, so the equilibrium of the economic power tectonically shifted in a significant manner towards domains reconfigured by the global economic pragmatism itself. Between all, as fundament and dispersive element, knowledge based economy invariably steps forward. And as we know, knowledge based economy and/or society develop ultrafast at the global level and in most social-economic developed countries, ***the national wealth that depends now more on education than on natural resources.***⁵ Used as a first class vector, this knowledge based economy thus rediscovers the mission of the University in today's world, regains the rights of *homo academicus* and his asymptotical destiny, a destiny sculpted in archetypes sometimes much too theoretical with patterns that today overlap or... in a tense manner in the „spaces to be filled on the ID” of the new *mundus academicus*.

Biography of academic education, dotted medieval paradigms, mechanisms that trigger archetypal role in a stock scholastic University, under the influence of *homo oeconomicus* fierce manifestation, redesigned functions and roles modernized University, revealed in new paths and borders for *mundus academicus*. A very subtle change takes place in the world, which earlier national and cultural roles of higher education are eclipsed by the "economic reason". Roles are reversed or coexist peacefully, so that *homo oeconomicus* preaching “time and

⁵ See about that at : Altbach, P., “The complex roles of universities in the period of globalization”, in: GUNI (ed.), Higher Education in the World: New Challenges and Emerging Roles for Human and Social Development, 2008, Palgrave Macmillan, London; Kerr, C., “The Uses of the University”, 1963, Harper Torchbooks, Harper & Row; Krücken, G., Kosmützky, A., Torka, iM. (eds.), “Towards a Multiversity? Universities between global trends and national traditions”, 2007, Bielefeld; Lobera, J., Crespo, N., GUNI Secretariat, “Delphi Poll: Higher education for human and social development”, 2008, in: GUNI (ed.), Higher Education in the World: New Challenges and Emerging Roles for Human and Social Development, 2008, Palgrave Macmillan, London; Robertson, R. “Glocalization: Time-Space and Homogeneity-Heterogeneity”, in: Featherstone, M.; Lash, S.; Robertson, R. (eds.), “Global Modernities”, Sage, London, 1995, pp. 25-44; Tandon, R., “Civil engagement in higher education and its role in human and social development”, in: GUNI (ed.), Higher Education in the World: New Challenges and Emerging Roles for Human and Social Development, 2008, Palgrave Macmillan, London.

no time” the authorial prescribed recipe for *omnia erga Universitatis* (to preserve, develop, streamline their role at a local university multiversity glocal) and recreate the *homo academicus* in *mundus academicus*. A *mundus academicus* in which the new technologies, the mix of opportunities they offer, creating new paradigms of learning / research, re-defines the ivory tower of Universities as a proactive agent in the global level, in terms of inputs and outputs of knowledge based society. Redefined so implacable destiny symbiotic (*homo academicus provides solutions, homo oeconomicus implement them*) requires that the academic world not only respond to changes, but it will also initiate them. Thus, in the relationship *homo economicus vs. homo academicus*, simplistic, we would say that the first does not understand the other: *homo oeconomicus* cannot understand the concept of power or to absorb cultural capital concepts, cultural reproduction or academic habitus. However, he sees *mundus-academic* as the engine of economic growth and the *homo academicus* sometimes rigid but splendid into his tenacity to handle this engine. And the secret of this tenacity lies in increasing the toughness of his ability to transfer research into industry, inventions and patents to generate new ones. And this is where *mundus academicus* assimilated in the *win-win* manner the attribute of "innovation engine" and the ability to commercialize research, offering wider economy and society numerous results as a whole. In this spectrum, justified or not (and that depending on the *qui et quomodo* - who and how - introspect) the question arises: *Is there a risk that universities borrow too much of the corporate ethos that is the greatest threat to academic freedom and institutional autonomy ...? Will homo academicus adapt the values of homo oeconomicus, to sell and know-how to produce profitable?* Some would say it is a degradation of the ontological function of the University, others that is the most positive result of historical becoming of it. But beyond the assumptions and hypotheses, not to reduce by *reductio ad absurdum* the eventual merging of contrasting opinions, the truth that are seen enhancer synthesizers and complete fusion of education and research in the economics coagulant environment, not only generates high volumes, but high value, which, inflexible, leads to improved overall quality of human life. We do not know if this is another step in a globalizing process of evolution or if it will prove to be a major leap in socio-economic development in this economic cycle that we cross. But what is clear, is that, currently, ***homo academicus is heavily involved in mundus oeconomicus, while homo oeconomicus stimulates the whole mundus academicus.*** Bi-directionality of this process prints interactive rhythms of both entities and socio-human types, rhythms that are as interactive responses to the impact of globalization and perpetual outlined above are designed in the context of synoptic vision of academic and economic conglomerate, in which competition and performance swings between Economy, Efficiency, Effectiveness, a 3E matrix that axiological polarize the

world space between the U.S., Asia-Pacific and Europe. Imagining a correspondence between the general profile of each region and the names of concepts of ludic space, we may associate paradigmatic, and economic and academic, the notions of *monopoly*, *puzzle* and *domino* to the mentioned regions. It is well known that the U.S. is a magnet overwhelming brains, talent, resources, while other nations are facing their loss. But the U.S. achieves this performance? Why are they always the winner who takes all the "*game of Monopoly*" on a global scale? Why U.S.A. can manage almost invincible hegemony especially in academic world?⁶ The conglomerate of concerted policy in investments, research, human resources, finance and especially academic quality may be an answer. How come? Because the accreditation of a University in the United States is founded on the belief that institutions are themselves responsible for academic quality, institutional mission that is essential to judge the quality acts as institutional autonomy and that higher education thrives in a decentralized environment. In this environment, orientation towards society and orientation towards technological and economic efficiency, supported by research, leads to a *homo academicus* with a pragmatic vision, adapted to change. By educating students and leading position as a hub of ideas and connections opened to researchers around the world, especially the U.S. can withstand produce excellence, competition and leadership in the global academic "war". Continuing to wish a *welcome* all over the academic and recruit the best students in the world, exporting technology and research at the highest level, promoting transnational collaborations in *open doors* manner, in fact, the U.S. not only support their academic excellence but transforms beneficial, globalist, knowledge and economic prosperity.⁷

⁶ According to researchers this issue, U.S. academic institutions remain unmatched. See P. G. Altbach, L. Reisberg, L. E. Rumbley, "Global Trends in Higher Education: Tracking year Academic Revolution. A Report Prepared for the UNESCO 2009 World Conference on Higher Education ", UNESCO, Paris, 2009, <http://unesdoc.unesco.org/images/0018/001831/183168e.pdf> [accessed 07.03. 2011]

⁷ American universities are universally recognized as world leaders in science and engineering, unmatched after WWII, the large volume of excellence, scholarship and innovation that they generate. United States, by far are the biggest magnet for foreign students at all levels of study and in most areas. Foreign students now dominate PhD programs in STEM fields, which are, for example, 65%, 64%, 56% of the number of doctors in IT, engineering and physics. If the U.S. creates a brain drain in the world, this is possible because the policy of internationalization is very well defined: strengthening the external economic relations by attracting and training of experts in key areas and attracting market research and human resource work through policies, including tax , favorable (grants system, hi-tech infrastructure for next generation personal development opportunities, further international experience in the labor market). Thus approx. 50% of students who earn doctorates in science and technology from abroad and 25% of academic staff and faculty of American colleges today are born abroad. Increase by 8% in the number of foreign students in 2008/2009 over the previous year (671,616 total) ascendent continuing trend in recent years (the

It is obvious that we are witnessing the creation of new maps and binding of *mundus academicus* must think of the amazing growth and global impact of research and innovation in China. With a strong belief for the promoting of international competitiveness in the knowledge based economy, China adhered to the neo-liberalism ideas by opening the economy to the global markets⁸ and in three decades achieved the objectives which developed countries reached in a hundred years.⁹ China not only can provide good examples, but even better

third consecutive year of growth), proves beyond doubt that the U.S. continues to be "global magnet". And the positive impact of foreign students and their families have on the U.S. economy is not insignificant (over \$ 17.8 billion in 2008/2009). Investing approx. \$ 395 billion in R & D (2008), of which 52 billion (13%) directly by academic institutions, \$ 1.9 billion in equipment research is to understand why the USA has now 54 universities in the top 200 and 70% of Nobel prize winners are employees of American universities. Outputs of gigantic infrastructure of american R & D are also notable (approx. 28% of the world total of articles and patents in 2007. About all this, see the PeterD. Eckel, "Mission Diversity and the Tension between Prestige and Effectiveness: An Overview of U.S. Higher Education" in *Higher Education Policy*, no. 21, 2008, pp. 175-192, <http://www.palgrave-journals.com/hep/journal/v21/n2/full/hep20082a.htm> [accessed 12.03. 2011], Wendy Erisman, Shannon Looney, "Opening the Door to the American Dream: Increasing Higher Education Access and Success for Immigrants", a report by the Institute for Higher Education Policy, April 2007, <http://www.ihep.org/assets/files/publications/mr / OpeningTheDoor.pdf> [accessed 03.12.2011]; John Aubrey Douglass, "Treading Water: What Happened to America's Higher Education Advantage?" http://cshe.berkeley.edu/publications/docs/GlobalizationsMuse_Ch8.pdf [accessed 03.12.2011]; Roger L Geiger, "The Quest For 'Economic Relevance' by U.S. Research Universities" in *Higher Education Policy*, no. 19, 2006, pp. 411-431, <http://www.palgrave-journals.com/hep/journal/v19/n4/full / 8300131a.Html> [accessed on 03.12.2011]; Puukkaand J., F. Marmolejo "Higher Education Institutions and Regional Mission: lessons learnt from the OECD Review Project", in *Higher Education Policy*, no. 21 (2), pp. 217-245, 2008, <http://www.palgrave-journals.com/hep/journal/v21/n2/abs/hep20087a.html> [accessed 03/17/2011] and UNESCO Institute for Statistics, "Global Education Digest 2009. Comparing Education Statistics Across the World "Montreal, Quebec, Institute for Statistics, 2009, http://www.uis.unesco.org/template / pdf / ged/2009/GED_2009_EN.pdf [accessed 17/03/2011]; Mei Li, Sriram Shankar, Kam Ki Tang, „Why does the US dominate university league tables?“, School of Economics Discussion Paper No. 391, June 2009, <http://www.uq.edu.au/economics /abstract/ 391.pdf> [accessed at 28.04.2011]; Ben Wildavsky, „US: Welcoming academic globalisation“, in *University World News*, 21 Febr 2010, <http://www.universityworldnews.com/article.php?story=20100219124330543> [accessed 24.04.2011]

⁸ Before 1890, its system of education was mainly in private schools or colleges and was influenced by Europe. Chinese universities began to emerge in the 1890s, influenced by French model structure and courses, but mainly copied Japan. After founding the People's Republic of China, China's higher education model transplanted Soviet Union then, nationalizing all institutions. Since 1978, China began to explore the advantages of restructuring universities in global perspective. View Manhong Lai, Leslie N K Lo, "The Changing Work Lives of Academics: The Experience of a Regional University in the Chinese Mainland", in *Higher Education Policy*, no. 20, 2007, pp. 145-167, <http://www.palgrave-journals.com/hep/journal/v20/n2/full/8300148a.html> [accessed 15.04.2011]

⁹ Gu Mingyuan, director of the Institute of Education of China, used the words "Go" and "miracle" to describe the course of development of education in thereform years. Dinghai Wang, said that China has achieved in less than 30 years of compulsory education objective generalization, while the United States, Japan and other developed countries have done in a hundred years. See Ministry of

solutions, giving us a real lesson in performance.¹⁰ Remaining the country which will have the biggest impact on the educational export market, in its concentrated effort to become, with good chances, a competitive nation globally,¹¹ China

Education, "National Education Development Statistical Bulletin 2006", http://www.moe.edu.cn/edoas/website18/info_29052.htm [accessed 15/04/2011].

¹⁰ While exercising the macro-control, the Chinese government tried to diversify the supply of education funding component performance and to allow sustainable growth of education, diversification of financing channels is regarded as one of possible ways to achieve such objective and consisted of: the proliferation of private higher education institutions (minban) which now enrolled approximately 20% of no. total students; emergence of these new education providers helped make the state's role from provider to facilitator only, factor and regulator of education services, decentralization by transferring 90% of control by local authorities and non-governmental actors; State education cost sharing between parents and students; fusion of hundreds of educational institutions to streamline administrative and financial management at local level, the new admissions policy, which has increased the number of students admitted, partly contributing to their education, so between 1999 -2008 were admitted over 40 million students (6 million students in 2008, 4 times more than 10 years ago). During this period, China's efforts were impressive: a combination of infusion of significant funding to universities, transplanting Western standards of academic and institutional management organization until the opening of branches of famous Western universities. Thus, in 2009 exceeded the national total of 29.79 million students, which means that China today has the largest number of trainees, graduates and students in the world, significant increase compared to 2007, there were 2305 institutions of higher education, including 1090 1215 university tertiary vocational education institutions, there were 413 national institutes of higher education for adults, and number of participants was 5.414 million people, the number of students enrolled in all types of non-academic education (life long learning) 2.8946 million and 5.317 million was the trainees in different fields. View of all these and other details about student mobility, innovation, China's research structure: M. Schaaper, „Measuring China's innovation system: National specificities and international comparisons”, OECD Science, Technology and Industry Working Papers, 2009/1, OECD Publishing, <http://www.oecd.org/dataoecd/15/55/42003188.pdf> [accessed 16.04.2011]; David A. Pendlebury, „Research Performance Measures and the Rise of Asia?”, in *International Higher Education*, no. 59, 2010, pp. 7-9, http://www.bc.edu/bc_org/avp/soe/cihe/newsletter/ihe_pdf/ihe59.pdf [accessed 03.04.2011]

¹¹ The most important for China in dealing with global competitiveness, involved upgrading the national education system and its efforts to overcome translated inefficiencies, inequities and regional underdevelopment. Thus the Chinese government has introduced various models of restructuring and merger of universities, with obvious intent to identify and develop some world leading universities, the government implemented several measures to reform the strategic policies, such as *Project 211* and *Project 985* to focus state resources for some selected national universities to meet global competitiveness. Philip G. Altbach speaks extensively about China's readiness to enter higher education partnerships with countries in Europe and USA, drawing attention on the profitability of these parteneriate. See extensively in the study „Chinese Higher Education in a Open-Door Era”, in *International Higher Education*, no. 45-2006, http://www.bc.edu/bc_org/avp/soe/cihe/newsletter/Number45/Number_45.htm [accessed 18.04.2011]; See significant details and H. M. Levin, & Z. Xu, „Issues in the expansion of higher education in the People's Republic of China” in H. Lauder, P. Brown, J. Dillabough, A. H. Halsey (Eds.), *Education, globalization, and social change*, New York, Oxford University Press, pp. 909-925; F. Huang, „Qualitative enhancement and quantitative growth: changes and trends of China's higher education”, *High Education Policy*, nr.18, 2005, pp.117-130, http://www.palgrave-journals.com/hep/journal/v18/n2/abs/83000_76a.html [accessed 18.04.2011]; Philip Altbach, „The Asian Higher Education Century?”, in *International Higher Education*, no. 59, 2010, pp. 3-6, http://www.bc.edu/bc_org/avp/soe/cihe/newsletter/ihe_pdf/ihe59.pdf [accessed at 21.04.2011]; Kathrin Mohrman, „World-Class Universities and Chinese Higher Education Reform”, in

remains the big miracle of the present, the indispensable *puzzle* piece from academic-economical interferences.

Globalization and building a European Union, the problem of hectic modern world, by means of new media and information technology, knowledge-based society, the dynamics of labor markets and increased capital flows, human resources and information, multiplying "factorial" higher education providers, increasing global competition between and /or the universities - these are key elements in what we would allow to call the *domino* effect from Bologna Process and the triumph of innovation values. With the ambition to become the most competitive and dynamic global scale, Europe has scaled mobility of academic cooperation in quality assurance, partnerships between European Research Area and the world's top universities. Given that was the cradle of the university, by making provisions of the Bologna process with full roll in Lisbon in the context of internationalization, the *sine qua non* element position on a global scale, inextricably bonded to amalgam top research and performance based company claimed the knowledge, Europe acclaimed *in-ad-per se* the domino effects in the structure of the academic world.

Whether you belong to a country rich or poor, whether we are a continent or another, we live in increasingly visible in the light of these interdependencies. So globalization is not just academic or treated like a academic challenge but treated mainly by consequences.

Why the challenge? Because the markets involved transnationalization of economic globalization, developing those brain-power industries and raises the question: how can developing countries participate in this new kind of power? Globalization will reverse academic hierarchy, will rapidly turn models of development and will require the person to those who knew the time to explore and to refold quickly and intelligently.

The genealogy of academic world, and identified representative theorized space in the three poles, diachronically show that the nineteenth century belonged

International Higher Education, no.35, 2005, pp. 22-23, http://www.bc.edu/bc_org/avp/soe/cihe/newsletter/News39/text013.htm [accessed 22.04.2011]; Bin Wu, Zongnian Yheng, „Expansion of Higher Education in China: challenges and implications”, Series-issue 36, China Policy Institute-The University of Nottingham, <http://www.nottingham.ac.uk/cpi/documents/briefings/briefing-36-china-higher-education-expansion.pdf> [accessed 22.04.2011]; Ka Ho Mok, Ying Chan, "International Benchmarking with the Best Universities: Policy and Practice in Mainland China and Taiwan", in *Higher Education Policy*, no.21, 2008, pp. 469-486, <http://www.palgrave-journals.com/hep/journal/v21/n4/full/hep200821a.html> [accessed 04/19/2011]. It also details significant and K.L. Ngok, W.Q. Guo, "The quest for 'world class universities' in China: critical reflections", in *The Journal of Comparative Asian Development*, no. 6 (a), 2007, pp. 21-44; Uwe Brandenburg, Jian Zhu, "Higher Education in China in the light of massification and demographic change ", Arbeitspapier no.97 Oktober 2007, p. 47, http://www.che.de/downloads/Higher_Education_in_China_AP97.pdf [accessed 04.21.2011]

to Europe, the twentieth-century U.S. and increasingly palpable, that the XXI century will be Asia's century.

4. INSTEAD OF CONCLUSIONS: TO A THEORY OF LONG WAVE OF HIGHER EDUCATION POLICY REFORMS

Of course, recurrent cycles of growth and decline, as we have seen, can not be dissociated from political, social and economic phenomena, though economists of the last century have detected a non-cyclic model based on specific quantitative indicators in the development of industrial capitalism, especially. Reforms in higher education, in their evolutionary course, were based on the fact that even long cycles are not mechanical, but a repetition of themes, motives, processes, relationships within social systems of economic points or counterpoint.

The literature reveals that changes in education, the “periods of incremental change punctuated by discontinuous or revolutionary change” (Tushman and O'Reilly, 1996:11) are nothing but “changes that can be characterized by long periods suddenly stagnant or gradualism” (Sterman and Wittenberg, 1999:323).

Emerging paradigms developed within the higher education phenomenon, there are episodically but always related with the social and especially economics. Downturns of the Kondratieff cycles discussed above, reveals that it becomes easy to determine the moments of occurrence of those changes or turning points in the evolution of higher education reforms of the past 200 years, especially for western capitalism. Reforms at this level occur together in the form of "clusters" during periods of decline and began rising. Reformist discourse begins with the decline begins as soon as is intensifying as the "internal crisis" Kondratieff deepens, new practices, ideas, reform strategies, from Progressivism and practices outperform conservative line-integrated smart or bodies constructivism, becoming emerging paradigms in the Reformation, that the rising phases of Kondratieff cycle that these paradigms to dominate higher education's reforms, such as implementing authorities which paradigms offer.

Corresponding cycles analyzed, all the reforms in education (vocational routes appearance, technical, professional, progressive pedagogy and transformation those common school, "scientification" curriculum, pedagogy behaviorist, massification of higher education through mobility, Fordist institutional organization, educational equality approaches from the perspective of neo-liberal market, decentralization and post-Fordism, constructivist pedagogy, globalization with internationalization) were invariably circumscribed perennial-essential values of Mann, Humboldt and Cardinal Newman, Dewey's Progressivism, statist era scientism and finally to neo-liberal constructivism of free market. Each phase has its own pedagogy, curriculum, organization and style of educational delivery models.

It is obvious that today we are in the Kondratieff cycle phases of a fifth, though crisis occurs ... turbulence. International debate since the early 80's have proposed three major lines of reform: decentralization, privatization/marketisation, internationalization. The current crisis can replace and reformulate the strategies started long time ago; if the internal logic of the last four Kondratieff cycles will be considered valid in this cycle will be expected about 10 years for a radical reform of higher education systems, although the main note can not exclude the globalization and perhaps existentialism will mark this cycle.

What should be noted, is that the power of epistemological, ontological, axiological paradigm of a reform in higher education today can not be precondition for imposing sine qua non the contemporary paradigm. There are two safe ways: the new paradigm's ability to respond to anomalies reforms accumulated previous cycle and the ability to compatibilize, integrate socio-economic paradigms emerging national, glocal or global (as was the case for regional cycles: progressive, statist, neo-liberal).

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ANNEXES

Table 1 *Cyclic phases identified by Kondratieff*

Long wave number	Long wave phase	Dates of the beginning	Dates of the end
One	A: upswing	"The end of the 1780s or beginning of the 1790s"	1810–1817
	B: downswing	1810–1817	1844–1851
Two	A: upswing	1844–1851	1870–1875
	B: downswing	1870–1875	1890–1896
Three	A: upswing	1890–1896	1914–1920
	B: downswing	1914–1920	

Source: Andrey V. Korotaev and Sergey V.Tsirel: 2010: 2

Table 2 *Cyclic phases identified after Kondratieff*

Long wave number	Long wave phase	Dates of the beginning	Dates of the end
Three	A: upswing	1890–1896	1914–1920
	B: downswing	From 1914 to 1928/29	1939–1950
Four	A: upswing	1939–1950	1968–1974
	B: downswing	1968–1974	1984–1991
Five	A: upswing	1984–1991	2008–2010?
	B: downswing	2008–2010?	?

Source: Andrey V. Korotaev and Sergey V.Tsirel: 2010: 2

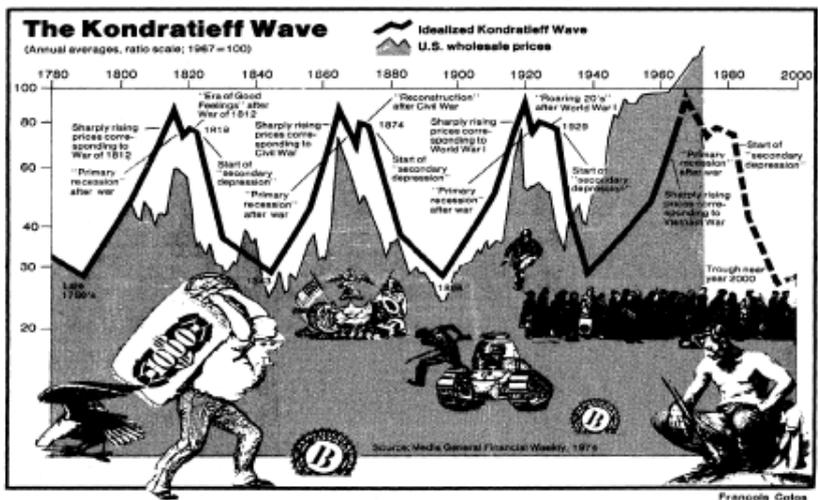


Figure 1 *Graphic illustration of the relationship between Kondratieff cycles phases and American market prices*

Source: Andrey V. Korotaev and Sergey V.Tsirel: 2010: 16

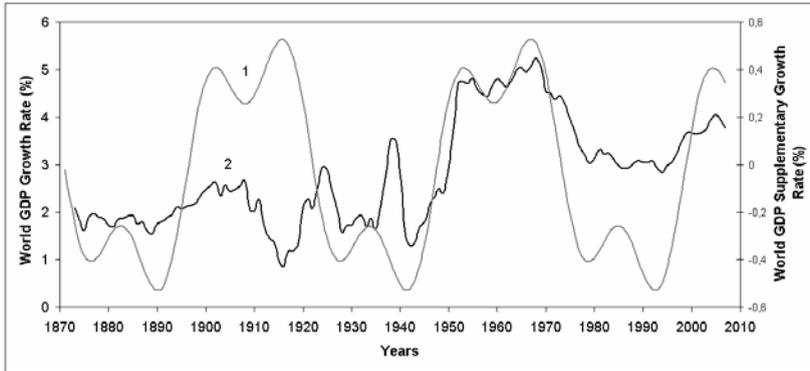


Figure 2 Comparison between Kondratieff cyclic waves (curve 1) and world GDP growth rate between 1870-2010

Source: Andrey V. Korotaev and Serghey V.Tsirel: 2010: 16

RESEARCH ARTICLE



ANNUITIZATION DECISIONS OF RETIREES: THE ROLE OF RISK AVERSION AND FINANCIAL ADVICE

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Abstract: *This study utilizes a nationally representative proprietary dataset to examine the annuitization decisions of retirees. The results indicate that consulting a financial advisor, retirement duration, and risk aversion are positive predictors of annuity ownership. The results also indicate that retirees with defined benefit plans are more likely to own annuities. Additionally, the results suggest that households with retirement duration of ten years or longer are more likely to start receiving their annuity distributions. This paper contributes to the research on annuitization decisions of retirees. The unique contributions of our study include establishing the relationship between risk aversion, financial advice, and annuity ownership decisions of households using a nationally representative dataset. Our empirical model controls for a number of socioeconomic, demographic and income related variables that have been drawn from prior literature.*

Keywords: *Annuities, Retirement Decisions, Risk Aversion, Financial Planning*

JEL Codes: *D10, D14, J14*

1. INTRODUCTION

More than seventy eight million Americans will turn 65 over the next 20 years (Paul, 2001). Historically, retirees have utilized their distributions from Social Security and defined benefit (DB) plans to pay for their post retirement consumption. However, as employer expenses associated with providing DB plans for employees have increased; most employers have replaced them with participant-directed, defined contribution (DC) plans such as 401(k) plans, wherein the responsibility for wealth accumulation, sustainability of the portfolio at retirement, and contribution rests on participants, rather than their employers

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(Bassett, Fleming, & Rodrigues, 1998). This shift from DB plans to DC plans, along with the availability of Individual Retirement Accounts (IRAs) and the lingering uncertainty about the Social Security system have ushered in an era of self-responsibility in saving and distributing for one's own retirement among the aging population. In addition, retirees now have to manage assets and distributions to meet an ever increasing life expectancy. Individual financial security at retirement has therefore become an important retirement policy issue for analysts, practitioners and scholars of retirement. Equity market participation through investments in mutual funds and other investable assets offered through retirement plans or otherwise is suggested by the extant literature (Bertaut & Haliassos, 1997; Haliassos & Bertaut, 1995; Deaton, 1991; Mankiw & Zeldes, 1991) as a way to utilize the higher returns offered by equity based investments to build one's retirement portfolio across time. However, one concern that has emerged as a result is the decline in the annuitized portion of one's retirement savings as employer provided retirement benefits have shifted from DB to DC types of plans.

Ameriks et al. (2011) study found that annuities play an important role in protecting individuals from the risk of longevity and financial ruin at retirement. Despite the importance of annuitization in individual portfolios, very little research has been done on the demand for this asset among retirees in spite of its rapid growth over the past two decades. According to Brockway (2011) the total investments in annuity products exceeded \$2 trillion dollars in 2010 based on the Insured Retirement Institute (IRI) data. One reason for the lack of a vast body of knowledge in this area can be because of the lack of available information on annuity participation. In this study, we use a new nationally representative dataset of retirees to examine the determinants of ownership and allocation in annuities and examine the role of various socioeconomic factors in association with annuity ownership. We also investigate whether financial advice, risk tolerance and participation in other retirement plans was correlated with annuity ownership of retirees.

This paper is divided into four sections: the first section provides a review of the currently available literature on annuity ownership, the next two sections explain the research methodology and empirical findings of our study, the fourth section includes a conclusion and discussion of our significant findings related to the demand for annuity ownership.

2. REVIEW OF LITERATURE

2.1 What are Annuities?

Annuities are financial products underwritten by actuaries and combine the features of both insurance and investment products (Brown & Poterba, 2006). Annuitization can also be defined as the replacement of a lump sum amount in one's portfolio with a stream of expected future payments. Annuity investments comprise of two distinct phases: the accumulation phase and the distribution phase. During accumulation phase, the premium payments and investment growth takes place. During distribution phase, the annuity holders receive the stream of payments from their annuity investments (Brown et al., 2001). According to Reichenstein (2003), annuities offer protection against longevity risk, the risk of running out of money at retirement. The disadvantage to this is that the value of life annuities may be reduced to zero once the annuity holder dies. Also, since annuity ownership ties up a portion of the retirees' portfolio over a long period of time, Reichenstein finds that the vast majority of individuals prefer the flexibility of investing their assets elsewhere to the option of annuitizing their assets. Assets invested in annuities grow at the pre-tax rate or return (in case of variable annuities), which gives the investors a higher return than would be possible in a taxable investment. However, if the investors decide to withdraw their investments before they reach 59 1/2 years of age, the distributions are subject to a 10 percent withdrawal penalty in addition to the payment of income taxes that become due on the difference between the distribution amount and paid premium (Reichenstein, 2000).

2.2 Demand for Annuities

According to Yaari (1965), in a perfect world with efficient markets and no bequest motives, retirees should annuitize all of their assets and consume their entire wealth before death. However, as DeNardi, French, and Jones (2010) show in their study that wealth of retirees actually decrease either at slower than or faster than optimal rates. The authors find that many retirees die with significant amounts of housing equity and liquid assets and only a very small portion of retirees annuitize any portion of their assets. The current demand for annuities among retirees is far lower than what is predicted by the economic models and is termed as the "annuity puzzle." Lemoine, Cordell and Gustafson (2010) find in their study that allocating a portion of retirees' portfolio into annuities significantly increases the sustainability of their retirement wealth. Scott (2008) finds that although an

allocation of 10-15 percent of a retiree's portfolio in annuities is beneficial, most retirees are however unwilling to allocate their assets into annuities.

Dynan, Skinner and Zeldes (2002) find that precautionary motives that retirees have in saving for their expected long term care or healthcare related needs, reduces their preference for the annuitization of their retirement portfolios. Ameriks et al. (2011) find that there is a growing demand for annuities that also offer long term care provisions. Mitchell et al. (1999) study shows that as risk aversion increases, individuals are more willing to pay for annuities. According to Milevsky (2005), although it would be beneficial to contribute to annuities if offered through retirement plans, the potentially long gap of approximately 30 years between payments and distributions (since distributions are tax advantaged only if taken after 59 1/2 years of age) pose a barrier to annuity ownership for individuals. Brown et al. (2008) finds that 'framing' can play an important role in increasing the participation of individuals in annuity markets. The authors find in their study that when annuities were framed as a 'consumption' plan, where participants were told that annuities would provide a monthly income for life, approximately 72 percent of the participants chose the annuity options. Conversely, when annuities were framed as an 'investment' plan, only 21% preferred to invest in annuities.

Mitchell et al. (1999) also finds that as women are more risk averse than men and live longer on average, they are more likely to own annuities when compared with men. Orszag (2000) finds that annuities are unpopular among investors largely because of information asymmetry, where investors either find these products to be incredibly complex and confusing or they do not find annuities to be suitable for them. Brown and Poterba (2006) find in their study that annuity ownership is positively associated with age, income, net worth and education. Pashchenko (2010) finds that existence of bequest motives, healthcare related expenses, greater allocation in illiquid assets (such as home equity), and costs and restrictions associated with annuities are some of the reasons why investors allocate a lower proportion of their wealth in annuities than what theoretical models would suggest.

We can therefore summarize from the review of literature that individuals can increase the sustainability of their retirement portfolios by allocating a portion of their assets into annuities. Annuities can protect individuals against the longevity risk or the risk of financial ruin at retirement. Risk averse individuals and women are more likely to own annuities. Age, income, net worth and educational attainment are positively associated with annuity ownership. Greater allocation in illiquid assets, bequest motives and health related uncertainties are negatively

associated with ownership of annuities. Many investors do not own annuities because they are confused by the complex terms and features of annuities.

We extend the body of knowledge by further examining the determinants of annuity ownership among retirees. We fill the gap in existing literature by examining the determinants of individuals who converted their retirement plans to annuities at retirement. Based on extant literature, we include in our model the various socioeconomic, demographic and risk related factors that may influence retirees' decision to own or allocate a portion of their retirement portfolio into annuities. We further examine the role of financial advisors, risk tolerance and gender on annuity ownership decisions of individuals. Additionally, we study the factors that are associated with retirees' decision to: a) receive distributions from their annuities at retirement; and b) keep their annuities untapped.

3. THEORETICAL FRAMEWORK

Findings from previous research suggest that many individuals do not purchase annuities either because they find these products to be incredibly complex or do not have sufficient understanding of these products, and because of the illiquid nature of these investments they perceive annuities to be unsuitable for them (Orszag, 2000). We propose that those individuals who access the services of a financial advisor are likely to overcome this information asymmetry and will be more likely to have a portion of their portfolios annuitized if the financial advisor finds annuities to be suitable for the individual's needs. Previous studies also find that uncertainties regarding health care costs, life expectancy and risk aversion (Poterba & Brown, 2006; Paschenko, 2010) will affect retirees' decision to annuitize a portion of their investment portfolio. It is therefore possible that individuals who have adequate health insurance coverage and sufficient investment assets saved for their retirement will be more willing to annuitize a portion of their retirement portfolio. Similarly, women who have a greater life expectancy than men and individuals who are more risk averse will also choose to annuitize their portfolio to mitigate their longevity and investment risks. Based on this framework, the hypotheses for this research are as follows:

Hypothesis 1: Individuals who consult a financial advisor are more likely to own annuities and convert their retirement plans to annuities at retirement after controlling for various socioeconomic and demographic factors.

Hypothesis 2: Risk averse individuals are more likely to own annuities and convert their retirement plans to annuities at retirement after controlling for various socioeconomic and demographic factors.

In addition to testing the above hypotheses, we also examine the factors that are associated with individuals' decision to receive income from their annuities or to leave their annuities untapped.

4. DATA AND METHODOLOGY

4.1 Data

This study utilizes a proprietary dataset managed jointly by Life Insurance Marketing and Research Association (LIMRA), the Society of Actuaries (SOA), and International Foundation for Retirement Education (InFRE) for this research. The 2008 wave is a nationally representative data comprising of 1,524 respondents. The dataset contains information related to a number of socioeconomic, demographic, and retirement-related factors. Participation in this survey was restricted to individuals who were primary respondents, retired for at least one year, were between ages 55 and 75, and had \$100,000 or more in investable financial assets (Bryck, Meredith, & Siegel, 2010). The unique nature of this dataset makes it an extremely informative source for the purpose of our research, as its respondents represent a segment of the affluent retirement market that is of interest to the annuity marketers, financial practitioners and is frequently targeted by the financial services industry.

The descriptive statistics (Table 3) show that 40 percent of the respondents owned annuities. Thirty-eight percent of men owned annuities and 42 percent of women owned annuities. The proportion of annuity holders by educational attainment shows that groups with higher educational attainment (college or higher) had greater annuity ownership. Respondents with investable assets worth \$500,000 or more also had greater percentage of annuity ownership. The data also shows that 46 percent of respondents with a financial advisor owned annuities.

4.2 Variables

The first dependent variable in our study was annuity ownership. The variable was created from a question in the survey which asked the participants whether they had an individually purchased annuity (outside of tax advantaged accounts) from which they currently withdrew or had not yet withdrawn any money from for their retirement income. The variable was coded as '1' if the respondents reported ownership of any annuity and as '0' if otherwise. The second dependent variable is also binary. The respondents were asked whether they converted all or part of their retirement plan to annuities upon retirement. If the respondents answered yes, the variable was coded as '1' and as '0' if the

respondent did not convert their portfolios to annuities upon retirement. Similarly, we construct a third dependent variable based on annuity ownership question to examine whether the respondents received distributions from the annuities they currently owned and code as '1' if the respondent received distributions from their annuity and as '0' if otherwise. We construct a fourth binary variable coded as '1' if the respondents left their annuities untapped and '0' if otherwise.

The independent variables of interest for this study are having a financial advisor, coded as '1' if the respondents had a financial advisor and as '0' if otherwise, women (1=female; 0=men) and risk tolerance. The respondents were also asked the following question on risk tolerance:

"How much risk are you willing to accept when it comes to your assets and investments?"

The respondents answered on a 5 point Likert type of scale (5: Reasonably high risk; 1: Absolute minimum risk). Other variables that have been found to be associated with annuity or investment asset ownership in prior literature are included as control variables in our model. These comprise of age (1: ≥ 65 years; 0: < 65 years), marital status, college graduate or higher (1: college or up; 0: otherwise), work status, income (1: $> \$50,000$; 0: $\leq \$50,000$), investable assets (1: $\geq \$250,000$; 0: $< \$250,000$), participation in IRA, DB plans, DC plans, participation in both DB and DC plans, homeownership, and retirement duration. We also control for respondents' preparation to pay for their expected health care expenses, where respondents who expect to pay for their health care expenses through Medicare, and privately purchased or employer provided insurance are compared against the reference group of respondents who have not planned for their healthcare expenses or do not have insurance coverage.

5. RESULTS

We see from the t-tests in Table 4 that women had a significantly higher percentage of annuity ownership compared to men. Respondents who were 65 or older had a higher percentage of annuity ownership than those who were less than 65 years old. Similarly, respondents who had completed college or had investable assets worth \$250,000 or more and those who consulted with financial advisors had a significant higher percentage of annuity ownership than their reference groups. Figure 3 shows that most of the annuity holders held about 1 to 24 percent of their investable assets as annuities. The majority (57 percent) of the annuity holders who consulted a financial planner as their financial advisor held between 1 and 24 percent of their assets as annuities. Approximately 40 percent of those who had consulted a life insurance agent had allocated higher than 24 percent of their

investment asset portfolio allocated in annuities. Figure 4 shows annuity ownership by type of financial advisor. The figure shows that those annuity holders who had consulted with a life insurance agent had the highest percentage of annuity ownership (67 percent). Furthermore, 15 percent of the annuity holders consulted with a financial planner.

5.1 Likelihood of Annuity Ownership

The annuity ownership variable is binary; hence we perform a logit analysis to examine the likelihood of annuity ownership among the respondents. The results shown in Table 5 reveal that the likelihood of investment in an annuity is positively associated with being female, having investable assets of greater than \$250,000 and having a defined benefit plan (DB plan). We also find that respondents who expected to pay for their future medical expenses through Medicare coverage were more likely to own annuities. Interestingly, having a financial advisor has the greatest positive effect on annuity ownership of respondents. Our study shows that having a financial advisor increased the likelihood of owning an annuity by 77 percent. We also find that when compared to those respondents who had retired for 10 years or more, the recent retirees were less likely to own annuities. Risk tolerance was negatively associated with ownership of annuities.

5.2 Determinants of Converting to Annuities at Retirement

The conversion to annuities variable is binary; hence we perform a logit analysis to examine the likelihood of annuity conversion at retirement among the respondents. Respondents were asked if they were interested in converting “*a portion of their retirement assets to a stream of income*” if their current fixed income was not covering their expenses. The results in Table 6 show that having a financial advisor and having DB plans are positively associated with the interest of converting a portion of one’s retirement portfolio to an annuity-type income stream. We also find that respondents who planned to manage the risk of healthcare expenses through a private health insurance plan, either purchased through self or spouse’s employer or individual purchased, were more likely to convert at least a portion of their retirement plans to annuities. The results also show that the likelihood of converting to annuities at retirement reduces with increase in one’s risk tolerance.

5.3 Determinants of Leaving Annuities Untapped

Table 7 shows the determinants of those respondents who had not yet received distributions from their annuities. Our results show that consulting with a financial advisor, having an IRA (Individual Retirement Account), having

Medicare coverage and having investment assets worth more than \$250,000 increased the likelihood of leaving annuities untapped. Respondents with a DB plan were 91 percent more likely than others to leave their annuities untapped.

5.4 Determinants of Receiving Income from the Annuities

In Table 8 we examine the likelihood of currently receiving income from annuities. The results show that respondents who are 65 or older and those who had a financial advisor were more likely to receive income from their annuities. Conversely, when compared with respondents who had retired for more than 10 years, the more recent retirees (retired for 1 to 9) years were less likely to receive income from their annuity investments. This observation may be expected due to the required minimum distributions (RMDs) after the age of 70 ½ for those retirees who have not annuitized the value of their deferred annuity.

6. CONCLUSIONS

Consistent with hypothesis 1, the results of our current study reveal that individuals who consult a financial advisor are more likely to own annuities and are more likely to convert a portion of their retirement savings into annuities. Gardner & Wadsworth (2004) found in their study that investors do not like to annuitize their investments when they have the option of investing in more liquid and flexible alternatives. We observe that a higher percentage of annuity ownership was among respondents who sought the services of a financial advisor (45%) than among respondents who did not seek such services (32%). It is possible that the financial advisors either counseled the respondents into adding some annuities into their portfolios or perhaps convinced them to buy the annuity products. Since nearly 67% of professionals that the annuity owners consulted were insurance agents who usually work on a commission based compensation model and commonly are captive to their company's products, it is likely that a number of the clients were advised by their insurance agents to purchase these annuity products either as a sale or as a way to diversify their portfolios since annuities are insurance products and sold by insurance agents. Also, those who have a high net worth ($\geq \$250,000$) are more likely to own annuities because having annuities within one's portfolio can reduce the overall risk within the portfolio and increase its sustainability (Lemoine, Cordell, & Gustafson, 2010). Those respondents who participated in a DB plan showed a preference for both annuity ownership and for conversion of a part of their retirement portfolio to annuities at retirement. These retirees may have overcome the information asymmetry since they may be more familiar with the concept and benefits of annuity payments through their

experience with the DB plan. Expectation of being able to pay for future medical expenses through Medicare was positively associated with annuity ownership when compared with the control group of those who have not planned for their future health uncertainties. Similarly, those individuals who reported utilizing their private health insurance plans to cover their risk of health care expenses were more likely to convert some of their retirement portfolio to annuities. Paschenko (2010) study found that future health related uncertainties prevent individuals from owning annuities. Having coverage through Medicare or private health insurance mitigates this risk and as a result increased the likelihood of annuity ownership and conversion of their savings to annuities at retirement.

Hypothesis 2 proposed that women and risk aversion will be positively associated with annuity ownership and for conversion of one's portfolio to annuities at retirement. We find that women are more likely to own annuities. Agnew et al. (2008) study finds that longevity risk is reduced by having annuities within one's portfolio. Women have a higher life expectancy than men and since annuities provide an insurance against outliving one's assets, women are more likely than men to own annuities. Risk tolerance is negatively associated with both annuity ownership and with conversion of savings to annuities at retirement. The relation between risk aversion and preference for annuity ownership are consistent with previous findings in this area (Brown, Mitchell & Poterba, 2001).

Further, we see that the respondents who are 65 or older are more likely to receive distribution from their annuities. Conversely, the respondents who have been retired for 9 years or less when compared with those who were retired for 10 years or more, were approximately 27% less likely to receive withdrawals from their annuities. We also observe in Figure 5 that the proportion of annuity holders receiving distributions from their annuities increases with age. This may be explained by using deferred annuities as a protection against longevity risk and delay receiving income from their holdings until they reach an advanced life stage.

The findings of our study have implications for retirement policy experts and financial planning practitioners. As the uncertainty regarding social security reforms continue and with the shift from DB plans to DC plans in majority of employer offered retirement plans, it is anticipated that the demand for annuity products will continue to grow. Increasing longevity and a growing elderly population may drive the demand for low cost annuity products in the near future as retirees confront the issue of making their investment portfolios last through their post retirement years. Some of the previous studies have found that individuals in higher quintiles of wealth who have a bequest motive are less likely to invest in annuities because of the illiquid nature of these assets (De Nardi,

French, and Jones, 2010; Paschenko, 2010). However, Orszag (2000) found that bequest motive is not a significant factor in annuity decisions of middle and lower income households. One limitation of this study was that we were unable to control for the effect of bequest motive in our model as a result of the limitation of our dataset. In the future, the effect of bequest motive should be examined in association with the key findings of our study.

The use of annuities, when cost efficient, are an optimal way to ensure the longevity of a portfolio and decrease the chance of financial ruin. The annuities have a major advantage of transferring the risk of the underlying securities to the insurance company. The insurance company thereby reduces its risk by increasing the risk pool of annuitants, and therefore can absorb the risk of a long payout. These products can be a major factor in the sustainability of retiree assets in the future, so research in the efficiency and use of these products will be vital as the number of retirees increase and more households are forced to live on managed assets for a longer period of time.

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Table 3 Descriptive Statistics

Variables	Total Sample	Have Annuity	Have Annuity	No Annuity	No Annuity
	Freq.	Freq.	%	Freq.	%
N	1523	603	40%	920	60%
Male	901	344	38%	557	62%
Female	623	259	42%	363	58%
Married	1088	429	39%	658	60%
Age					
55 to 59	251	98	39%	153	61%
60 to 64	445	165	37%	280	63%
65 to 69	550	231	42%	318	58%
70 to 75	278	109	39%	169	61%
Education					
< =High School	241	88	37%	153	63%
Some College	482	181	38%	300	62%
College	428	169	39%	259	61%
Graduate	373	165	44%	208	56%
Income					
<\$34.9	407	173	43%	233	57%
\$35 to \$49.9	395	138	35%	257	65%
\$50 to \$74.9	335	137	41%	198	59%
>=\$75,000	512	208	41%	304	59%
Investable Assets					
\$100 to \$249	500	172	34%	328	66%
\$250 to \$499	452	179	40%	273	60%
\$500 to \$999	351	151	43%	200	57%
>=\$1M	221	101	46%	120	54%
Risk Tolerance					
Extremely Conservative	231	91	39%	140	61%
Somewhat Conservative	583	237	41%	346	59%
Indifferent	524	214	41%	310	59%
Somewhat Aggressive	169	53	31%	116	69%
Very Aggressive	17	8	47%	9	53%
Have Financial Advisor	842	385	46%	457	54%

Table 4 T-tests

Variables	Have Annuity		T-test
	Group 1	Group 2	Sig
Female vs. Male	42.0%	38.0%	*
Married vs. Non-married	40.0%	40.0%	
Age: >=65 vs. <65	42%	38%	**
College: Completed vs. Not completed	42%	37%	**
Income: >=\$50,000 vs. <\$50,000	40%	40%	
IA: >=\$250,000 vs. <\$250,000	44%	37%	***
Risk: High vs. Low	40%	40%	
Have Fin. Advisor vs. No Fin. Advisor	45%	32%	***

Table 5 *Likelihood of Annuity Ownership*

Variables	Coef.	Std. Err.	Odds	Sig
Have Financial Advisor	0.571	0.110	1.770	***
Age >=65 (Ref: Age<65)	0.081	0.118	1.085	
Female	0.151	0.084	1.163	*
Married	0.013	0.130	1.013	
College and up	0.117	0.113	1.124	
Work	0.093	0.145	1.097	
Income>\$50,000 (Ref: <=\$50,000)	-0.050	0.120	0.951	
IA >=\$250,000 (Ref:<\$250000)	0.242	0.120	1.274	**
Have IRA	0.125	0.120	1.133	
DB plan	0.251	0.119	1.286	**
DC plan	-0.087	0.112	0.917	
DB plan and DC plan	-0.398	0.238	0.671	*
Homeowner	0.080	0.277	1.084	
Planning for Health costs (Ref: No plans)				
Utilize Medicare	0.286	0.146	1.332	*
Utilize Health insurance	0.002	0.155	1.002	
Retirement (Ref:>=10 years)				
Retire 1 to 4	-0.348	0.148	0.706	**
Retire 5 to 9	-0.134	0.135	0.875	
Risk tolerance	-0.106	0.06	0.898	*
Intercept	-1.262	0.329		***
N=1523				

Table 6 *Likelihood of Converting Retirement Plans to Annuities*

Variables	Coef.	Std. Err.	Odds	Sig
Have Financial Advisor	0.693	0.147	2.000	***
Age >=65 (Ref: Age<65)	0.289	0.194	1.335	
Female	0.021	0.147	1.021	
Married	0.171	0.173	1.186	
College and up	-0.028	0.146	0.973	
Work	-0.265	0.197	0.767	
Income>\$50,000 (Ref: <=\$50,000)	-0.058	0.157	0.943	
IA >=\$250,000 (Ref:<\$250000)	-0.238	0.155	0.788	
Have IRA	-0.037	0.153	0.964	
DB plan	0.361	0.202	1.434	*
DC plan	-0.160	0.286	0.852	
DB plan and DC plan	0.198	0.327	1.219	
Homeowner	-0.470	0.322	0.625	
Planning for Health costs (Ref: No plans)				
Utilize Medicare	0.047	0.195	1.048	
Utilize Health insurance	0.432	0.202	1.540	**
Retirement (Ref:>=10 years)				
Retire 1 to 4	0.025	0.194	1.025	
Retire 5 to 9	0.019	0.176	1.019	

Variables	Coef.	Std. Err.	Odds	Sig
Risk tolerance	-0.171	0.079	0.843	**
Intercept	-1.625	0.447		***
N=1523				

Table 7 *Likelihood of Leaving Annuities Untapped*

Variables	Coeff	St Error	Odds	Sig
Have Financial Advisor	0.457	0.153	1.578	***
Age >=65 (Ref: Age<65)	-0.331	0.160	0.717	**
Female	0.200	0.125	1.222	
Married	0.058	0.145	1.059	
College and up	-0.035	0.125	0.966	
Work	0.221	0.155	1.247	
Income>\$50,000 (Ref: <=\$50,000)	-0.054	0.132	0.947	
IA >=\$250,000 (Ref:<\$250000)	0.249	0.131	1.283	*
Have IRA	0.432	0.138	1.540	***
DB plan	0.648	0.174	1.912	***
DC plan	0.330	0.229	1.391	
DB and DC plan	-0.433	0.267	0.649	
Homeowner	0.211	0.321	1.235	
Planning for Health costs (Ref: No plans)				
Utilize Medicare	0.351	0.162	1.421	**
Utilize Health insurance	-0.091	0.168	0.912	
Retirement (Ref:>=10 years)				
Retire 1 to 4	-0.050	0.164	0.951	
Retire 5 to 9	0.042	0.151	1.043	
Risk tolerance	-0.054	0.068	0.949	
Intercept	-2.359	0.384		***
N=603				

Table 8 *Likelihood of Receiving Annuity Payments*

Variables	Coeff	St. error	Odds	Sig
Have Financial Advisor	0.542	0.143	1.720	***
Age >=65 (Ref: Age<65)	0.559	0.149	1.748	***
Married	-0.148	0.161	0.862	
Female	0.106	0.144	1.112	
College n up	-0.012	0.142	0.988	
Work	-0.121	0.195	0.886	
Income>\$50,000 (Ref: <=\$50,000)	0.028	0.151	1.028	
IA >=\$250,000 (Ref:<\$250000)	0.202	0.152	1.224	
Have IRA	-0.238	0.148	0.788	
DB plan	-0.084	0.177	0.919	
DC plan	-0.182	0.245	0.833	
DB plan and DC plan	-0.161	0.298	0.851	
Homeowner	-0.017	0.336	0.983	
Planning for Health costs (Ref: No plans)				

Variables	Coeff	St. error	Odds	Sig
Utilize Medicare	0.073	0.142	1.074	
Utilize Health insurance	-0.069	0.201	0.933	
Retirement (Ref: >=10 years)				
Retire 1 to 4	-0.314	0.184	0.731	*
Retire 5 to 9	-0.323	0.164	0.724	**
Risk tolerance	0.138	0.189	1.148	
Intercept	-1.541	0.399		***
N=603				

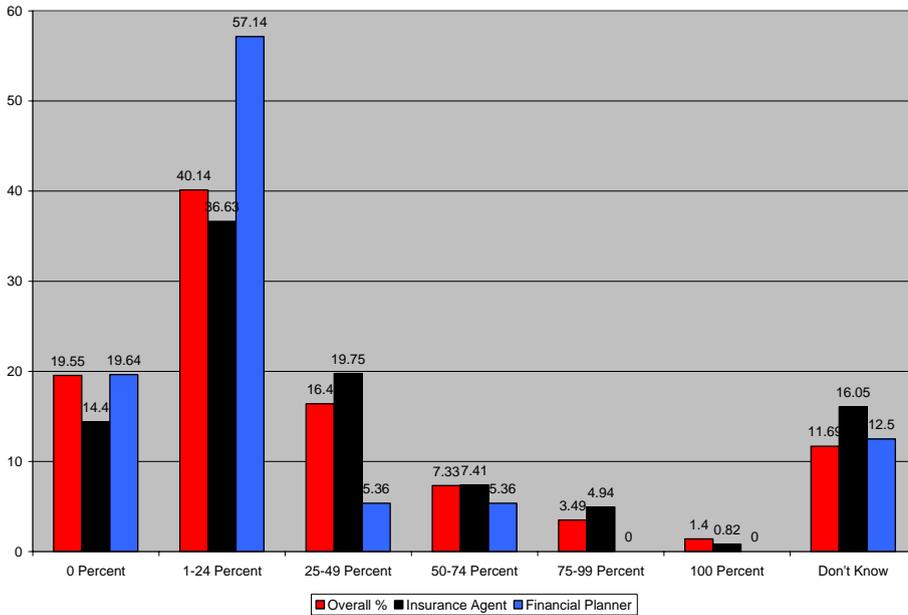


Figure 3 Percentage allocation in deferred annuities

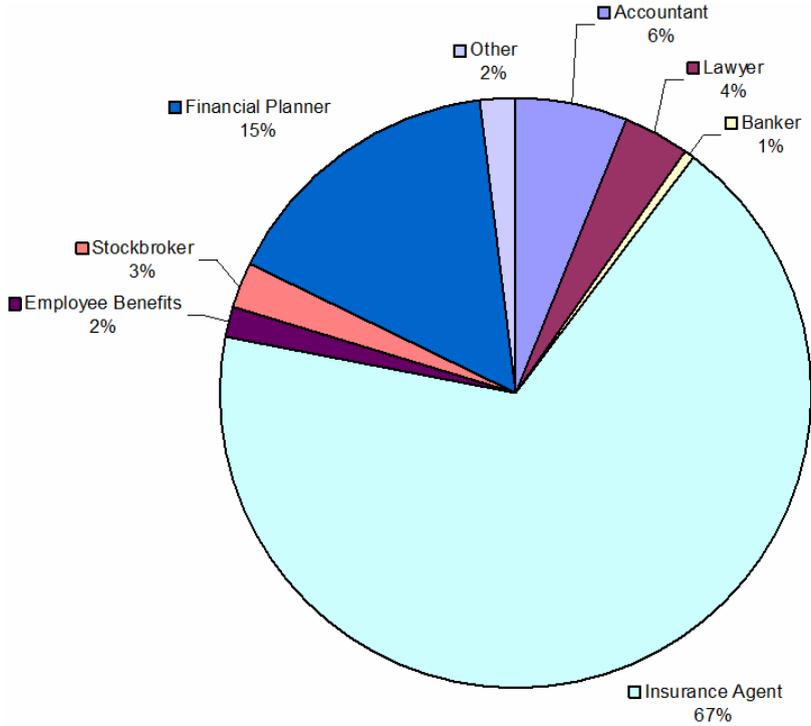


Figure 4 Annuity ownership by Type of Financial Advisor

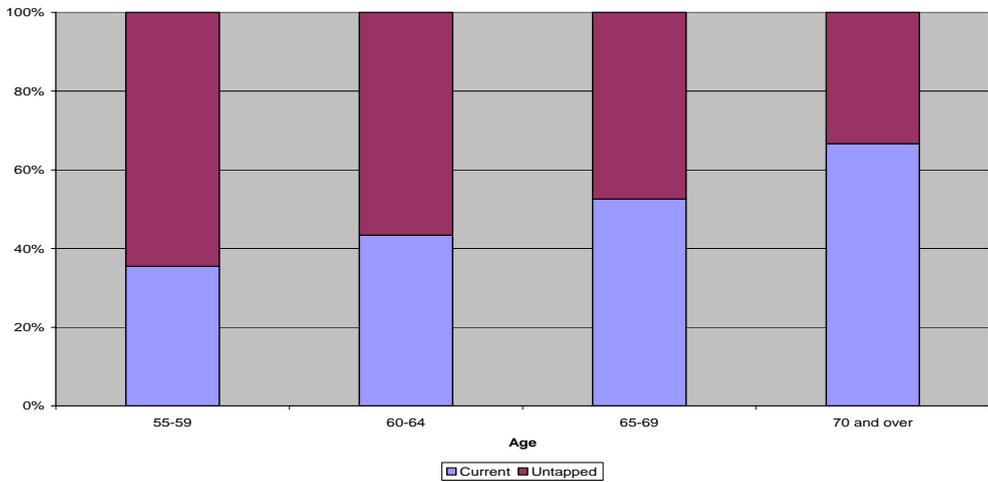


Figure 5 Current vs. Untapped Annuity Holdings by Age



CORPORATE GOVERNANCE “WEB DISCLOSURE” IN ROMANIAN BANKING SYSTEM

Cristina Alexandrina ȘTEFĂNESCU*

Abstract: *Basing on the increasing importance of transparency in corporate governance mechanism, as a result of the latest corporate scandals and financial failures, which lead to the global crisis that spread all over the world the following research question arose: “Is there enough transparency in Romanian banking system? ... If not – what should be done?” Starting from this question, our study was aimed to provide a comprehensive image upon corporate governance disclosure provided by Romanian banking system through their websites, by performing both quantitative and qualitative analysis regarding transparency related to corporation, financial situation, ownership and governance, following OECD’s recommendations in this respect.*

Irrespective of prior studies, which were focused on similar goals, our study is related to the banking system, which was little explored on this topic before, thus giving us the chance to enrich the research literature with this empirical study, whose disclosure scorecard developed ensures it as well with originality.

Keywords: *corporate governance, disclosure, website, banking system, Romania*

JEL Classification: *M10, G30*

1. INTRODUCTION

Transparency is an essential element of a well-functioning system of corporate governance, which might be ensured through proper disclosures. Most of the latest corporate scandals and financial failures, which lead to the global crisis that spread all over the world were caused by weaknesses in areas of internal control system and audit function. On this background, inappropriate disclosures seemed to negatively affect the overall situation, too. Consequently, disclosure became a critical issue for a well-functioning of an efficient capital market and an important feature of a good corporate governance mechanism.

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Basing on these premises we decided to conduct a study focused on our national banking system, aiming to provide not just a simple “Yes” or “No” answer, but also augmented comments and useful recommendations to our research question: *“Is there enough transparency in Romanian banking system? ... If not – what should be done?”*

Thus, through this study we aimed to provide general information about transparency and to measure the information disclosed to public by all credit institutions that are running their activities in our country. “Disclosure has long been recognized as the dominant philosophy of most modern systems. It is a sine qua non of corporate accountability” (Farrar and Hannigan, 1998). Moreover, according to the agency theory of corporate governance, disclosure is likely to reduce information asymmetry, as better information flows from the company to the shareholders. As shareholders are just a part of the wide range of existing stakeholders, disclosure is actually a key issue for all information users, no matter what interest in an entity they might have. Consequently, the analysis related to transparency in our national banking system might be of interest to wide range of interested parties coming from various area, namely academia, media, regulators, investors and the general public.

Basing on this background, our paper proceeds as it follows. Firstly, we briefly reviewed prior literature concerning corporate governance “web disclosure”. We continued our study by presenting the research design, beginning by explaining the sample selection and data collection, followed by the research methodology used based on both quantitative and qualitative analysis. After presenting our research question, we detailed the development of the disclosure scorecard used for searching an answer on these. Finally, we provided our research findings and discussed their implications.

2. CORPORATE GOVERNANCE “WEB DISCLOSURE” – LITERATURE REVIEW

Corporate transparency depends on the channel by which the information is disseminated, facilitating or hindering the flow of information reported by companies and impacting on the availability of real information for economic agents (Bushman et al., 2004). Thus, an extensive dissemination of corporate information through different communication infrastructures can increase the economic effects of this information. Consequently, it is appreciated that a combination of different media – financial press, radio, television and internet – allows a more extensive, quick and cheap diffusion of the information that interested economic agents will receive (Bushman and Smith, 2001).

If we briefly review how the ways of disclosing information about corporate governance have changed along time, we can definitely note an evolution in this respect. Thus, from the preferred mean of companies to disclose information about corporate governance using the annual report (Collet and Hrasky, 2005) a more extensive form, with a reporting model specifically designed for corporate governance disclosure (Labelle, 2002) was developed in order to increased the relevance of this information and the necessity of informing investors more often, mainly as a consequence of the financial scandals occurring in the latest decades.

On this background, an increasing attention has been devoted recently to the study of the means by which companies reveal their information on corporate governance, focusing especially on the internet, known in the international literature as “corporate governance web disclosure” or “corporate governance on-line reporting”.

The internet has been more often appreciated as providing many possibilities both for companies and regulatory authorities to improve corporate governance disclosure and, in this way, the transparency of the stock market (Gandia, 2008). Among the advantages of using the web-site as a channel for disclosing information, prior literature (Gandia, 2008) identified benefits in cost-cutting, distribution, frequency and speed, as follows:

- it facilitates communication between firms and investors (in particular shareholders);
- it reduces distribution costs (printing and staffing costs) and improves the timeliness of corporate information;
- it fosters shareholder involvement in the corporate life of the firm;
- it democratizes access to corporate information;
- it adds credibility to good governance practices.

Among the studies that have been developed in a *national context*, we highlight those produced for the United Kingdom (Craven and Marston, 1999; Omneya and Street, 2007; Omneya, et.al., 2007), Sweden (Hedlin, 1999), the United States (Ettredge et al., 2002), New Zealand (Oyelere et al., 2003), China (Xiao et al., 2004), Germany (Lattemann, 2005), Malaysia (Hamid, 2005; Yap, et al., 2011), Spain (Gandia, 2008; Garcia Sanchez, et al., 2011), Saudi Arabian (Hussainey and Al-Nodel, 2008), Canada (Maingot and Zeghal, 2008; Cormier, et.al., 2009); Romania (Cuc and Kanja, 2009), Australia (Conway, et. al., 2010); Egypt (Ezat and El-Masry, 2008; Aly, et.al. 2010).

Another important group of works have carried out *comparative analyses between different countries*, of which we highlight, among others, the studies of

Bonson and Escobar (2002), Debreceny et.al. (2002), Gandia (2003), Geerings et.al. (2003), Debreceny and Rahman (2005), Bollen et.al. (2006).

There are studies (Jiang, et al., 2009; Hussainey and Al-Nodel, 2008) that have carried out *comparative analyses between different sectors of activity*, their results indicated that there are significant differences in how the content is presented. Thus, manufacturing and technology sectors display more content and moreover, these two sectors also appeared to use more advanced design elements than finance, health care and services, with several significantly different features (Jiang, et al., 2009). Another study conducted in Saudi Arabian (Hussainey and Al-Nodel, 2008) reveal that the banking sector has the highest level, while companies in the industry and service sectors provide very little information about corporate governance on their websites.

Other researchers conducted studies aiming to establish various *relationships between corporate governance features* (Yap, et al., 2011; Garcia Sanchez, et.al, 2011; Omneya, et.al., 2007) or firm characteristics (Aly, et.al., 2010; Ettredge, et.al., 2002; Oyelere, et.al., 2003; Xiao, et.al., 2004) *and internet visibility*.

Thus, web corporate governance disclosure proved to be significant positively related to independent non-executive directors, directors with accounting and business qualification, board size and shareholders numbers, audit committee with financial and accounting qualification (Yap, et al., 2011). Also, the level of strategic information disclosure is the highest were COB is the same person as CEO and moreover, in which there is a lower frequency of meetings (Garcia Sanchez, et.al, 2011). Other evidences reveal that the CIR (Corporate Internet Reporting) comprehensiveness of London listed companies is associated with director holding, director independence, and CEO duality (Omneya, et.al., 2007).

As regards firm characteristics, both financial and non-financial, some of them proved to explain the variation in the degree of internet reporting. Thus, while profitability, foreign listing and industrial type (communications and financial services) are the determinants of the amount and presentation formatting of information disclosed on Egyptian companies' web sites, other firm characteristics, such as firm size, leverage, liquidity and auditor size, do not explain corporate internet reporting (Aly, et.al., 2010). In case of UK and USA listed firms, only the size of a company proved to be statistically significant positive related to the use and extent of disclosure on the Internet (Craven and Marston, 1999; Ettredge, et.al., 2002). In case of New Zealand, the determinants of voluntary adoption of internet reporting were firm size, liquidity, industrial sector and spread of shareholding, while other firm characteristics, such as leverage, profitability and

internationalization do not explain the choice of using the Internet as a medium for disclosure (Oyelere, et.al., 2003).

There are studies (Cuc and Kanja, 2009; Hamid, 2005) focused on comparing the *type of information* that are the most, respectively the less disclosed. Thus, in case of Romania (Cuc and Kanja, 2009), information relating to financial statements and employees issues are found more frequently disclosed than those which were regarded as sensitive such board and executive information, whereas Malaysian companies encountered highest disclosures for the background of the companies (Hamid, 2005).

One of the most important feature of information – *timeliness* – was also a prior goal of research on “web reporting” topic (Omneya and Street, 2007; Ezat and El-Masry, 2008). Such studies provide evidence of significant associations between timely corporate internet reporting and corporate governance features such as: board experience and board independence (Omneya and Street, 2007), ownership structure, board composition and board size (Ezat and El-Masry, 2008), respectively firms’ characteristics such as firm size, type of industry and liquidity (Ezat and El-Masry, 2008). Thus, companies typically in the service sector, that are large and have a high rate of liquidity, a high proportion of independent directors, a large number of board directors and a high free float disclose more timely information on their web sites.

3. RESEARCH DESIGN AND RESULTS

3.1 Sample selection and data collection

The aim of our study is to provide a comprehensive image upon corporate governance disclosure provided by Romanian banking system through their websites. For achieving our goal we selected a sample of 30 credit institution, according to the latest information provided by the National Bank of Romania. Our sample does not include branches of foreign banking institutions that are running their activities in our country, for reasons of comparability between data, which we were looking for. We included in our study both listed and unlisted credit information, even if corporate governance principles are issued with the purpose of recommendations only for listed banks, unlisted banks having anyway the possibility of voluntarily applied these, too. Our decision is motivated by the main goal of this study – to provide a comprehensive overview on this topic for the entire banking system.

Data collection process was based on information made publicly available by banks on their official websites, at the moment of our analysis (July 2011),

being divided into two stages. The first stage was aimed to provide a “Yes / No” answer to certain general questions about disclosure, while the second one was designed to search for advanced information made publicly available, which were structured on three different levels – basic, medium and high level.

The research methodology used for achieving our goal is based on both quantitative and qualitative techniques. Using descriptive statistic tools we tried to provide an overall image on Romanian banking transparency. The quantitative results reached after putting the data into SPSS software, which ensures reliability to our results, data processing being accurate and controllable, were then used for building recommendations with the purpose of improving the disclosure level, thus enhancing transparency in Romanian banking system, too.

3.2 Research questions

For achieving the main goal of our study – to provide a comprehensive image upon corporate governance disclosure provided by Romanian banking system through their websites, we divided our analysis into five parts basing on OECD’s “Transparency and disclosure” principle of corporate governance recommendations, thus arising the following main research questions:

RQ1: How much information about corporation do banks disclose?

While searching for an answer to this question, we have been looking for assessing the transparency about general aspects of banks, namely their capital and group structure. Information about *capital* is important for stakeholders as it reflects the wealth in the form of money or property, accumulated in their business. The highest importance when measuring the disclosure level was given to changes in capital structure as a result of shares’ issues or redemptions.

Because many *group structures* have proved an increasing development in the latest decades, how transparent is information in this respect was our next question. For assessing it we started from a simple disclosure of group composition to a short description of each entity, thus ending to the highest level of disclosure comprising details about capital and shareholders or a link to their webpage.

RQ2: How much information about financial situations do banks disclose?

Financial situation and performance are the first mentioned by OECD within its recommendations of ensuring “timely and accurate disclosure ... on all material matters regarding the corporation”.

But “*Why are such disclosures needed?*” The answer to this question is based on the most well-known theories of corporate governance – the agency theory. Thus, financial transparency was perceived as way to reduce agency costs and information asymmetries between insiders and outsiders. The latter include not

only shareholders, but also a wide variety of stakeholders, all of these being in a disadvantage position as regards the access to information compared with the managers, who are controlling the decision-making process. That's why a comprehensive system of disclosure, including both non-financial information and financial reporting would help stakeholders, including shareholders to obtain appropriate and reliable information.

Basing on the wide range of studies from the international literature that searched upon a relationship between corporate governance and corporate performance we can assert that banking performance, and consequently financial situation, as a whole is for sure a “real mirror” of corporate governance. This conclusion is in accordance with prior empirical results, some of them dated long time ago that provide evidence on the positive impact of robust corporate governance on sustained corporate performance (Zahra and Pearce, 1989; Stiles and Taylor, 2002) or of high governance risk on lower performances (Gompres, et al., 2003; Cremers and Nair, 2004)

However, there still are some doubts about these relationships since there is considerable leeway in specifying measures of performance and indicators of corporate governance are very restricted.

When looking for financial disclosures, we considered for appreciating their quality and robustness, the basis on which financial information is prepared and reported.

RQ3: How much information about reporting do banks disclose?

While accounting information disclosed through financial statements is perceived as control mechanism that promotes the efficient corporate governance in a company (Bushman and Smith, 2001), *operating results of the company and disclosure on company objectives*, which are usually included in the *annual reports* represent another face of bank transparency having the same importance for the shareholders and stakeholders when making informed and accurate assessments of the progress of the company.

Because banks are by their nature the subject of highly risky activities, requirements for disclosure information in this respect are greater. Thus, it is expected from the board to clearly identify *inherent risks* and provide stakeholders with a better understanding of these a special reporting being provided in this respect by Basle Committee on Banking Supervision under the *3rd pillar* of its *2nd Accord of capital*.

RQ4: How much information about ownership do banks disclose?

While searching for an answer to this question, we have been looking for assessing the transparency related to its structure. *Ownership* has always been perceived as a key-player of corporate governance mechanism, since it provides the capital needed for running a business and consequently is highly interested in maximizing its wealth. Ownership structure has always been a controversial subject of research in corporate governance literature, especially because of its concentrated/dispersed character, and lately because of the increase in institutional investors.

Ownership dispersion - the result a large number of individual shareholders, gave rise to their separation from the control of the business, which was in the hands of the managers, thus leading to the well-known agency theory of corporate governance and its related interest conflicts resulted from managers' opportunistic behavior who may not act in the best interest of the owners (Berle and Means, 1932; Jensen and Meckling, 1976).

Even if ownership structure changed over the years so that institutional investors own large portions of equity in many companies around the world, being often appreciated as a powerful corporate governance mechanism that can monitor company management and align its interest with those of shareholders, there still are "agency problems". Thus, besides being a mechanism that controls interest conflicts and improves investors' protection, ownership concentration can also lead to information asymmetry between the main owner and the smaller shareholders, due to its quirker access to privileged information.

RQ5: How much information about governance do banks disclose?

While searching for an answer to this question, we have been looking for assessing general issues related to the *board of directors*, namely its *structure and composition*, and the *executive management*.

The most important role in the corporate governance mechanism is ensured by the *board of directors*, which actually ensures the link between managers and investors. Consequently, the transparency of its structure and composition is useful for having an overview about those who leads and control a bank. For successfully fulfilling its responsibilities, board membership must meet a certain level of knowledge and skills, as measures for its experience. Moreover, another important characteristic that ensures quality to the board of directors is its independence. In this respect non-executive directors and especially those who are independent are of great importance for a good corporate governance structure. But, as prior studies reveal, being a non-executive director is not enough for ensuring its independence. Thus, independence is perceived as meaning that there are no relationships or circumstances that might affect directors' judgment, among the situations where a

non-executive director’s independence might be called into question, including: where the director was a former employee of the company or group within the last years where additional remuneration, apart from the director’s fee was received from the company; where the director has close family ties with the company’s other directors and advisers; where a material business relationship with the company existed in the last years; where the director in question represented a significant shareholder (Mallin, 2010).

Basing on these premises, we considered for assessing how much information about board of directors do banks disclosed at least its composition, including the position occupied, certain personal details (e.g. education, experience) and its independent statute.

Executive management, but especially the chief executive officer has a primary role in the best running of the business, thus requiring special attention in disclosure, too. Irrespective of the opposite research findings related to the splitting the role of chairman and chief executive officer, which was either perceived as a way of improving corporate performance because of more independent decision making (Donaldson and Davies, 1994; Peel and O’Donnell, 1995) or the contrary, being rather the case of a wishful thinking (Daily and Dalton, 1997), we considered for assessing how much information about executive management do banks disclosed at least the structure and each member’s position.

In conclusion, the research question discussed above have been addressed with the purpose of measuring the level of corporate governance disclosures on banks websites, thus becoming the basis of the disclosure scorecard developed in this respect, the detailed methodology of compiling it being detailed into next section.

3.3 Disclosure Scorecard development

For measuring the information transparency provided by Romanian sampled banks, we developed a scorecard based on two types of information and three levels of disclosure – basic, medium and high level. This scorecard was designed for answering all questions discussed above by looking for information made publicly available by banks on their websites.

For developing our scorecard we started its construction from the fifth principle of good corporate governance practices issued by OECD, which states that “*The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company*” (OECD, 2004, Section V: 22). Thus, it comprises five categories of information, namely: corporation, financial situations, reporting, ownership and governance,

some of these being divided into sub-categories in order to comprise a wide range of information.

For designing the disclosure scorecard we followed two stages, which differ through the complexity of information being subject of analysis. The same technique of coding the data was used on both stages, thus “1” value being assigned in case of finding an information and “0” value otherwise.

The first stage was aimed to provide an overall image about transparency on each of the five categories of information, thus comprising general question with an “Yes/No” answer (e.g. “Does the bank provide information about its capital?”, “Does the bank provide financial statements in English language?”, “Does the bank provide information about ownership structure?”).

The second stage had a thorough purpose of assessing information disclosure on each sub-category of information in more details, thus three different levels of measurement being established – basic, medium and high level, which have been weighted for establishing the total score for each category of information. The following example illustrates the methodology of assessment used:

Table 9 *Methodology of Assessment*

Research question		Weight	Information to be disclosed
<i>How transparent is the ownership structure?</i>			
Level of disclosure	<i>Basic level</i>	0,1	General structure by type (e.g. individuals / legal entities; local / foreigner)
	<i>Medium level</i>	0,3	Details (identity and percentage of main shareholders)
	<i>High level</i>	0,6	All shareholders, specifying the percentage from the whole capital

Source: own projection

The final scorecard including all categories and subcategories of information for both stages (general and advanced) and each level of disclosure (basic, medium and high) is presented in Appendix.

3.4 Research findings

“Is there enough transparency in Romanian banking system? ... If not – what should be done?” - it was the question that we addressed at the beginning of this study and a quantitative analysis comprising all credit institutions that are running their activity in Romanian banking system was aimed to be performed for providing an answer, followed by some recommendation for enhancing their transparency.

Specific objectives based on “good” corporate governance recommendations have been defined and a special tool – the disclosure scorecard - for assessing transparency as a measure of trust in banks’ openness was compiled.

Considering the structure of the disclosure scorecard, designed on two stages, firstly comprising general information, followed by an advanced measurement of disclosure on weighted levels, we are going to detail separately our research findings on these stages.

At a first view, the results of our analysis reveal that Romanian banking system provides a medium level of disclosure, as the descriptive statistics about general information disclosure presented in Table 10 reveal. Thus, range of scores starts from the minimum value of 0 and the maximum value of 12, both recorded in case of two banks, more than a half of sampled credit institutions reaching scores higher than the average.

Table 10 *Descriptive Statistics About General Information Disclosure*

General information	Score	No of banks
- Minimum score	0	2
- Maxim score	12	2
- Most frequent score	8	6
- Average score	8.7	
- Score higher than average (>8)		8
- Score lower than average (<8)		16

Source: own projection

General information disclosures – the first stage of our analysis, which are detailed for each category, respectively sub-category of information in Table 11, reveal that Romanian banking system provides the best transparency on their websites on information about their governance, while the worst results were recorded on financial situations’ disclosure.

Table 11 *General Information Disclosure On Banks’ Websites*

Category	Subcategory	No of banks	Mean
Corporation			15
	Capital	15	
	Group structure	15	
Financial situations			13^{*)}
	Individual financial statements (IFRS)	15	
	Individual financial statements (RAS)	5	
	Consolidated financial statement (IFRS)	7	
	Consolidated financial statement (RAS)	2	
	Financial statements provided in English	11	
	Independent auditor's report on financial statements	17	
Reporting			17
	Annual reports	15	

Category	Subcategory	No of banks	Mean
Ownership	Basel II Pillar 3 Report	18	15
	Ownership structure	21	
	General shareholders meeting	9	
Governance			21
	Board of directors / supervisory board	20	
	Executive board / directorship	21	
*) calculated considering only disclosure of financial statement based on IFRS			

Source: own projection

Thus, on average two thirds of sampled banks disclose information about both leadership structures: board of directors and executive management. This can be appreciated as a good point for Romanian banking system considering past literature opinions on this topic, disclosure on corporate governance issue being perceived as a “value” among investors (Solomon and Solomon, 2005), the more relevant and reliable the disclosure is, the more institutional investors being attracted (Diamond and Verrecchia, 1991; Kim and Verrecchia, 1994).

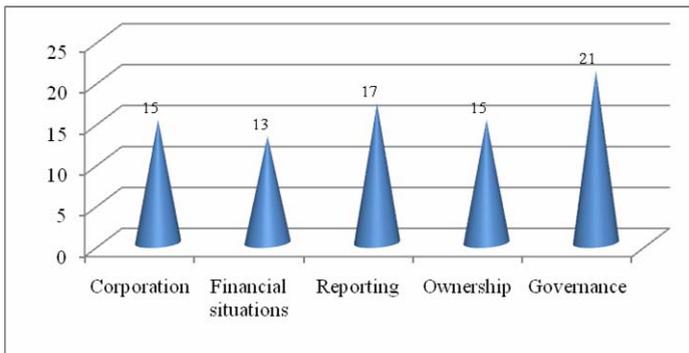


Figure 6 Average number of Romanian banks providing disclosures categories considered for analysis

Source: own projection

For assessing the transparency about banks' *financial situations* we considered for our analysis the language and type of financial statements that banks publish on their websites - individual vs. consolidate, based on national vs. international standards, as well as the independent auditor's report on these. The lowest score recorded on this category of information is mainly due to the fact that only a third of sampled banks provide their financial statements in English. Also, credit institutions usually provide only individual reporting, being reluctant at disclosing the consolidated situation of the entire group.

The second stage of our analysis was focused on *advanced information disclosures* on banks’ websites, being structured on the same five categories of information as the general information analysis. Moreover, where it was necessary, each category of information was divided into subcategories, so that the analysis to be focused on specific issue. The detailed situation related to advanced information disclosure is presented in Table 12.

Table 12 *Advanced Information Disclosure On Banks’ Websites*

Category / Subcategory	Number of banks			Average number of banks		
	Basic	Medium	High	Basic	Medium	High
Corporation				9	2	6
Capital	13	2	0			
Group structure	5	1	11			
Financial situations				3	4	13
Financial statements	3	4	13			
Reporting				6	10	9
Annual reports	2	5	8			
Basel II Pillar 3 Report	9	14	9			
Ownership				4	11	10
Ownership structure	4	11	10			
Governance				12	12	4
Board of directors / supervisory board (basic info)	20	20	4			
Board of directors / supervisory board (advanced info)	4	3	3			
Executive board / directorship	21	20	5			

Source: own projection

Our results reveal that, the frequency of banks willingness of disclosing information is higher for basic level of disclosures and slowly decreases as the level increases, in most categories and sub-categories of information. When analyzing banks that provided the highest information disclosure level, the results are not very encouraging, not even a half of credit institutions being in this situation. The worst results are in the area of corporation and governance, while financial reporting is on the opposite side.

A brief description of the results achieved and the recommendations arising from these are presented in the following:

RQ1: How much information about corporation do banks disclose?

Two subcategories of information have been considered when analysis disclosure of information about corporation, the result of the analysis revealing

poor disclosure on about *capital* on both medium (2 banks) and high (any bank) levels, while group structure reached an unexpected score on high level of disclosure (11 banks), compared to the lowest scores from the previous levels.

Basing on this background, and considering the importance that all stakeholders are paying on the overall image about bank's wealth, represented by its capital, as well as on the structure of the group where it is part, we are appreciating that:

- banks should more transparent when disclosing information about their capital, publishing besides its amount the latest changes that occurred in its structure;
- special attention needs to be paid to the group structure, providing a short description about this, as well as details about the capital and shareholders. Even a link to their websites should be provided.

RQ2: How much information about financial situations do banks disclose?

When analyzing financial transparency we were wondering "*How timely and comprehensive is information disclosed?*" our results reveal that almost a half of the sampled banks provide their financial statements for more than 3, including the latest year, which we appreciated as a high level of disclosure.

Timeliness is one of the most important characteristic of accounting information besides the relevance and reliability, which are the result of the audit mission that is why it is important for banks to ensure it, too, by providing their financial statement for a large period of time, thus allowing interested parties to make desired comparisons.

RQ3: How much information about reporting do banks disclose?

Two subcategories of information have been considered when analysis disclosure other banks' reporting than the financial ones, namely annual report and Basel II Pillar 3 report.

When talking about information disclosure, it does not refer only to financial data, but also to an array of other information comprising general and strategic objectives, management forecasts, analysts presentations, information which are usually placed on the annual reports. As well as in case of financial reporting, the time for which this information is available is important for stakeholders. Consequently, we appreciated the publication of annual reports on the same horizon of time of three years, our results leading to the conclusion that just a quarter of sampled bank reached the highest level. The situation is quite similar in case of risk information reporting required by the 3rd pillar of Basel II Accord of capital.

Basing on this background, we are strongly recommending credit institutions to provide the above mentioned reporting for the largest period of time possible, for the same reasons as in case of financial reporting.

RQ4: How much information about ownership do banks disclose?

When trying to find an answer to this question, we considered disclosures both on structure and concentration, our results revealing that approximately one third of sampled bank made this information publicly available either on a medium or a high level, thus meaning that details like identity and percentage of at least the main shareholders are usually disclosed.

Anyway, we are encouraging banks to provide more comprehensive disclosure about the number and the identity of shareholders, offering as well a review of ownership by type.

RQ5: How much information about governance do banks disclose?

When saying “information about governance” we were referring to the two important structures of corporate governance mechanism: board of directors and executive management.

The most comprehensive key-player, frequently appreciated as the “heart” of an entity, is the board of directors. “The free and accurate flow of information in and out of the board is as essential to the healthy operating of the corporate body as the free and unhindered flow of blood is to the healthy functioning of the human body” (Solomon and Solomon, 2005). Consequently, a wide range of information about it is expected to be made publicly available for all interested stakeholders, which lead us considering it into two types: basic and advanced. Basing information comprised transparency about board composition and the position of each member on the board, two thirds of sampled banks providing adequate disclosures in this respect. While analysis the disclosures classified as advanced, comprising personal details, like education and experience of board membership, its classification as executive/non-executive, mentions related to their independent statute or moreover, their picture, the transparency became opaqueness, just three sampled banks providing such disclosures.

When measuring the level of disclosure related to management structure and composition, the results achieved are quite similar with those presented in case of the board of directors, just a few numbers of banks reaching a high level score.

In conclusion, wondering “*How much information about governance do banks disclose?*”, we can highlight at least the following aspects, as good practices of corporate governance disclosure that can enhance transparency in this respect:

- banks should provide a transparent structure of the board, disclosing besides the list of its membership, comprehensive details about directors, focusing especially on their academic qualification and professional experience, by referring to their previous employment and emphasizing potential cross-directorship situations;
- special attention need to be paid to the chairman of the board, as the head of the leading and control structure, disclosing besides information required for board's members, its status of being or not the chief executive officer of the entity, as well;
- banks should consider the importance of board composition as regard non-executive and independent members, providing appropriate disclosure of these attributes.

4. CONCLUSIONS, LIMITATIONS, PERSPECTIVES

Being aimed at identifying how much we can trust in Romanian banking system by simply accessing their websites, we proceeded at performing a quantitative analysis focused on disclosure of the categories of information recommended by OECD, which can contribute at building a good corporate governance system.

Thus, our analysis started from the following provision: "*The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company*" (OECD, 2004, Section V: 22), the following research questions arising from it:

- How much information about *corporation* do banks disclose?
- How much information about *financial situations* do banks disclose?
- How much information about *reporting* do banks disclose?
- How much information about *ownership* do banks disclose?
- How much information about *governance* do banks disclose?

By assessing each of the five issues derived from the above research question, firstly on a general level by identifying if certain information are / are not made publicly available on banks' websites and then an advanced level by classifying the data disclosed from basic to high level information, we provided an overall image of corporate governances disclosures of Romanian banking system.

Besides the quantitative analysis performed, for adding value to research literature on corporate governance topic we made use of a qualitative analysis for making some recommendations appreciated as usefully for improving disclosure in

Romanian listed banks, thus enhancing transparency, too. Consequently, we are appreciating our study as useful not only in the academic environment, but also for practitioners, standing as a handbook for various stakeholders interested in Romanian banks. Thus, the results of our study might infirm or confirm their assumptions upon the trust in banks' transparency.

Finally, we are aware about the limitations of our study, too, which derive mainly from methodological aspects, especially related to the issues considered for developing the disclosure scorecard, which stated at the basis of our data collection. But, we are appreciating these limitations as possible outlooks for future research.

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APPENDIX

Subcategory	Type (General / Advanced)	Question	Basic level	Middle level	High level
<i>Capital</i>	<i>G</i>	<i>Does the bank provide information about its capital?</i>			
<i>Group structure</i>	<i>G</i>	<i>Does the bank provide information about the group structure?</i>			
<i>Capital</i>	<i>A</i>	How transparent is information about capital?	Amount of subscribed paid in capital	Number of shares and their par value	Latest changes in capital structure
<i>Group structure</i>	<i>A</i>	How transparent is information about group structure?	List of entities from group structure	Details about group entities (e.g. short description, contact details)	Details about capital and shareholders (or link to their webites)
<i>Individual financial statements (IFRS)</i>	<i>G</i>	<i>Does the bank provide individual financial statements (IFRS)?</i>			
<i>Individual financial statements (RAS)</i>	<i>G</i>	<i>Does the bank provide individual financial statements (RAS)?</i>			
<i>Consolidated financial statement (IFRS)</i>	<i>G</i>	<i>Does the bank provide consolidated financial statement (IFRS)?</i>			
<i>Consolidated financial statement (RAS)</i>	<i>G</i>	<i>Does the bank provide consolidated financial statement (RAS)?</i>			
<i>Financial statements provided in English</i>	<i>G</i>	<i>Does the bank provide financial statements in English language?</i>			
<i>Independent auditor's report on financial statements</i>	<i>G</i>	<i>Does the bank provide independent auditor's report on financial statements?</i>			
<i>Financial statements</i>	<i>A</i>	How timely and comprehensive is information disclosed?	Provide information for maximum 3 years, that do not include the most recently year	Provide information for more than 3 years, but do not include the most recently year	Provide information for more than 3, including the latest year

CORPORATE GOVERNANCE “WEB DISCLOSURE” IN ROMANIAN BANKING SYSTEM

Subcategory	Type (General / Advanced)	Question	Basic level	Middle level	High level
<i>Annual reports</i>	<i>G</i>	<i>Does the bank publish on its website the annual report?</i>			
<i>Basel II Pillar 3 Report</i>	<i>G</i>	<i>Does the bank publish on its website the Basel II Pillar 3 report?</i>			
<i>Annual reports</i>	<i>A</i>	How timely and comprehensive is information disclosed	Provide information for maximum 3 years, that do not include the most recently year	Provide information for more than 3 years, but do not include the most recently year	Provide information for more than 3, including the latest year
<i>Basel II Pillar 3 Report</i>	<i>A</i>	Does the bank provide Basel II Pillar 3 report for the year ...?	2008	2009	2010
<i>Ownership structure</i>	<i>G</i>	<i>Does the bank provide information about ownership structure?</i>			
<i>General shareholders meeting</i>	<i>G</i>	<i>Does the bank provide information about general shareholders meeting?</i>			
<i>Transparency of ownership structure and concentration</i>	<i>A</i>	How transparent is the ownership structure?	General structure by type (e.g. individuals / legal entities; local / foreigner)	Details (identity and percentage of main shareholders)	All shareholders, specifying the percentage from the whole capital
<i>Board of directors / supervisory board</i>	<i>G</i>	<i>Does the bank provide information about board of directors / supervisory board?</i>			
<i>Executive board / directorship</i>	<i>G</i>	<i>Does the bank provide information about executive board / directorship?</i>			
<i>Board and composition</i>	<i>A</i>	How transparent is basic information about board membership?	Names	Position on the board	Gender specification
		How transparent is advanced information about board membership?	Personal details (e.g. education, experience)	Independent statute (executive / non-executive)	Picture of board membership
<i>Management structure and composition</i>	<i>A</i>	How transparent is information about executive management?	Names	Position on management board	Gender specification / picture



MODELING THE KEY ROLE OF OVERALL SATISFACTION WITH THE ONLINE BUYING PROCESS IN DETERMINING BEHAVIORAL LOYALTY INTENTIONS

Claudia ICONARU*

Abstract: *Overall satisfaction with the online buying process was assumed to be a strong predictor of three behavioral loyalty intentions: repurchasing online, recommending online buying to referent groups and patronizing online buying over traditional buying. These hypotheses were tested using a PLS-based structural equation modeling. The results of the analysis indicate similar and strong path coefficients between overall satisfaction and consumers' intention to purchase online and consumers' intention to recommend online buying. These findings yield interesting results: a satisfied consumer is willing not only to repurchase online but also to recommend this alternative way of buying to his friends, colleagues and relatives. However, the path coefficient between overall satisfaction and consumers' intention to patronize online buying was lower, indicating a moderate effect of overall satisfaction on patronizing. The behavioral intentions were treated separately since I assumed the existence of different strength relationships between overall satisfaction and these three behavioral intentions. Moreover, overall satisfaction was decomposed in three transaction specific satisfactions, according to a three stage online buying process: pre-purchase stage satisfaction, purchase stage satisfaction and post-purchase stage satisfaction. Satisfaction was constructed as a second order formative latent variable of all three dimensions. The reliability of the measures was assessed with composite reliability, constructs' Cronbach's Alpha and AVE. The convergent and divergent validity of the measures were also tested using various approaches. The implications of the empirical research were further stated.*

Keywords: *online buying, transaction-specific satisfaction, overall satisfaction, loyalty, structural equation modelling*

JEL Codes: *M31, L81*

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1. INTRODUCTION

The adoption of the Internet for purchasing goods and services has been studied in the last decade using various information systems (IS) related models (e.g. Technology Acceptance Model in Chen et al, 2002; Liu and Wei, 2003; O’Cass and Fenech, 2003; Shin, 2004; Shang et al, 2005; Crespo and del Bosque, 2008; Shin, 2008; Yoon, 2009; Said, 2011) and consumer behaviour theories (e.g. the Theory of Planned Behaviour in Limayem et al, 2000; Shim et al, 2001; Choi and Geistfeld, 2004; Tan et al, 2010; Lim et al, 2011). Turning to IS related theories is perfectly justifiable since online buying implies the adoption of the Internet and more specific, the e-commerce website in order to buy goods and services, which require specific IT skills and knowledge.

But as Bhattacharjee stated “long term viability of an IS and its eventual success depend on its continued use rather than first time use” (Bhattacharjee, 2001:351).

Using the Internet to buy online is an innovative way of buying as long as we agree with Rogers’ definition of innovation as being an idea, a practice or an object perceived as being new by an individual (Rogers, 2003: 12). As per the Diffusion of Innovation Theory, the adoption of an innovation can result in either continuance or discontinuance (Rogers, 1995: 165). Consumers can try out of curiosity to use the Internet for buying goods and services but there is more to continuance than merely adoption.

Thus, researches began to investigate what motivates consumers to continue buying online. A new research area of online consumer behaviour emerged, namely post-adoption online buying behaviour. Drawing back from Oliver’s (1980) expectations confirmation paradigm and Bhattacharjee’s (2001) Expectation Disconfirmation Theory for Information Technology (IT) Use, a redefined model for specific IS use, researchers began to postulate satisfaction as the main predictor of consumers’ intention to repurchase online (see Atcharyachanvanich, 2006; Khalifa and Lui, 2007; Kang et al, 2008; Tsai and Huang, 2009; Chen et al, 2010; Cheng and Cheung, 2009; Lee, 2010; Udo et al, 2010; Wen et al, 2011; Liao et al, 2011; Abdul-Muhmim, 2011).

Consumers’ intention to repurchase online goods and services has been studied as a manifested form of loyalty towards this alternative way of buying (e.g. Chiu et al, 2009). Chiu et al (2009) defined e-Loyalty as “the subjective probability that a customer will continue purchasing products from the online store in the future”.

But there are different approaches to loyalty in consumer behaviour literature, although most of the researchers have studied loyalty in close relation to satisfaction (Churchill and Suprenant, 1982; Fornell et al, 1996; Oliver, 1999).

One of these approaches consists of loyalty towards a product or a service, being defined as a strong commitment to patronize a favourite product or service, besides situational influences and marketing mix efforts that could change buying behaviour on a short term period (Oliver, 1996). The commitment or attachment towards a certain product, supplier or organization represents the affective dimension of loyalty, also referred to as attitudinal loyalty (Fornier, 1994). Empirical findings indicate that attitudinal loyalty leads to repeat patronage (Dick and Basu, 1994).

But consumers can develop a source of attachment and commitment not only to a product or supplier, but also to a store (Corstjens and Lal, 2000) or to an alternative way of buying (Kim et al, 2009). Loyalty towards online buying has been studied through its conative or behavioural dimension.

Yi (1990) identifies loyalty's behavioural dimension as being formed by consumers' manifested intentions to buy from the same supplier or recommend the supplier. Adapting this approach to online buying behaviour, e-Loyalty or loyalty towards online buying has been measured through its behavioural components: retention (repeat patronage), intention to repurchase and willingness to recommend (Kim et al, 2009).

Kim et al research (2009) indicates that satisfaction is the strongest predictor of consumers' manifested loyalty towards online buying. A satisfied consumer is more likely to make another online purchase, to recommend online buying to his friends, colleagues or relatives and finally, to patronize online buying over traditional buying.

The gap in consumer satisfaction literature lies in the way variables were measured. For example, e-Loyalty was constructed as a multi-item latent variable, capturing all three behavioural intentions (e.g. Kim et al, 2009). The difference between this study and previous studies is the assumption that there are different strength relationships between overall satisfaction and each of these behavioural intentions. Approaching each behavioural loyalty intention separately enables further elaboration on the effect of satisfaction on each manifested component of loyalty towards online buying.

Another important contribution of this study is represented by the way overall satisfaction is conceptualised and measured, as a second order formative latent variable according to various stages of online buying process (see section 2).

2. DECOMPOSING SATISFACTION WITH ONLINE BUYING

Most of the marketing literature has defined satisfaction as a post-consumption evaluative response (Westbrook, 1987: 260; Fornell, 1992: 11; Oliver, 1997: 13). The underlying principles of this approach are based on the expectation confirmation paradigm that regards satisfaction as a response to the evaluations of the gap between prior expectations and actual performance of the product or service (Day, 1984: 496).

It is important to differentiate between satisfaction with a product or service and satisfaction with a transaction. The later is defined as “consumer’s evaluations of his or her experience with, and reactions to, a particular product transaction episode or service encounter” (Jiang and Rosenbloom, 2005:152).

The sum of all particular transaction episodes gives what it is called a cumulative transaction specific satisfaction or overall satisfaction (Shin and Elliot, 2004).

This paper view on satisfaction with the online buying process is a summative transaction specific satisfaction representing consumers’ satisfaction at various stages of the process of online buying.

In order to assess satisfaction with the process of online buying, satisfaction needs to be decomposed according to the stages of the online buying process. An overall evaluative response or judgment of the entire online buying process is not sufficient by itself, since a consumer can be satisfied within pre-purchasing stage of the buying process, when he is merely searching for information but not satisfied with the online payment or delivery. Discrepancies between the stages of the process can occur, thus an overall evaluative response cannot capture the exact point where dissatisfaction occurs.

Satisfaction with the online buying process has been decomposed before. For example, Liao et al decompose satisfaction in satisfaction with ordering process and satisfaction with fulfillment process (Liao et al, 2010: 55). Moreover, Jiang and Rosenbloom differentiate between satisfaction at check-out and after delivery satisfaction (Jiang and Rosenbloom, 2005:155).

However, I propose a more logical sequence of the online buying process:

- **Pre-purchase stage** when consumers search for information about goods and services and evaluate alternatives (Thompson si Yeong, 2003). During this stage satisfaction is assessed as a function of information quality and information accessibility.
- **Purchase stage** when consumers actually order the products or services and chose a payment method, which can but it is not mandatory to be carried

online. During this stage, satisfaction is mainly a function of the e-commerce website reliability for generating a fast and trustful order and payment.

- **Post-purchase stage** when consumers are actually gratified and post-purchase relationships with the online vendor emerge. During this stage satisfaction is viewed as a function of delivery, product or service performance, returning policies and post-purchase customer relationship.

The decomposition of satisfaction focuses on process specific attributes, which gives an overview of the overall satisfaction with the experience of online buying.

Thus, I assume that overall satisfaction is a sum of its transaction specific components: satisfaction with the pre-purchase stage of online buying, satisfaction with the purchase stage of online buying and satisfaction with post-purchase phase of online buying.

3. RESEARCH HYPOTHESES

Based on the above discussion about the decomposition of satisfaction with online buying process and its causal relationships with various loyalty behavioral intentions, I propose the following research hypotheses:

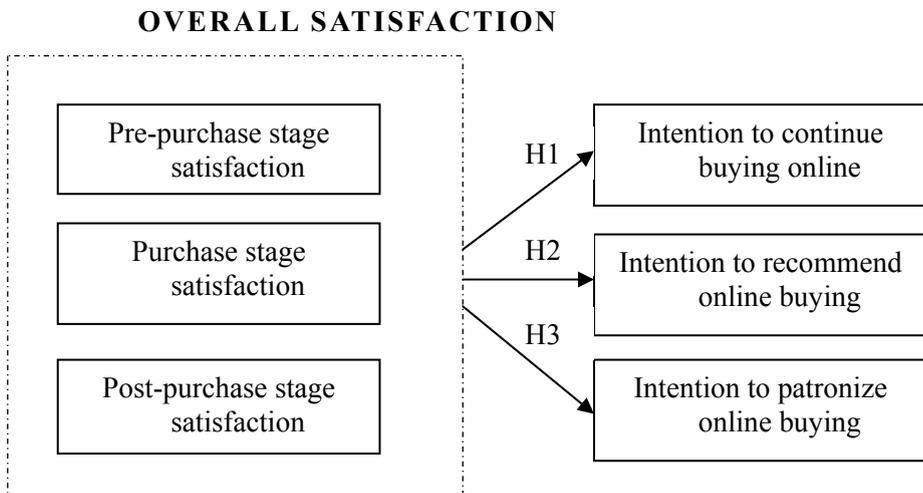


Figure 7 *The conceptual model*

Hypothesis 1: There is a direct and positive relationship between overall satisfaction with the online buying process and the intention to continue buying online.

Hypothesis 2: There is a direct and positive relationship between overall satisfaction with the online buying process and the intention to recommend online buying to referent groups.

Hypothesis 3: There is a direct and positive relationship between overall satisfaction with the online buying process and the intention to patronize online buying over traditional buying.

4. METHODOLOGY

In order to test the conceptual model, measures were defined (see section 4.1 and section 4.2) and data was collected through paper based questionnaire (see section 4.3).

For hypotheses testing, I have employed a structural equation modeling, based on variance analysis, namely partial least squares (PLS) analysis. The reason of choosing PLS-based SEM over covariance-based SEM techniques lies in its advantages: the ability to differentiate between reflective and formative latent variables, the possibility to construct a second order formative latent variable (satisfaction), the provision of accurate estimates even in case of small sample sizes (Chin and Newsted, 1999).

In regards to the software program used, WarpPLS 3.0 was employed in order to compute overall satisfaction as a second order formative construct, to test the measures' reliability and validity, to conduct the PLS analysis and compute effect sizes and finally to assess the model fit.

4.1 Measuring overall satisfaction

As stated earlier, overall satisfaction is a summative transaction specific satisfaction representing consumers' satisfaction at various stages of the process of online buying.

Overall satisfaction is a multidimensional construct consisting of pre-purchase stage satisfaction, purchase stage satisfaction and post-purchase stage satisfaction. But each dimension of satisfaction is different but connected to the higher-level latent variable through a single theoretical concept (Subhadip et al, 2012:38).

A multidimensional construct "does not have a separate existence without its dimensions" (Subhadip et al, 2012:38). Thus, eliminating, for example, pre-purchase stage satisfaction, the overall measure of consumers' satisfaction with online buying is deteriorated.

Moreover, each dimension of overall satisfaction is multidimensional by its nature. For example, pre-purchase stage satisfaction has two dimensions:

satisfaction with the quality of the information and satisfaction with the accessibility of the information.

This leads to a second order construct (Subhadip et al, 2012:38), with formative measurements at both first and second order level.

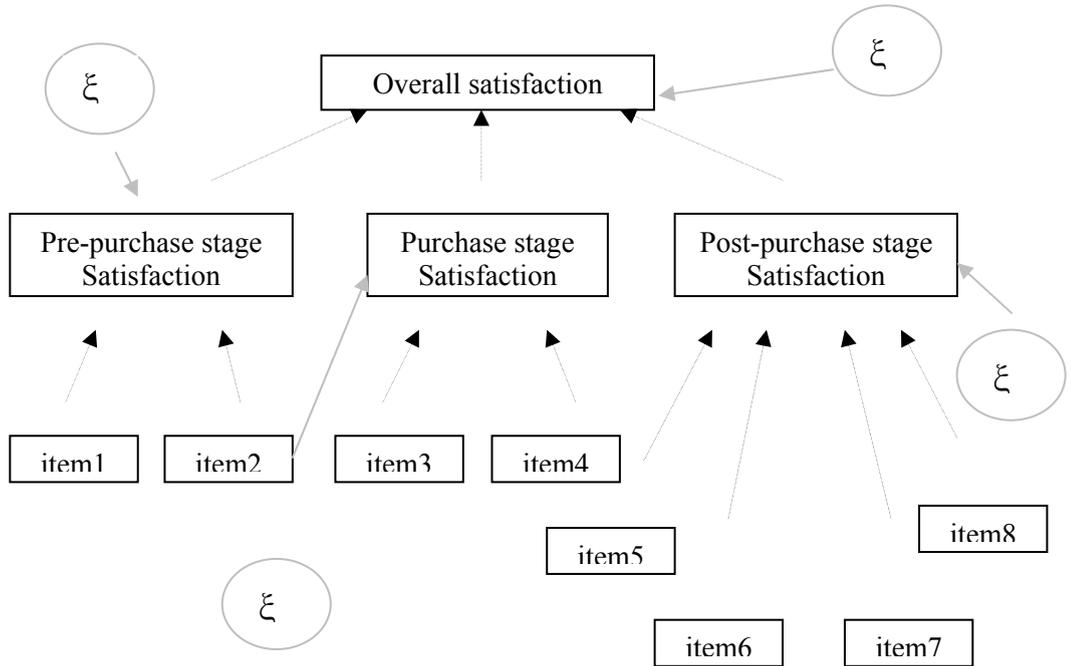


Figure 8 Second order construct with formative measurements

Table 13 Items for the second order formative construct “overall satisfaction”

Pre-purchase stage satisfaction	
item1	I am satisfied with the quality of information about goods and services available on the Internet (When answering please consider whether the information is accurate, up-to-date, reliable, useful and communicated in a proper format)
item2	I am satisfied with the accessibility of information about goods and services available on the Internet (When answering please consider your experience with accessing the information through external search engines, internal search engines, directly through web pages navigation)
Purchase stage satisfaction	
item3	I am satisfied with ordering the goods and services online (When answering please consider your experience with placing the items in the cart, receiving the invoice etc.)
item4	I am satisfied with making an online payment (When answering please consider your experience with paying online)

Pre-purchase stage satisfaction	
Post-purchase stage satisfaction	
item5	I am satisfied with the delivery of the goods and services bought online (When answering please consider your experience with the delivery, whether the delivery terms were met.)
item6	I am satisfied with the performance of the goods and services bought online (When answering please consider your after sale experience with the goods and services bought online, whether they performed as stipulated).
item7	I am satisfied with the returning policies of the goods and services bought online (When answering please consider your after sale experience, whether you had to return a product or/and ask for money back from a service).
item8	I am satisfied with the post-purchase customer relationship (When answering please consider your after sale experience with the online vendors).

In WarpPLS 3.0 second order variables are implemented in two stages, where the scores of the first order latent variables are used as indicators of the second order latent variable (Kock, 2011: 5). Each indicator (item) of the construct was measured on a 7 level Likert scale.

4.2 Measuring behavioral loyalty

The three latent variables measuring three behavioral intentions: intention to repurchase online, intention to recommend online buying, intention to patronize online buying are formed as formative first order constructs consisting of three items each, measured on a 7 level Likert scale.

Due to the fact that they are all behavioral intentions, they were measured using Soderlund and Ohman approach of intentions as expectations, intentions as plans and intentions as wants (Soderlund si Ohman, 2006: 411).

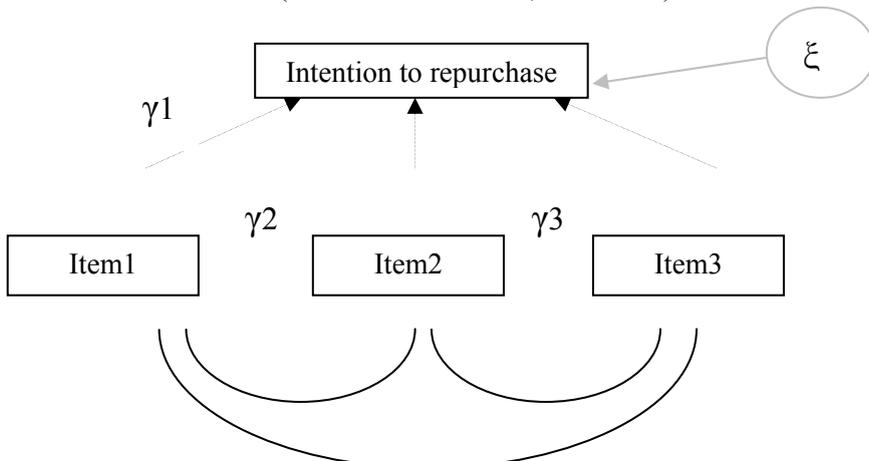


Figure 9 First order formative latent variable – intention to repurchase

$$\text{Intention to repurchase} = \sum \gamma_i \cdot \text{item}_i + \xi$$

where:

Intention to purchase = the formative first order construct

item_i = the 'i' indicator, i=3 (item1, item2, item3)

γ_i = the weight associated with the 'i' indicator

ξ = common error

In the same manner, intention to recommend online buying and intention to patronize online buying were computed.

The items of the behavioural intentions latent variables are shown in the table below:

Table 14 *Items for the first order behavioural intentions latent variables*

Intention to repurchase online	
item1	I expect to repurchase online goods and services.
item2	I plan to repurchase online goods and services.
item3	I want to repurchase online goods and services.
Intention to recommend online buying	
item1	I expect to recommend online buying to family, friends and colleagues.
item2	I plan to recommend online buying to family, friends and colleagues.
item3	I want to recommend online buying to family, friends and colleagues.
Intention to patronize online buying	
item1	I expect to patronize online buying over traditional buying.
item2	I plan to patronize online buying over traditional buying.
item3	I want to patronize online buying over traditional buying.

4.3 Data collection

First, I have defined my target population, consisting of individuals that have purchased at least one product or service using the Internet in the last three months. Individuals with prior online buying experience are more likely to give relevant information for the purpose of this study. Due to the fact that there is a lack of sample frame of Romanian online consumers, I had to turn to a random non-probabilistic sampling method, also called a convenience sampling method. The most convenient and reachable sample, although not representative for the entire population, is represented by students. Thus, I handed a paper-based questionnaire to a group of 126 students before the beginning of the class. After the elimination of 51 questionnaires due to incomplete answers, 75 valid responses for all 17 items were obtained. Each questionnaire was manually introduced in an excel database.

5. DATA ANALYSIS AND RESULTS

Data analysis and results section comprises measures' reliability and validity and the SEM analysis.

5.1 Measures' Reliability

I have assessed measures' internal consistency following Bagozzi and Yi (1988) approach that recommends the interpretation of Cronbach alpha coefficients, composite reliability (CR) and average extracted variance (AVE).

Table 15 *Measures Reliability (Internal Consistency)*

Construct	Composite reliability (CR)	Cronbach Alpha Coefficients	Average extracted variance (AVE)
SATIS	0.849	0.733	0.653
PURCH	0.867	0.769	0.686
RECOM	0.847	0.725	0.651
PATRON	0.834	0.699	0.628
*** SATIS = consumers' satisfaction with the online buying process, PURCH = intention to repurchase online, RECOM = intention to recommend online buying, PATRON = intention to patronize online buying			

All composite reliability coefficients are above the critical value of 0.7 (Nunally, 1978). All Cronbach Alpha coefficients are above the critical value of 0.5 (Hair et al, 1998). The same consistency is shown by the AVE, where all average extracted variances are above 0.5. Thus, the measures yield high internal consistency.

5.2 Measures' Validity

For assessing the validity of our measurements I have employed construct validity with both convergent and discriminant validity.

Convergent validity was assessed by analysing the combined loadings and cross-loadings of indicators. Indicators are supposed to load more on their construct than they do with other items from other constructs. If indicators among a construct have high and similar loadings, then it is assumed that they have convergent validity (Jewell, 2011).

Table 16 *Factor loadings and cross-loadings*

	SATIS	PURCH	RECOM	PATRON
SATIS1	0.827	-0.145	0.133	0.15
SATIS 2	0.757	-0.02	0.011	0.058
SATIS 3	0.837	0.161	-0.142	-0.201

	SATIS	PURCH	RECOM	PATRON
PURCH1	-0.205	0.764	0.206	0.07
PURCH2	-0.015	0.813	0.004	0.025
PURCH3	0.187	0.902	-0.178	-0.082
RECOM1	0.252	0.392	0.687	0.044
RECOM2	-0.034	-0.141	0.898	-0.11
RECOM3	-0.174	-0.175	0.821	0.084
PATRON1	0.057	-0.231	0.153	0.700
PATRON2	0.148	0.057	-0.196	0.884
PATRON3	-0.219	0.143	0.084	0.783
*** SATIS = consumers' satisfaction with the online buying process, PURCH = intention to repurchase online, RECOM = intention to recommend online buying, PATRON = intention to patronize online buying				

We can conclude from Table 16 that items from one construct load more inside the construct (items in bold) that they cross-load with items from other constructs. Factor loadings are greater than 0.5, the critical value which yield convergent validity of measurements (Hair et al, 1987)

Divergent validity is assessed through a confirmatory factor analysis. Table 5 indicates the correlations among latent variables and their associated p values. On the diagonal axis of the table, the square root of average extracted values (AVE) is shown for each latent variable. It is necessary that the square roots of AVE of a latent variable to be greater than any other correlations that imply that latent variable (Fornell and Larcker, 1981).

Table 17 Latent Variables correlations and square root of AVE

	SATIS	PURCH	RECOM	PATRON
SATIS	0.808	0.533	0.495	0.371
PURCH	0.533	0.828	0.59	0.066
RECOM	0.495	0.59	0.807	0.005
PATRON	0.371	0.066	0.005	0.793
*** SATIS = consumers' satisfaction with the online buying process, PURCH = intention to repurchase online, RECOM = intention to recommend online buying, PATRON = intention to patronize online buying				

Table 16's reported results indicate a strong divergent validity of constructs.

5.3 Structural Equation Modeling

After performing a variance based structural equation modeling, the path coefficients or standardized β coefficients and their associated p values are reported in Table 18.

Table 18 *Correlation coefficients and associated p value*

	SATIS	PURCH	RECOM	PATRON
SATIS				
PURCH	0.537 (p<0.01)			
RECOM	0.500 (p<0.01)			
PATRON	0.378 (p<0.01)			
*** SATIS = consumers' satisfaction with the online buying process, PURCH = intention to repurchase online, RECOM = intention to recommend online buying, PATRON = intention to patronize online buying				

From Table 19 we can test initial hypotheses:

Table 19 *Hypotheses testing*

Hypothesis	Validated
There is a direct and positive relationship between overall satisfaction with the online buying process and the intention to continue buying online.	yes
There is a direct and positive relationship between overall satisfaction with the online buying process and the intention to recommend online buying to referent groups.	yes
There is a direct and positive relationship between overall satisfaction with the online buying process and the intention to patronize buying online over traditional buying.	yes

Graphically, the SEM analysis can be represented:

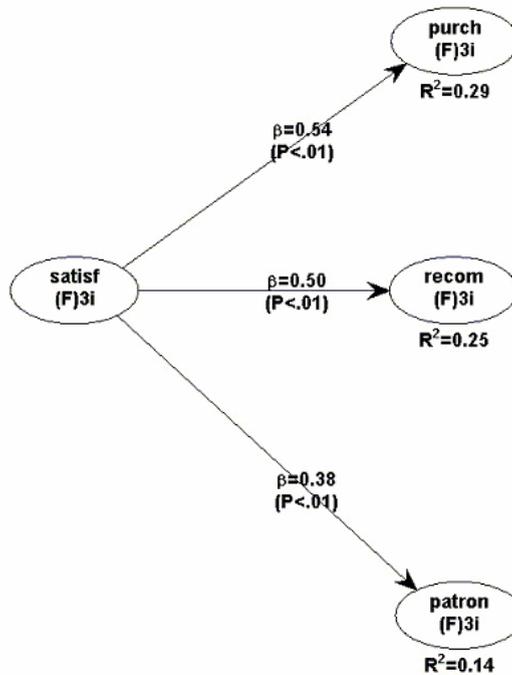


Figure 10 Structural Equation Modelling (path coefficients and associated p value)

Moreover, Cohen’s *f*-squared effect sizes are shown in Table 20. Using Cohen’s effect sizes, one can ascertain the magnitude of the relation between the latent variables: bellow 0.02 the relation is insignificant, between 0.02 and 0.15 the magnitude is moderate, between 0.15 and 0.35 the magnitude is large (Cohen, 1988).

Table 20 Cohen’s effect sizes

	SATIS	PURCH	RECOM	PATRON
SATIS				
PURCH	0.289			
RECOM	0.25			
PATRON	0.143			

*** **SATIS** = consumers’ satisfaction with the online buying process, **PURCH** = intention to repurchase online, **RECOM** = intention to recommend online buying, **PATRON** = intention to patronize online buying

Thus, there is a strong relationship between consumer’s satisfaction with the online buying process and both intention to repurchase online and recommend online buying and a moderate relationship between consumer’s satisfaction with

the online buying process and the intention to patronize online buying over traditional buying.

5.4 Model fit

In order to assess the model fit, several indicators were computed by WarpPLS software: average path coefficients (APC), average R squared (ARS) and average variance inflation factors (AVIF). A model is robust when $p < 0.05$ for APC and ARS and when $AVIF < 5$ (Kock, 2011).

Table 21 *Model fit*

APC= 0.471, P<0.001	Good if $p < 0.05$
ARS= 0.227, P=0.001	Good if $p < 0.05$
AVIF=1.000	Good if $AVIF < 5$

6. CONCLUSIONS AND IMPLICATIONS

One main finding of the study is that satisfaction with the online buying process can be decomposed according to various stages of online buying. Since consumers report different degrees of satisfaction within each stage, the overall satisfaction with online buying should be measured as a second order formative latent variable.

The overall satisfaction is a strong predictor of three loyalty intentions: intention to repurchase online, intention to recommend online buying to referent groups and intention to patronize online buying over traditional buying.

A satisfied consumer is likely to repurchase online. The strong relationship between overall satisfaction with the buying process and intention to repurchase online indicate that satisfying consumers is the key to repeated online purchases and thus, the development of e-commerce.

A satisfied consumer will consider recommending online buying to his or her peers. Since recommendations from friends and family are a reliable source of decision making, keeping consumers satisfied is the key to generating potential new clients.

Moreover, a satisfied consumer is likely to patronize online buying over traditional buying, as to those experiences he was satisfied with.

But overall satisfaction with the online buying process is a summative transaction specific satisfaction representing consumers' satisfaction at various stages of the process of online buying. This means that overall satisfaction depends on various attributes of each stage of the buying process. It is not enough to supply

consumer with rich, reliable and up-to-date information about goods and products if placing items in cart or invoice issuing is slow and unreliable.

In order to satisfy a client, the online vendors should assure a flawless online buying experience that begins with the quality and accessibility of information about goods and products and goes beyond delivery with post-purchase customer relationships.

7. LIMITATIONS OF THE STUDY

The study has two main limitations. First of all it uses students as a sample of the population which may or may not be representative to the whole population of online consumers. Slightly different results are expected when questioning individuals of different ages with various educational backgrounds and income levels.

Second of all, no prior predictors of satisfaction were used. Instead, the items used for assessing overall satisfaction were constructed based on relevant previous literature.

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WHAT MAKES A DIFFERENCE? – ETHICS AND MISSION IN THE INSTITUTIONS FROM THE HEALTHCARE SECTOR

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***Abstract.** Our article presents a brief overview of the importance of the mission in health care institutions, and the link between organizational mission and ethics. The research is based on an analysis of the websites of hospitals in Romania, classified in the three classes of competence, in order to identify if and how their mission has been formulated and the values that support it.*

***Keywords:** organizational mission, ethics, Romanian hospitals*

***JEL Codes:** I100, D23*

1. INTRODUCTION

1.1. The organizations and their reason of being

The great guru of the management science, Peter Drucker states that every institution, active in the social sector, “exists in order to make a specific difference in the lives of individuals and in society” (Drucker and all, 2008). The statement actually expresses the concept of mission, which should be linked with every organization as its reason of being. Drucker points to four questions that should be reflected upon by the managers of the organizations and which begin and end with the mission as a topic of reference: “What is our current mission?; What are our challenges?; What are our opportunities?; Does the mission need to be revised?” (Idem, 2008). In Drucker’s opinion, the mission must not be neutral, impersonal, but it should entail a deep meaning and a sense of living. In other words, it should be a mark bench and a guide for the daily activities of the personnel. The leaders of the organization have the fundamental responsibility to make the mission known to

everybody, both to internal stakeholders (employees and shareholders), and to external stakeholders (clients, suppliers, competition, authorities, community in general). They also should make sure that the mission, once known, is really understood and particularly embraced by the employees as giving a sense of purpose, of lived meaning.

The importance of the organization's mission is underlined by the majority of the studies on management, which confirms its important role in the management of the organizations.

Next to the vision, the mission is an essential component of the strategic planning, necessary for the organizational management and development or for a certain, particular program. Through the mission are conveyed and justified the motives of the existence (Swansburg & Swansburg, 2002: 81, Daft & Lane, 2012: 160, Rothwell, 2010: 143) of the general goal of an organization or program ("official goals", cf. Daft, 2010: 60). The elaboration and formulation of the mission is the first phase of the general process of strategic planning and constitutes the basis for the development of the organization's philosophy (Marquis, 2009: 149), of its objectives and plans (Daft, 2012: 181), its policies, procedures and rules (Marquis, 2009: 149).

The mission indicates who the organization is, what does it do, and where exactly it is headed. The role of the formulation of the mission is to describe the identity of the organization (Nelson& Alkhafaji, 2003: 40), to instil into it personality and uniqueness in comparison with the other competitive organizations from the market place (Nica&Iftimescu, 2007), by specifying its products, what kind of methodology and technology is used and promoted (Nelson& Alkhafaji, 2003: 40), its business operations, values, markets and types of consumers (Daft, 2010: 60). Likewise, through the formulation and communication of the mission, certain aspects are clarified and it is lent support to the middle managers in the process of decision-making (Griffin, 2012: 178). Moreover, certain questions are answered regarding the motives of the involvement of the organization in that particular business (its activity sector), what are the products/services delivered, to which market does the company address its products and which are the results it is hoping to achieve (Rothwell, 2010: 143). If it is correctly implemented, the formulation of the mission contributes to the bolstering of the employees' motivation and to the enhancement of the organization's performance (Daft&Lane, 2012: 181).

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Talbot (2003: 9) defines the mission as a recognition and an upholding of the organization's values that generate the principles according to which it conducts itself, the standards that it observes and on the basis of which it will be judged. Being founded on values, the mission represents the warrant of morality, determines the character and cements the reputation of the organization.

The formulation and the communication of the mission convey the same message to employees, helping them to be oriented and driven towards the same objectives, to act on the basis of the same principles, to respect the same standards and encouraging them to be morally responsible for their actions.

2. ETHICS AND ORGANIZATIONAL MISSION – AN MANDATORY PARTNERSHIP

The formulation of the mission makes reference to the position of the organization concerning its “ethics, principles and practice standards” (Marquis, 2009: 149), and it becomes an important organizational resource in the organization's effort to conduct itself ethically, in the way it shapes and justifies its ethical context, and a moral support for the personnel (Boyle, 2001: 74). This ethical role is underpinned also by Griffin (2012: 164), which argues for the role that the formulation of the mission has in the expression of the organization's commitment to accept human diversity and multiculturalism.

Specialists claim that the managers which guide themselves truly according to a mission, formulated in the terms of a wider, social goal, produce better long-term results on the market, that they attract the best employees and develop better relationships with the external stakeholders (Daft, 2010: 61).

In the healthcare sector, the formulation of the mission must be externally focused on satisfying the healthcare needs of the population by the organizations or their respective program (the public healthcare market) and less on the services or products provided (Porche, 2004: 178).

In this contexts, the mission of a healthcare institution derives from the traditional role of hospitals, namely that of providing “excellent healthcare services or at least adequate to its patients or to a determined population” (Spencer, 2000: 142, 152). Although the mission does not ignore the bearing of financial interests, the first place in the formulation of the mission is taken by the patient and his needs, regardless that the hospital is a public or a private institution. A telling example is the formulation of its mission, posted online, on its site, by the Emergency County Clinical Hospital Timisoara: “to provide excellent medical services for the population from the west area of Romania”, one of the goals stated

by the team of the hospital being satisfying the needs of the patients (<http://www.hosptm.ro/cms/index.php>).

The mission of the healthcare institution (and implicitly, the means necessary for its accomplishment) is one of the prominent areas of ethical reflection, all the more so because this kind of institutions belong to the networks and forces of power that influence directly the public and the political life of the community. If they are loyal to the mission, identity and to the public commitment of the institution, the executives and the managers will be preoccupied by “the role of promoting the public welfare, the protection of employees, the creation of a better environment for living, and of influencing the political and economic factors of the community in order to contribute to the development of a just public order” (Morrison, 2011: 242, 246). The loyalty manifested and the successful undertaking of this role represent two sides of the ethical conduct required from any person and show a powerful identification with the organization itself.

In another example – the formulation of the mission taken on by the private hospital, London Bridge Hospital, to take care of and to improve human life – we notice the adherence to ethical values: the recognition and the assertion of the uniqueness and of the intrinsic value of each individual; the compassionate and kind treatment of everybody; the commitment to act honestly and with integrity when managing the business and in personal behaviour (<http://www.londonbridgehospital.com/LBH/about-us/our-mission>).

According to Sharon Ann Mayers (2011: 168), “the values and the ethics are the essence of every institution that purports a role in healthcare services”. Among the values which must guide the behaviour enacted in organizations are integrity, team work, care and professionalism. Jennings and all (2004: 5) list four principles on which the ethical administration of the healthcare institution is based: the fidelity towards the mission, the services provided to patients, the services rendered to the community, institutional management (administration). The fidelity towards the mission is justified as being the headstone for an ethical leadership and for the other responsibilities of the executives. The latter must stir the institution in the right direction needed for the accomplishment of the mission (this gives legitimacy to their administrative role), for attaining its established moral and social objective. This entails not only taking into account the history and the past of the organization, its traditions, but also manifesting an open attitude toward the future and toward change.

At the same time, fidelity towards the mission means to meet day after day the moral demands that ensue day to day. This strong commitment makes possible the observance of the other principles at stake. Moreover, the leaders from the

healthcare sector are more and more interested to recruit, select and promote persons who are capable to adapt themselves to changes and in the same time to be loyal to the mission of the organization (Ledlow & Coppola, 2011: 344). Morrison (2011: 230) thinks that the loyalty towards the mission expresses a likeness to ethical principles because the organization, by giving its word to uphold and render concrete the goals of the mission, is bound by its word exactly to the same extent as any ethical principle would be binding. In this sense, the institution must respect the promise it made in order to be able to have any expectations towards employees and the community at large.

In an exploratory research based on interview (May, 2004: 114), conducted on 98 hospital managers and CEOs from New York (1998), concerning their role and activities, 28 of these defined them in the term of the mission of the healthcare institution – the upholding and the realization of the mission, the development, ratification and monitoring of its practical accomplishment, the necessity to believe in the mission, to engage in its supervision and implementation, supporting the CEOs and the personnel in different ways (questions, suggestions, expertise). In a similar research, conducted between November 2006 and January 2007, on 392 subjects from three medical centres (321 nurses and 72 managers, specialists in clinical medical assistance, trainers, etc.), Susan Rynne Huerta (2009) addresses the problem of a strong link between the way in which the mission is formulated and understood and the perception of the ethical climate by the employees. This fact reveals the importance of the formulation of the mission as a precursor of shaping the ethical environment in an organization.

3. THE NEED OF GUIDANCE IN THE ELABORATION AND THE FORMULATION OF THE MISSION

Although in the business sector, there is a stronger focus on the integration of the mission in the strategic plans of companies, there are few studies to show the opinion of hospital managers on this matter. Therefore, there is a lack of guidance in formulating and specifying the mission of the institution (Gibson, *et al.* 1992: 47, 49).

Among the components of the mission, Daft (2010) mentions characteristics such as the values of the organization, the quality of the product, identification of facilities, the attitude towards employees. F. David (2007, cited by Robbins&Coulter, 2009 : 181) thinks that the tenets of the mission should comprise references to the company's consumers, to the markets they compete geographically, to the concerns pertaining to survival, to growth and profitability, to philosophy (fundamental beliefs, values and ethical priorities), to concerns about

the public image, to products and services provided, technology, auto-concept (the most important competitive advantage and the key competences), to concerns about employees.

The research conducted by Gibson and all (1992), based on a questionnaire addressed to 176 respondents (selected from an initial sample of 700), involved in the planning process developed in hospitals, revealed that, although the majority appreciated positively the importance and the usefulness of the mission, when confronted equally with the components of the mission and their relevance, their opinions were more heterogeneous: some of the most important aspects of the mission, for example, were not mentioned for inclusion in the formulation, and therefore it appears that the respondents do not place a lot of importance on the role of the mission in its entirety. The authors conclude that there is a need for a dialogue to be conducted at the level of the entire healthcare sector in order to establish the components which should be included in the formulation of the mission. They also stress the fact that bigger efforts are necessary in order to involve more managerial levels in the development and communication of the mission, in its realization, especially in the institutions with a high competitive environment and a low degree of employment. Moreover, according to the research, the fear of not divulging too much information about the institution determines managers to not opt for an ample formulation of the mission.

4. RESEARCH METHODOLOGY AND RESULTS

4.1. Methods

Our research is based on the analysis of the websites of 144 hospitals from Romania, which are classified in the first three classes of competence, starting with 2011, in conformity with the list published by the Health Ministry (<http://www.ms.gov.ro/?pag=53>).

The objective of the research was to identify whether the hospitals posted on their site the formulation of the mission and the values which underlie their activity. The mission, the vision and the values play an essential role in the life of a healthcare institution precisely because the strategic decisions must be in line with them, must derive from them; if not, the institution does not have a clear direction and its decisions can be “counterproductive for the organization and the community it serves” (2011: 43). The stock of values guides “the thinking and the actions of individuals and groups”, as well as the behavioural patterns developed by the institution (Baun, 2011: 83). The values enable employees to have a sense of

pride and managers to have a sense of involvement within the organization (Swansburg & Swansburg, 2002: 81).

The data gathered in research was codified in nominal variables with the aid of the statistical program Sphinx Plus2 (the licence belongs to the Alexandru Ioan Cuza University from Iasi). For the interpretation of the data, it was used the frequencies analysis and the statistic univariate analysis with the independence, un-parametric chi square test.

4.2. Main results. A virtual picture of Romanian hospitals mission

From the 144 classified hospitals, 8 do not have a webpage of their own and, consequently, were regarded as not having a mission and exhibited values as they do not convey this information about their identity to stakeholder, especially to external ones (clients, community, authorities, suppliers, competitors, etc.). Therefore, only 10 hospitals (a percentage of 6,9%, $hi^2 = 106,78$, $df = 1$, $1-p = >99,99\%$) have values declared on their site, explicitly or implicitly (in the latter case, without mentioning whether the values are undertaken by the institution).

From these, 3 hospitals belong to the I category, 3 to the II category and 4 hospitals to the III category, which demonstrates that there is not a connection between the classification category and the preoccupation with the formulation and the recognition of values. From the ten hospitals which make reference to values in their websites, one has rubrics dedicated to the mission and to values, but not specific information on the subject. The cases in which the values are identifiable in the formulation of the mission, in the rubric pertaining to it, were not taken into account because the mission was analysed separately. Therefore, were considered only those cases in which the values were posted precisely in the rubric “values”.

4.3. Main results. Values promoted in the practice of the hospitals from Romania

Among the values mentioned, the most frequent are the following: professionalism (6 mentions), quality (providing medical services of quality/constant improvement of the healthcare quality, the improvement of the quality of life) (7 mentions), research (3 mentions), respect (for the patients, but also “the respect for our accomplished professionals and for the traditions of the Institution, recognised nationally and internationally”) (3 mentions), creativity (2 mentions), innovation (2 mentions), team work (2 mentions). Values with one mention are: team spirit, correctness, confidentiality, flexibility, performance (which benefits the patient), satisfaction of the patients- clients/relatives, commitment to a good professional practice, education, dedication, communication, innovative management, competitive management (“the judicious

use of human and material resources in order that the healthcare unit should not be confronted with dysfunctions”). Although, all the values on the websites of the 10 hospitals address implicitly the patient as well, only two hospitals make an explicit reference to “the orientation towards the patient such as to identify his needs” and expectations and to satisfy them. The term “patient” is recurrent four times in the total of values, from which two times at the same hospitals. For certain hospitals, the promotion of values is undertaken as an *obligation* which belongs to the personnel (such as in the case of the “Dr Constantin Opriș” Emergency County Hospital from Baia Mare): “to respect the dignity of human life, to show compassion and to provide care without discrimination, to sustain perfection and professionalism through education, research and evaluation, to promote quality, equity and responsibility”.

With regard to the formulation and the posting online of the mission, only 11, 1% of the hospitals (N = 16) purport an explicit mission, have a rubric for it or mention the title “mission”, and 2, 77% (N = 8) mention also the vision (the desired situation or the one to which they aspire). Although has a rubric for the mission (as well as for values), one of the hospitals does not post online the relevant information. From the 16 hospitals, 7 belong to the first category of classification based on competence, 6 to the second category, and 3 to the third one. A percentage of 40,3% (N=58; $hi_2 = 38,83$, $df = 3$, $1-p = >99,99\%$) makes implicit reference to elements of the mission in the presentation rubric of the hospital (“about the hospital”, “about us”, etc.), either by enumerating the sections/specializations of the hospital, or by specifying its goal/profile. A percentage of 13,2% of hospitals (N = 19) make a direct reference to the elements of the mission in the section “History”, and 35,4% (N = 51) do not make any such references. 6 hospitals, which have an explicit mission (37,5%) posted on the site, present as well their values ($hi_2 = 26,26$, $df = 3$, $1-p = >99,99\%$).

4.4. Main results. Elements for the identification of the mission of the hospitals from Romania

Concerning the mode of formulating the mission (focused on the services, the market or on the services and the market alike), 3 hospitals formulated a mission pertaining to services (the services provided are specified accordingly), 7 pertaining to both services and market (the demand met by the healthcare institution through its services), 2 pertaining to market, and for one of the hospitals, there is no information displayed at all (as it was noticed before). Likewise, 7 hospitals make implicit reference to certain values (for example, “in the best and most efficient way possible”, “highly regarded personnel”, the “Dr Nicolae Robanescu” National Medical Centre of Neuro-psychomotor Research for

Children, from Bucharest; “to be the best for a better life”, the Emergency County Clinical Hospital from Tîrgu-Mureş), 4 explicitly (for example, “the Malaxa Hospital is a place where innovative ideas, honesty and perseverance in doing things correctly represent the foundation for the constant growth of the quality of the medical act”) and 3 both implicitly and explicitly (for example, “to provide medical services of high quality”, “our preoccupations pertain to the enhancement of the performance of the medical act..., to satisfying the patients expectations and needs..., to promoting medical research...”, the Emergency County Clinical Hospital from Braşov). Overall, the term “patient” is 6 times recurrent, and three references pertain to “the satisfaction of the patient”.

The other two hospitals only specify the services provided or what are their destination, whereas the third hospital does not offer any information at all.

The findings show that there is little preoccupation for these two elements (mission and values), although they are fundamental for the management of an organization, both for the coordination of its efforts, made in order to attain the established objectives and to mobilize employees, and respectively for the dialogue with the external stakeholders (patients, clients, suppliers, authorities, competitors, community) and for the consolidation of their relation. Moreover, it is noticeable that, overall, the healthcare organizations which displayed an explicit mission do not enjoy a uniformity of presentation of the particular elements of the mission, certain institutions providing a sketchy mission (either a presentation of services, or of the demands that are met by them), or a more detailed mission (values, commitments of the personnel, etc.). Furthermore, viewed from the angle of the elements treated in the scholarly literature, the formulation of the mission appears to be “incomplete”.

5. CONCLUSIONS

The mission and the values are an important part of the visit card of the hospital. It is as though we would have to choose between many consultants and must decide according to the way in which we perceive that one of them is better than the others, that he provides us with something unique in order to satisfy our needs. In a competitive context, therefore, the simple formulation and posting online of the most important elements of the mission and of the values of the organization can play a tremendous role in gaining a decisive advantage over against other institutions from the same field. It is especially affective from the point of view of the visibility of the organization.

The mission must personalize the organization, render it unique. It must not be formulated in a standard fashion by all organizations. Nevertheless, in order to be efficacious, the mission must be based on the same fundamental principles.

Certainly, for some hospital managers, these elements could be only a sort of an esthetic façade, because there are Romanian patients who, by not having an alternative option and having to limit themselves in frequenting the only hospital available in their region (especially the patients from rural areas, who do not have enough resources to search treatment to other hospitals), are not really interested in the mission and the values of this hospital since it is their only option. Nonetheless, there is a connection between mission and “illness” (sufferance) (the mission contributes to choosing the convenient institution for the treatment of the respective illness) and between curing the disease and the values promoted by the hospital. Only through the internalization of values (with the help of the strategies developed by the human resources management – a rigorous selection of personnel, the foundation and the consolidation of an ethical culture (an ethical working climate, which enhances the performance), adequate motivation and rewards, authentic leadership, professional training -), would these have a real impact on the well-being of the patient and on the proper functioning of the organization. Even if managers could resort to external consultants for the formulation and the posting of the mission and values on the site, this would only be a strategic error, a form of deceit.

The mission must not be a weapon of public relations (Stahl, 2004, p. 370). On the contrary, it must be understood, lived in daily activity, promoted and sustained by the personal example of the managers. It should inspire and mobilize employees. The mission and values are fundamental elements for a successful and competitive management. Without them, the organization is like a high performance car, full of passengers, which lacks the driver who could stir it in the right direction, so that the passengers reach the correct destination; or a driver who could notify the passengers that they need a different car to reach the intended destination. In conclusion, it is necessary a more clear awareness about the importance of the mission, of its implementation, of the identification of “mechanisms which create a managerial good-will”; in a word, an awareness of the need to change. Everything starts with the mission: it is the same situation as when the ancient rulers urged their soldiers to go to battle, using the mobilizing effect of the message concerning the mission they shared together: to win. For hospitals, the mission consists in the battle for life. In other words, it is an ethical issue.

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THE ROLE PLAYED BY ECONOMIC AND NONECONOMIC VARIABLES IN THE ANALYSIS OF TAX COMPLIANCE

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Abstract: *Tax compliance has been analysed from various perspectives across time and its importance in economy should not be underestimated. The present study aims to examine the relationship between specific factors, such as the opportunity of noncompliance, taxpayers' perceptions, demographic characteristics and the compliance intention. The research focuses only on the income reporting behaviour of three categories of individual taxpayers: doctors, lawyers/notaries and self-employed accountants. A survey with self-administered questionnaires has been conducted in order to obtain the information needed from the target population. The results show that the income source (the possibility of obtaining income that is untraceable on paper) and taxpayers' perceptions have a significant relationship with the compliance intention. Also, there are significant differences between taxpayers according to the demographic variables tested. These results may be useful to both theorists and practitioners.*

Keywords: *tax compliance, individual taxpayers, opportunity, perceptions, demographic factors.*

JEL Codes: *H26*

1. INTRODUCTION

The human behaviour has been in the attention of many scientific fields in the last Century. The behaviour of taxpayers is one direction that captures various research topics in the attempt to explain economic relationships. The main question asked by specialists in economy is “Why do people pay taxes?” (Feld and Frey, 2007). Most of the people do not fully understand the purpose of taxes and feel a great aversion towards them and the entire tax system (Sun, 1994).

The purpose of this article is to offer new contributions to the individual taxpayer compliance literature, by examining the relationship of certain factors

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(noncompliance opportunity, taxpayers' perceptions and demographic characteristics) with the compliance intention of three groups of taxpayers that report income on their own: doctors, lawyers/notaries and self-employed accountants. The starting point of the research is represented by the Fischer model (Fischer et al., 1992).

The primary objectives of the study start with the analysis of the role of opportunity, as described by Fischer et al. (1992), on three directions: occupation, income level and income source. Secondly, the relationships of the perceptions of the taxpayers regarding audit probability, the chance of being detected in case of noncompliant behaviour and the level of the income tax with the compliance intention of the taxpayers are put into discussion. Also, the demographic differences (age and sex) in matters of compliance intention are presented.

The importance of the subject rises firstly from the role held by taxpayers in the economic environment and the constant need of understanding their behaviour, as the compliance of taxpayers could be associated with the idea of fulfilling the role of the consumer-citizen within a state. By complying, the consumer-citizen contributes to the public budget by paying taxes and fees and, on the other hand, he uses public services (health, education, etc.), funded by these contributions precisely. Secondly, the Romanian specialty literature contains very little information about the behaviour of taxpayers and through this research the perspective on Romanian taxpayers may be improved.

The following sections of the paper comprise a short literature review regarding the subject of tax compliance and the concepts analysed, the information and results obtained from a survey that took place in Iași County, Romania (one of the 41 counties of the country, with a population of over 800 000 people). The last section offers the conclusions and implications of the study, its limitations and future directions of research.

2. LITERATURE REVIEW

In order to solve the many issues raised by the behaviour of taxpayers, economists have focused on understanding the tax compliance behaviour. Compliance, in general, refers to the act of subordination, obedience to rules, desires, activities, laws, even if they are not wanted. Tax compliance may be defined as the voluntary obedience to the rules and laws of the tax system. The researches that approached the subject have been interested, mainly, on the compliance of individual taxpayers.

Kirchler and Wahl (2010, p. 333) consider that compliance is the most neutral and inclusive term that describes people's willingness to pay taxes.

Most of the authors who studied tax compliance have followed the idea that compliance is a function of the rational pursuit of the self-interest of the taxpayers (Wenzel, 2005).

The most frequent approaches focus on income reporting and the payment of the income tax.

The first major study, belonging to Allingham and Sandmo (1972), which continues to be the starting point for researches even in the present, drew the main directions of tax compliance behaviour. In their opinion, taxpayers face a simple choice: to report the real income obtained or to report less. The assumptions made by Allingham and Sandmo stand on the basic macroeconomic concepts such as the search of the individuals to maximize the utility of their actions or the belief that utility increases as the wealth increases. In their opinion, the decision to pay or not taxes relies on the likelihood of being caught and the fine taxpayers could receive if they are detected by the authorities.

Yitzhaki (1974) continued the development of the Allingham-Sandmo model by highlighting the fact that the penalties, in most tax systems, are not calculated according to the size of undeclared income, but rather to the amount of unpaid taxes.

Other studies continued the work of Allingham and Sandmo by extending their model to other types of taxes, by better explaining risk aversion (Eisenhauer, 2008) or adding new variables such as tax morale (Eisenhauer, 2008; Traxler, 2010).

Alm et al. (2010) make some criticism regarding the classical Allingham-Sandmo model. Thus, they believe, on one hand, that this model addresses only the decision to report. On the other hand, traditional models assume that people know, with certainty, the true tax liability; in reality, a country's tax code can be quite complex, leaving enough room for interpretation. Chorvat (2007) also sustains the "simplicity" of these models, but points out an important feature of standard economic models: people feel a large aversion to penalties.

Ashby et al. (2009) make some observations about the individualistic vision of education as that of Allingham and Sandmo, considering that the payers of taxes and duties have been characterized as pursuing their own interest to maximize utility, so they avoid paying taxes out of pure greed, this being a relatively small view in the opinion of the authors.

Torgler (2003) sees compliance as a function of opportunity, tax level, the likelihood of being caught, also the individual's willingness to comply or to avoid paying taxes.

The main concepts approached by this paper, besides compliance, are the opportunity of noncompliance, the audit probability, the chance of being detected and the perceptions about the level of the income tax.

Opportunity, in the tax compliance literature, has been rarely approached and its importance cannot be ignored. Blanthorne and Kaplan (2008) divided their respondents in two categories: high and low opportunity to underreport income, based on their business ownership and if they had obtained cash income that was not reported to the IRS (the respondents who had positive answers to the two items were included in the high opportunity group). The authors approached opportunity as the chance that some taxpayers have in obtaining cash-in-hand income, that is hard to trace on paper. Their findings show that opportunity has a direct and indirect influence on reporting behaviour. Smith (1990) also found a positive relationship between tax evasion and opportunity.

Three different concepts may describe the nature of opportunity: income source, income level and occupation (Fischer et al., 1992; Chau and Leung, 2009). The income source refers to the chance of earning untraceable income or amounts of money that do not appear in the records of the taxpayers (Chau and Leung, 2009).

The audit probability, in general, refers to the possibility that a taxpayer has to become the subject of an audit performed by the tax authorities. Alm, Jackson and McKee (1992), Mittone (1997), Cullis, Jones and Lewis (2006), Mittone (2006), Maciejovsky et al. (2007), Lewis et al. (2009) and Cummings et al. (2009) have analysed the “audit probability” effects in their studies, this being the most common approach that describes the chance of being audited.

The chance of being detected has been approached by specialists in various forms: perceived detection risk (Carnes and Englebrecht, 1995), probability of detection (Allingham and Sandmo, 1972; Fischer et al., 1992) or probability of being detected as guilty of evasion (Mittone, 1997). The most conclusive definition is probably given by Fischer et al. (1992: 4): “the probability of detection is the probability that noncompliance will be discovered and that the IRS will seek to rectify the deviance”. The authors also underline the fact that the two concepts, “the probability of being detected” and “audit probability” are very different and might be confusing for readers, if the concept used is not properly defined. Carnes and Englebrecht (1995) also sustain this idea, especially because by simply carrying out an audit, if it is not properly applied, the evasion may not be discovered and the final purpose, of reducing noncompliance, will not be accomplished (Fischer et al., 1992). But the chance of being detected is not a

concept that can be measured in advance, it relates more with the perceptions of the taxpayers.

The taxpayers' perceptions about the level of the income tax have not been previously analysed, but the concept might be related to the influence of the tax level (Dhami al-Nowaihi, 2007) or the fiscal pressure (Alm, Sanchez, Juan, 1995).

The specialty literature focused mostly on the individual taxpayer, due to the fact that many of the studies took place in countries with a self-assessment tax system, making it easier for researchers to approach the target population. The Romanian tax system has its characteristics and self-assessment of the income obtained and income tax applies only for companies and certain categories of individual taxpayers: liberal professions (doctors, lawyers, notaries, self-employed accountants, architects or other self-employed activities), taxpayers who obtain income from intellectual property or agricultural activities. Only these categories of individual taxpayers report on their own the income obtained and pay the income tax individually.

3. RESEARCH STUDY

3.1. Variables and hypotheses development

The study comprises a set of independent variables and two dependent variables. The dependent variables describe the compliance intention to income reporting of the respondents, in two situations. In the first situation, the respondents are asked to answer, on a 1 to 5 scale (1 representing the lowest degree of compliance intention and 5 the highest degree), if they would report the income obtained, in the case the income is untraceable on paper (there is no evidence on paper about the existence of the income). The answers vary from "I would certainly not report" to "I would certainly report". To obtain the variable, the answers were coded from 1 to 5, as an ordinal variable.

The second dependent variable is represented by the general compliance intention. The respondents must agree or disagree, on 5 point Likert scale (1- Strongly agree, 5- Strongly disagree), with the following statement, inspired by the study of Verboon and Dijke (2007): "If I had the possibility, I would not report all of my taxable income". The statement has been modified for the present study, due to the fact that the dependent variable regards only the intention of the respondents to report their income and not the payment of the income tax. As for the previous described variable, the answers were coded from 1 to 5, as an ordinal variable (1 representing the lowest degree of compliance intention and 5 the highest degree).

This study focuses on the opportunity of noncompliance inspired from the model of Fischer et al. (1992), which includes three different variables: income source, income level and occupation. The income source is shaped by a question with dichotomous answer (YES/NO). The respondents were asked if they have obtained, in the past, income that did not appear in their financial records.

H1: Taxpayers who had obtained, in the past, income that did not appear on paper (untraceable) will show a significantly lower compliance intention than the taxpayers who did not obtain untraceable income.

Regarding the influence of the income level, there are some contradictions in the previous researches. Ho and Wong concluded that the income has no direct influence on tax compliance, while other authors think that income could have a negative influence on tax morale and so, the better they earn, the less they want to report (Andreoni, Erard, Feinstein, 1998; Torgler, 2003). The income level is treated as a ordinal variable, with gradual answers. The respondents must choose one of 16 different intervals of income (coded from 1 to 16), which describes their average monthly income.

H2: There are significant differences between taxpayers in what regards the compliance intention, according to the average monthly income obtained.

Very few researchers have expressed their interest in the role of occupation in the tax compliance analysis (Ashby, Webley and Haslam, 2009) and rather focusing on specific groups of individuals than on the whole population may be a better solution (Trivedi, Shehata and Legun, 2003).

In the present study, three different occupational categories are analysed: doctors, lawyers/notaries and self-employed accountants. According to the Romanian tax system, only certain categories of individual taxpayers report income and pay the income tax based on a self-assessment system and the three occupations mentioned above are included here.

H3: There are significant differences between the three occupational categories studied in what regards the compliance intention.

The previous studies have shown that tax compliance rises as the audit probability rises (Alm, Jackson and McKee, 1992; Cullis, Jones and Lewis, 2006; Lewis et al., 2009; Cummings et al., 2009). The perceived audit probability refers to the perceptions of the taxpayers about the possibility of being audited by the authorities. In the present study, they must express their opinion about the chance of being audited in the following year and to do that, they have 8 different possibilities described by 8 percentage intervals, similar to the variable used by Carnes and Englebrecht (1995): a chance between 0 and 1%, between 2 and 9%,

between 10 and 24% and so on, the last interval being a chance between 85 and 100%. The variable has been described as ordinal and has been coded from 1 to 8.

H4: There is a significant positive relationship between the perceived audit probability and the compliance intention.

The “perceived chance of being detected” variable, in the study, is shaped in the same way as the perceived audit probability. But the taxpayers must answer to two different questions. The first one asks them to express their opinion about the chance that a person who obtains taxable income and does not report it has to be detected by the authorities, when that income appears on paper. The second one is very similar, except now the person obtains income that does not appear on paper (is untraceable). The questions are built in an indirect style, in order to stimulate honest answers from the respondents. The two variables are coded as ordinal, from 1 to 8, exactly as the perceived audit probability.

H5: There is a significant positive relationship between the perceived chance of being detected and the compliance intention.

The influence of the tax level regards the fact that increasing their level may determine a decrease in the degree of compliance of the taxpayers (Dhami al-Nowaihi, 2007), because the income level remains the same, but the expenses rise and people tend to reorganize their priorities.

The taxpayers’ perception about the level of the income tax in Romania (which is a flat tax of 16%) describes a new manner in which the influence of the tax level is treated. The respondents are asked to express their opinion about the level of the income tax on 5 levels scale: very high, high, appropriate, low and very low (coded from 1 to 5).

H6: There is a significant relationship between the perception about the level of the income tax and the compliance intention.

Regarding the gender of the taxpayers, the studies show that females are more compliant than males (Andreoni, Erard and Feinstein, 1998; Chung and Trivedi, 2003; Kastlunger et al., 2010; Torgler, 2003). Cadsby et al. (2006) affirm that the degree of compliance in the case of male taxpayers descends across time.

H7: Female taxpayers are more compliant than male taxpayers.

In what concerns the age of the taxpayers, the researches have demonstrated that young people, being at the beginning of their careers, do not perceive the utility of taxes as they should, they feel like something is taken from them (Schmölders, 2006). Andreoni, Erard and Feinstein (1998) also discussed about a positive correlation between compliance and age. The age of the respondents is collected as a numeric variable, but afterwards it has been transformed in an ordinal one, through 9 intervals of age (coded from 1 to 9).

H8: There are significant differences in what regards the compliance intention, between the different age groups.

3.2. Method

A survey with self-administered questionnaires has been conducted in July – September 2011, in Iași County, Romania. The questionnaires were directly administered to the target population, and after they had completed them, the questionnaires were collected. This method was the most appropriate as the subject of taxes and compliance is a very sensitive one and in this manner, the respondents were stimulated to give honest answers, without the pressure felt in the presence of an interviewer. Also, no one had to reveal his/her identity, the study was conducted on the principle of anonymity.

A final sample of 263 valid questionnaires resulted, after the distributing initially approximately 400. From the total distributed, 336 questionnaires were returned, from which 28 were not completed and 45 could not be validated for analysis (incomplete or ambiguous answers etc.), resulting a total response rate of approximately 70%.

3.3. Results

The data from the valid questionnaires has been processed with the help of SPSS 13.0 programme. The general structure of the sample obtained from the survey follows the structure of the total population targeted, in matters of occupation. From the total of 263 respondents, 138 are doctors, 86 lawyers and notaries (81 lawyers, 5 notaries) and 39 self-employed accountants.

From the gender perspective, 63,5% of the respondents were female and 36,5% male. According to their age, the respondents were assigned to one of the 9 intervals to which the variable was recoded.

The structure of the respondents according to the average monthly income is described in Figure 11. The amounts of income are in Romanian lei (Ron) and for general comparison, 1000 Ron are the equivalent of 232 Euros and 8000 Ron the equivalent of 1860 Euros.

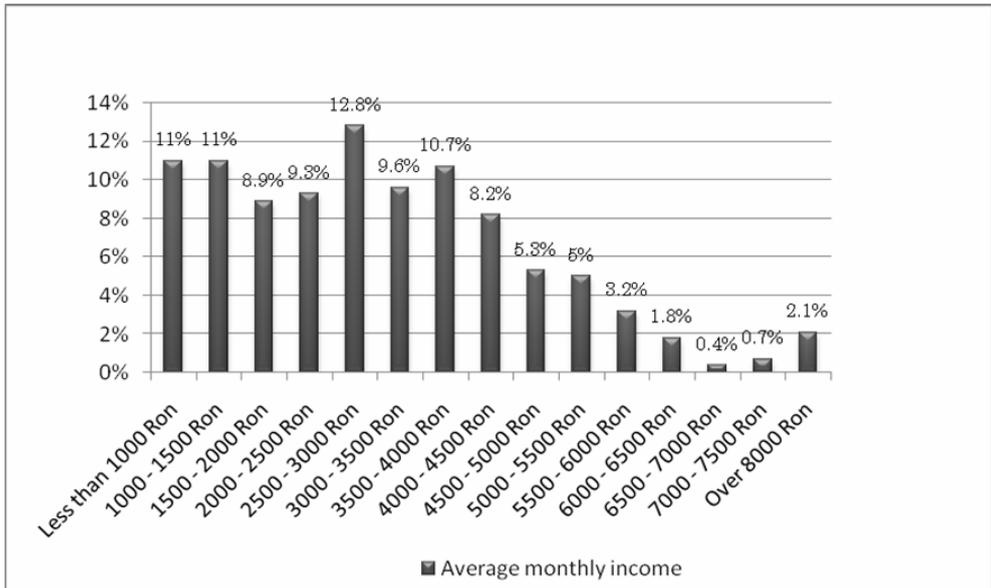


Figure 11 Income structure of the sample

In order to choose the most appropriate methods of analysis, Kolmogorov-Smirnov tests have been applied for all the dependent and independent variables. The significance value in each case (p value or Sig.) was lower than 0.05, meaning that the distributions of the variables differ from a normal one, so we proceeded in the analysis with the help of nonparametric tests.

One of the items of the questionnaire asked the respondents to say if they happened to obtain income that did not appear in their records. 29,7% responded that they had obtained this kind of income and 70,3% that they had not obtain income that did not appear in their records (Yes/No answer). To test if there are significant differences between the two groups, a Mann-Whitney test was applied, for the two dependent variables. The results are presented in Table 22.

Table 22 Compliance intention differences according to the past experience with income that did not appear in records

Compliance intention when the income is untraceable on paper				General compliance intention			
Test results		Mean compliance intention		Test results		Mean compliance intention	
Mann-Whitney U	p	YES	NO	Mann-Whitney U	p	YES	NO
3621.5	.000	2.8462	4.0649	3961	.000	2.5897	3.6324

As the significance level for each of the two tests was lower than 0.05, the differences between the two groups are significant, this meaning that the first hypothesis was confirmed: taxpayers who had obtained untraceable income are less compliant than taxpayers who had not obtain untraceable income (1 reflecting the lowest compliance intention and 5 the highest).

To test the compliance intention differences according to the average monthly income obtained by the taxpayers, a Kruskal-Wallis test was conducted, for the two dependent variables. The high values of the significance level of each test show that the differences are not significant as predicted and the income variable is not a significant factor of influence and will not be further analysed ($p = .097$ for the test with the compliance intention when the income does not appear on records; $p = .119$ for the test with the general compliance intention).

The compliance intention of each occupational category analysed appears to be different, in both cases (when the income does not appear in records and the general compliance intention) and the mean values are presented in Table 23.

Table 23 Mean compliance intention for each occupational category

Occupation	Compliance intention when the income is untraceable on paper	General compliance intention
Doctors	3.7754	3.5
Lawyers/notaries	3.5581	3.0116
Accountants	3.7692	3.3846

To test if the differences between the three groups are significant, a Kruskal-Wallis test was applied for the two dependent variables. In the first case, the significance level of the test was higher than 0.05 ($p = 0.378$), showing that the differences between the level of the compliance intention of the three groups are not significant. In the case of the general compliance intention, the test result showed instead significant differences between the three occupational categories (Chi-Square = 8.356, $p = 0.15$). As it can be seen also in table 3, the doctors have the highest mean for the general compliance intention, followed by the accountants and last, by the lawyers/notaries. The classification is the same in the first case, but it the differences are not so obvious.

The existence of a relationship between the two forms of the compliance intention and the perceived audit probability has been verified with the help of the Chi-Square tests. The results show that a significant relationship exists between the variables, as the significance level for each test was lower than 0.05, but they do not show the direction of the relationship. For this analysis, correlation coefficients for ordinal variables have been calculated. In the case of the compliance intention

when the income is untraceable, the coefficients were: Kendall's tau-b = 0.233 and Spearman = 0.293, showing a weak correlation. For the correlation with the general compliance intention, the coefficients showed a weak to medium correlation (Kendall's tau-b = 0.246 and Spearman = 0.311). The relationship between the variables is positive, meaning that as the perceived audit probability rises the compliance intention also rises.

The relationship between the compliance intention and the perceived chance of being detected has been analysed on two directions, as each concept was defined through two different variables. Firstly, Chi-Square tests have been applied for the general compliance intention and the perceived chance of being detected (when the income appears in records), showing a significant relationship between the variables (p lower than 0.05 for all tests). The correlation coefficients sustain the existence of the relationship and show that it is a positive one, but relatively weak (Kendall's tau-b = 0.210 and Spearman = 0.263). Secondly, the relationship between the compliance intention when the income is untraceable on paper and the perceived chance of being detected (also when the income does not appear in records) was tested, showing again a significant relation (p lower than 0.05 for all tests). The correlation coefficients are higher than for the first relationship (Kendall's tau-b = 0.220 and Spearman = 0.272), showing a positive, but weak correlation between the variables. The results are as predicted and we can conclude that the compliance intention rises as the perceived chance of being detected rises.

Taxpayers' perceptions about the level of the income tax are synthesized in Table 24.

Table 24 *Taxpayers' perceptions about the level of the income tax*

Level	Frequency	Percentage
Very high	80	30.4%
High	124	47.1%
Appropriate	57	21.7%
Low	2	0.8%
TOTAL	263	100%

Only 4 of the 5 levels available for describing the income tax were checked by the respondents (the last level, "very low", was not checked by any of the respondents). The most frequent choice shows that the level of the income tax is mostly perceived as being "high". The average score obtained from the whole sample was 1.9278 (SD = 0.7404).

The Chi-Square tests applied to verify the existence of the relationship between the compliance intention and the perception about the level of the income tax show different results for the two relationships tested. For the compliance

intention when the income is untraceable on paper, the significance level of the tests is lower than 0.05, showing a significant relationship. In the case of the general compliance intention, the significance level of the Pearson Chi-Square test is 0.7, so the relationship seems to be insignificant.

The correlation coefficients, on the other hand, sustain the significance of both relationships, which are positive, but very weak (Kendall's tau-b = 0.114 and Spearman = 0.133, in the case of the compliance intention when the income does not appear in records; Kendall's tau-b = 0.125 and Spearman = 0.149, in the case of the general compliance intention). As the level of the income tax is perceived as being "appropriate" or "low", the compliance intention is higher.

The differences between male and female respondents regarding the compliance intention were tested with the help of Mann-Whitney test. In both cases, according to the two different dependent variables, the significance level was lower than 0.05, confirming the prediction that the two groups differ according to the degree of compliance intention. Female participants comply more than male participants when it comes to income reporting. The differences are displayed in Table 25.

Table 25 *Gender differences between the mean scores of the compliance intention*

Gender	Mean score 1*	St. deviation	Mean score 2**	St. deviation
Male	3.3646	1.29061	3.0313	1.14665
Female	3.8982	1.32007	3.4190	1.33475

* Mean score for the compliance intention when the income is untraceable on paper

** Mean score for the general compliance intention

The influence of the age of the respondents cannot be neglected. In order to test the differences between the 9 groups of age (given by the 9 intervals), a Kruskal-Wallis test was used for both dependent variables. The results show, as predicted, that the groups differ in what regards the compliance intention, in both cases ($p = 0.000$ for both tests). The mean scores for each age group are presented in Table 26.

Table 26 *Age differences between the mean scores of the compliance intention*

Age group	Mean score 1*	Mean score 2**
20-24	3.7368	3.1053
25-29	3.0313	2.75
30-34	3.6129	2.9032
35-39	3.1290	3.1290
40-44	3.4333	2.8
45-49	3.2667	3
50-54	3.8333	3.2

Age group	Mean score 1*	Mean score 2**
55-59	4.7333	4.3667
60 and more	4.6333	4.6333

* Mean score for the compliance intention when the income is untraceable on paper

** Mean score for the general compliance intention

The results are interesting, as the previous researches have showed that compliance rises as the age rises (Andreoni, Erard and Feinstein, 1998; Schmolders, 2006). The results presented in table 6 are somehow consistent with the previous findings, meaning that the young and adult segments present a lower compliance intention than the 50 and over segment. But when comparing young taxpayers with adult taxpayers, the latter present a lower compliance intention in both cases.

5. CONCLUSION

The behaviour of taxpayers remains a source of valuable information, for different fields of research. The results of the study presented in this paper are consistent with the previous findings and also bring new insights regarding the compliance of taxpayers towards income reporting.

Taxpayers' previous experience with untraceable income (there is no evidence on paper to prove its existence) is an important factor, as those taxpayers who had this kind of experience present a lower compliance intention towards income reporting than the taxpayers who had not obtain untraceable income. In what regards the occupation of taxpayers, doctors comply more than accountants, who also comply more than lawyers/notaries, but only when it comes to the general compliance intention, so these results should be treated with caution. The average monthly income obtained by the taxpayers does not show significant differences in matters of compliance intention. The study confirms the opportunity described by the Fischer model (Fischer et al., 1992) only through the income source and, in a certain manner, through occupation.

As the perceived audit probability and the perceived chance of being detected rise, the compliance intention also rises. Also, taxpayers who perceive the level of the income tax as "appropriate" or "low" present a higher compliance intention. The demographic variables also show that men comply less than women and the young and adult segment comply less than taxpayers in their 50's and more.

The importance of these results and their implications cannot be neglected even if they regard only a specific population from a limited geographic area. Firstly, opportunity plays an important role, but mostly through the income source

and this aspect should be in the attention of the policy makers and tax authorities, due to the high chance of obtaining cash-in-hand income of the research population. But not only taxpayers should be in their attention, as they receive their income from clients who do not always ask for receipts or invoices. This issue regards the entire tax system, not only the compliance towards income reporting. Secondly, audits or the fear of being audited, correlated with the fear of being detected should be properly approached, through specific measures, as they have a great influence on compliance. Taxpayers' perceptions about the level of the income tax may be also influenced, in a positive manner, by trying to "ease" the pressure of those taxpayers who feel a higher burden from the taxes perspective, at least at a perceptual level. Last, but not least, from the demographical perspective, the focus should be on the categories of taxpayers more susceptible to noncompliance, but the other categories must not be ignored, as there are also other factors that have an important influence besides age and sex.

The limitations of the study regard, mainly, the sensitivity of the subject and the fact that is difficult to have control over the sincerity of the respondents. Also, the three professional categories studied are not very accessible and this fact has limited the number of questionnaires collected.

Further directions of research may include expanding the study at a national or even at an international level (in countries with a similar tax system as the Romanian one) and also including more psychological variables, which would better explain the puzzle of tax compliance.

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INTERNATIONAL COMPARISON OF SCIENTIFIC RESEARCH PERFORMANCES IN EASTERN EUROPEAN UNIVERSITIES

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Abstract: *Measuring the scientific performance at the level of higher education is, globally, the task assumed by numerous organizations who are trying to develop different rankings concerning the ability of the Universities to offer degree programmes or careers in scientific research. Several strategies used for promoting the Universities are based upon the international relevance of the results produced by the scientific research.*

This is the reason why the eastern European Universities have progressively invested significant financial resources in scientific research, having the support of the national governments or through partnerships with other European universities. Many states have adopted a strategy aimed at increasing the results of the main scientific rating indicators: ISI articles, citations of ISI articles, books published by internationally recognized publishers, EPO, USPTO and JPO patents.

The aim of this study is to elaborate a comparative analysis between the performance in scientific research for six internationally recognized Universities in Bulgaria (Sofia University "St. Kliment Ohridski"), Croatia (University of Zagreb), Poland (AGH Krakow), Romania (Al. I. Cuza Iasi University), Serbia (Novi-Sad University) and Slovakia (Comenius University Bratislava), more or less differentiated according to the fields covered by the offer of programs and scientific studies.

1. INTRODUCTION

Performance in the scientific research of the organizations includes both individual and team performance outlined against the organization's fundamental and derived objectives. The modalities of expression and measurement are varied and depend on the nature of the object of activity, size and functional characteristics, socio-political environment, regional economic development, etc

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(Tiță, 2011). Research evaluation identifies the strength and weakness of a university and provides information for improving academic research (Huang, 2011).

Performance measuring in scientific research uses chiefly bibliometric indicators which allow the assessment of the results of researchers, research groups, institutions and countries. The number of publications and citation impact indicators "are frequently used as a method of research recruitment by numerous institutions such as the National French Institute, the European Universities" (Wang, Fu and Zo 2011). The product or innovative process described in a patent can attract the companies' interest and then the university researcher has the opportunity to use the results of undertaken research. This relationship between the university researcher and the company has generated intellectual property rights, which began also in the Eastern European countries (Slovenia and Hungary) to be subject of legislative measures similar to the Bayh-Dole law in U.S. (Leydesdorff, 2007).

The use of scientometric indicators in evaluating scientific research began after Garfield's proposal of a global scientific citation index (Garfield, 1955), and is widely in use today due to easy access to the relevant databases (Almeida, Pais and Formosinho, 2009).

At international level, the universities in Eastern Europe, in recent years, faced the same problem that most European universities: lack of money. Money matters in science as it often does in human affairs. Indisputably, a larger research budget would help the EU boost European science. However, money is not the only leverage for European universities to have a better research output (Bauwens, Mion, Thisse, 2007).

1. The governance and design of research institutions and universities are critical inputs in knowledge production, a fact that European researchers and public decision-makers tend to dismiss far too often. This covers a large number of issues, ranging from the ability of hiring new researchers to the linkage of professors' salary and promotion to their scientific (and teaching) output, through more flexibility in managing research funds and the development of research centers having a critical size.
2. English proficiency is another critical element. To put it bluntly, graduate teaching and scientific publishing should be done in English, even in non English-speaking countries.
3. We would be the last to claim that university and research budgets do not matter in the performance of researchers (Aghion et al., 2007). However, our

analysis suggests that the way the money is used is probably as critical as the amount of money itself.

The problems identified in the EU states are more difficult in Eastern Europe universities, which, in addition to financial resources, face the migration problem of teachers, students, PhD students and well-trained doctors to the research centers and universities in Western Europe. In many cases, decision makers in universities cannot develop scientific development strategies as long as migration is high and the governments does not provide financial resources for research projects to maintain human resources.

The idea of the article is to compare the performance of scientific research for universities in the eastern part of Europe by measuring results at key indicators with at international relevance: the number of ISI articles, the number of citations, number of books in international publishing and the number of patents. We specify that was not intended to realize a ranking of them but only to identify performance and reporting problems faced by countries in this part of Europe.

2. METHODOLOGY

The research started from the idea of doing a comparative analysis of the scientific research results of universities in Eastern Europe. Selection criterion for the analyzed states was position in the official EU reports on performance in this activity. Most countries in the region, except the Czech Republic and Hungary, occupy appropriated positions in the official rankings, with investments in this activity which in many cases did not exceed 1% of GDP and with reduced performance. The countries are older members of the European Union, Poland and Slovakia, the last members Romania and Bulgaria, plus Croatia which has already signed an accession pre-accord and Serbia who often manifested a desire to be part of the community.

Universities are representative for each state and occupy the leading edge in assessment processes that have occurred internally and important places in international rankings. In terms of activities they carry, all universities are multidisciplinary, with study programs in engineering, economics, science. The Al. I. Cuza University in Romania is the only with educational programs in science without technical or medical faculties. Universities from Bulgaria (Sofia University "St. Kliment Ohridski"), Slovakia (Comenius University Bratislava) and Serbia (Novi Sad University) offers educational programs and conduct research in medicine, law, philosophy, psychology and educational sciences, pharmacy, theology, economics and business management, mathematics, physics, computer science, physical education. University of Zagreb in Croatia and Poland (AGH

University of Science and Technology) differs from the other because the students are studying and the teachers publish science papers in areas such as art, architecture, economics and business administration, geography and geology, mathematics, physics, chemistry, computer , psychology and educational sciences, agriculture, geotechnical and engineering.

Another criterion could be the year of foundation and five of them have a long history: University of Zagreb (1669) is the oldest and biggest university in South-Eastern Europe. Ever since its foundation, the University has been continually growing and developing and now has 29 faculties, three art academies and the Centre for Croatian Studies, Comenius University in Bratislava is the oldest university in the Slovak Republic. It was founded on June 27th, 1919 and follows the university tradition of the Academia Istropolitana and the Alexandru Ioan Cuza University of Iasi is the oldest higher education institution in Romania. Since 1860, the university has been carrying on a tradition of excellence and innovation in the fields of education and research. AGH University of Science and Technology continues the traditions of the Mining Academy established in Kielce by Stanisław Staszic since 1919. The Sofia University St. Kliment Ohridski is the first higher educational institution in Bulgaria. Its history is an embodiment and a continuation of centuries of cultural and educational tradition in this country. The only university founded in 1960 is Novi Sad University from Serbia.

In terms of location, 50% have offices in the capitals of those countries, respectively Comenius University Bratislava (UKB), Sofia University "St. Kliment Ohridski" (SKOU), University of Zagreb (UZ) and the remaining 50% in provincial cities AGH University of Science and Technology Cracow (AGH), Novi Sad University (NVU) and Al. I. Cuza Iasi (UAIC).

The data used are collected for universities to be examined from two different sources: annual reports visible at their own web sites or at national institutions that have developed methodologies for the assessment of scientific research and the Institute of Scientific Information (ISI Philadelphia USA) - Web of Science. In terms of the analyzed period, that was between the years 2005-2011, but in the first variant will be some minor adjustments or missing periods, the reason being the lack of access or failure for the analyzed universities in periodic reports. It should be noted that there is a discrepancy between the countries of Eastern Europe on the development of evaluation systems for the results of scientific research: ministries of education in Bulgaria, Croatia, Romania and Slovakia presents on their own site or created specifically portals for this evaluation activity, the university from Poland has its own assessment website with information for each relevant indicator from 1999-2011. The university from

Slovakia, even if it reports nationally, loaded on its own website the results of 2004-2009 and in Serbia there isn't a national assessing methodology and on the university website was started to upload only files with the number of articles in 2009. In Romania the universities were evaluated twice during the specified period after two legislative measures: 2007 Government Decision on accreditation of scientific research and 2011 Government Decision on the classification of universities.

Criteria and indicators for performance measuring are in a significant proportion identical to those internationally identified. This proves that these governments have developed strategies for assessing scientific research using internationally relevant indices. In addition the universities had to implement a measurement system identical to that used by major universities in an effort to set goals as get into universities top.

3. RESEARCH RESULTS

In the analyzed period 2005-2011, according to Web of Science, the evaluated universities from Eastern Europe have published a total of 26,593 articles, detailed for each university separately in Table 1. On average 3799 articles were published, and we can see some significant differences: high performance to this indicator has UZ with a rate of 44.14 followed by a group of four universities with percentages between 9 and 19: UAIC 8.96%, NVU 10.62%, AGH15.44%, UKB 19.31% and SKOU, which, according to the used data source, has a percentage of 1.52. For five universities the standard deviation is very high values exceeding at each the value of 100 or even 300 for UZ, which means that the universities have not published constant the same number of articles, with significant differences between the years 2005 and 2009, 2010 when, in some cases, the values are almost double. The significance of these increases could be: a) University of Eastern Europe have changed their strategy, renouncing to articles for domestic and international conferences and were oriented towards ISI articles, b) investments in scientific research have increased due to a economic growth; c) the number of journals indexed in WoS increased significantly, for example in Romania in 2005 there were only 6 journals indexed for all domains and currently are around 50; d) government strategies by which governments have renouncing to give high scores to indicators without international irrelevant and thus the researchers community had to refocus. Previous assertions are supported by the fact that the minimum number of publications for 5 of the 6 universities was obtained in 2005 and maximum in 2009 or 2010.

Table 27 *Descriptive statistics – Number of WoS publication*

	All	AGH	UKB	UAIC	NVU	UZ	SKOU
Articles	26593	4106	5136	2384	2825	11738	404
Article/all		0,1544	0,1931	0,0896	0,1062	0,4414	0,0152
2005	0,0979(2605)	0,0911(374)	0,0989(508)	0,0638(152)	0,0704(199)	0,1159(1360)	0,0297(12)
2006	0,1096(2916)	0,1186(487)	0,1182(607)	0,1057(252)	0,0786(222)	0,1137(1335)	0,0322(13)
2007	0,1382(3677)	0,1442(592)	0,1482(761)	0,1091(260)	0,1179(333)	0,1442(1693)	0,0941(38)
2008	0,1628(4330)	0,1661(682)	0,1536(789)	0,1820(434)	0,1267(358)	0,1699(1994)	0,1807(73)
2009	0,1811(4818)	0,1722(707)	0,1772(910)	0,1921(458)	0,1989(562)	0,1788(2099)	0,2030(82)
2010	0,1668(4438)	0,1773(728)	0,1604(824)	0,1888(450)	0,1986(561)	0,1516(1780)	0,2351(95)
2011	0,1432(3809)	0,1305(536)	0,1435(737)	0,1586(378)	0,2088(590)	0,1258(1477)	0,2252(91)
Mean	3799	586.5714	733.7143	340.5714	403.5714	1676.857	57.7142
SD	811.2698	129.9357	135.4274	119.5754	166.5902	301.9081	36.05419
Min	2605	374	508	152	199	1335	12
Max	4818	728	910	458	590	2099	95

In Table 28 are analyzed the results for the number of ISI publications, but was changed the source of data collection and were used the results reported by each university in part in internal assessment process (university or country). According to the specified sources, in 5 of the 6 universities, were published a total of 15,172 articles. AGH has 32.3 percent of total, followed by SKOU with 23.38 and a group of 3 universities with less than 20 percent: UKB (17.115), UZ (15.66) and UAIC (11.54). In the period 2005-2011, AGH published an average of 700.14 articles and UAIC 250.28 and for 2005-2009 UKB has an average scientific production of 519. UZ and SKOU because they reported compact data for 2007-2011 have published 2376 and the average is 475.2, respectively for 2005-2009 period a scientific production of 3548 averaging at 709.6. The maximum values of the indicator for universities, where it can be reviewed, were obtained in 2008 and the minimum values in 2005 .

Table 28 *Descriptive statistics – Number of publication*

	All	AGH	UKB	UAIC	UZ	SKOU
Articles	15172	4901	2595	1752	2376	3548
Article/all		0,3230	0,171039	0,115476	0,156604	0,233852
2005	1818	452	442	214	0	710
2006	1989	545	457	277	0	710
2007	2566	704	449	228	476	709
2008	3028	870	652	322	475	709
2009	2868	812	595	276	475	710
2010	1566	832	0	259	475	0
2011	1337	686	0	176	475	0
Mean	2167.429	700.1429	519	250.2857	475,2	709,6
SD	657.7117	155.2465	97.64476	48.17577	-	-
Min	1337	452	442	176	-	-
Max	3028	870	652	322	-	-

Source: AGH : <http://www.bpp.agh.edu.pl/bpp.phtml>

UKB: <http://www.uniba.sk/index.php?id=1778>

UAIC: www.ancs.ro, www.ad-astra.ro, <http://chestionar.uefiscdi.ro/>

UZ: <http://bib.irb.hr/lista-ustanova?period=2007&lang=EN>

SKOU: <http://rsvu.mon.bg/RSVU/?locale=en>

Comparative analysis of Table 27 to Table 28 at each university shows significant differences which I will explain to each university: AGH has a higher number of articles in their own reporting, their average is a little over 700.14 comparable with 586.57, standard deviation increased, the data being scattered and scientific production was higher in 2009 and 2010. Differences are normal in this case, university researchers can publish articles in internationally recognized journals which are not indexed in WoS and appear in databases such as Scopus, IDEAS etc. UKB does not own 2010 and 2011 in reports, but the difference between the total items number is 2541 and if we try to calculate a trend function for future years, on the case for 2010 and 2011, I do not think it can overcome this number. Previous statement is supported by the fact that in the last two years the states of Europe were affected by the crisis and budgets for scientific research have been reduced, which has a negative effect on the number of publications. However there can be the possibility that, not influenced by university evaluation activities, the researchers have not told the total number of articles published in indexed journals. UAIC has the closest average value of 340.57, 250.28 respectively, which means that although Romania does not have a high performance, has an efficient reporting system and the scientific research results are regularly evaluated. Instead is facing problems related to researchers' obligation to report the obtained results or in the official reports does not appear PhD students' publications, because they do not have an employee status. NVU was removed from the analysis because the universities in Serbia do not have a national assessment system of scientific research performance, or individual; UZ participate in national evaluation exercise conducted by the "*Croatian scientific*" site (a website that evaluates scientific research activity and is updated every 4 hours), but the analysis of published results shows a significant difference compared to WoS. According to the "*Croatian scientific*" UZ published from 2007 to present (17/01/2012 at 9.45 hours) 2376 articles and Table 1 shows that during 2007-2011 the total number of articles was 9043. Table 3 contains a comparative analysis between the total number of items for all Croatian scientific research from the source cited and the total number for UZ from WoS.

Table 29 *Croatian analyses*

	UZ	All Croatian	UZ/WoS
Articles	2376	14625	11738
2005	0	1706	1360
2006	0	1776	1335
2007	476	1910	1693
2008	475	2167	1994
2009	475	2267	2099
2010	475	2241	1780
2011	475	2558	1477
Mean	475,2	2089,28	1676.857

Source: Web of Science, <http://bib.irb.hr/lista-ustanova?period=2007&lang=EN>

This difference of 2887 articles in 7 years is very low and somewhere in the reporting process is a problem. In my opinion the explanations could be: 1) "*Croatian scientific*" database does not include all the UZ results or all the science research performance in Croatia; 2) researchers are likely to report only the results of research projects funded by the Croatian state. SKOU has high performance in national report but very low in WoS. According to the methodology published by the Ministry of Education and Science of Bulgaria on the website Bulgarian University Ranking System (<http://rsvu.mon.bg/RSVU/?locale=en>) „This indicator shows the number of publications in referred-to scientific journals by university and professional field, according to the SCOPUS international database. The SCOPUS data concerns the period 2005-2009” (Consortium OSI-MBMD-S, “Bulgarian Universities Ranking System Methodology, 2010”). Comparison of the two databases was the subject of many articles and findings were similar to “a comparison between the reference databases of ISI Web of Science and Scopus from the point of view of a typical comprehensive university. This was done by looking in detail at the documents referenced in these databases from two Portuguese universities, Coimbra and Lisbon. In each case, about 2/3 of the total documents referenced for the Universidade de Coimbra and the Universidade de Lisboa are referenced in both databases and a set of 1/3 appear in one of the databases only” [Vieira, Gomes 2009]. Data collection revealed a reporting problem I think is causing so great differences.

Table **30** presents the number of items extracted from the quoted site for each faculty of SKOU. Analyzing the frequencies with which certain values occur, in the analyzed 25 cases the value 125 has a percentage of 32 and the value 25 16%, which means that, on average, during 2005-2009, 48% of the SKOU faculties publishes 25 or 5 articles.

Table 30 *SKOU analyses*

Faculties	Number of publication (Scopus 2005-2009)
Administration and Management	125.00
Biology	308.00
Biotechnologies	38.00
Chemical Sciences	555.00
Earth Sciences	106.00
Economics	2.00
Health Care	0.00
History and Archaeolog	25.00
Informatics and Computer Science	142.00
Law	125.00
Mathematics	215.00
Medicine	52.00
Pedagogy	125.00
Pedagogy of...	125.00
Philology	25.00
Philosophy	25.00
Physical sciences	1019.00
Political Science	125.00
Psychology	5.00
Public Communications and Information Sciences	125.00
Public Health	0.00
Religion and Theology	25.00
Social Work	125.00
Sociology, Anthropology and Cultural Studies	125.00
Tourism	6.00

Source: <http://rsvu.mon.bg/RSVU/?locale=en>

Table 31 presents the scientific areas in which higher education institutions are performing. Significant differences emerged for SKOU led me to the conclusion that it would be beneficial to present research to collect information for the 2005-2011 period about the analyzed universities from the Scopus database. In terms of domains in which researchers publish articles: physics, engineering, medicine, chemistry, mathematics, biology, computer science, geography and earth sciences are relevant.

Table 31 *Research area articles distribution SCOPUS 2005-2011*

AGH		UKB		UAIC		NVU		UZ		SKOU	
Physics and Astronomy	1532	Physics and Astronomy	1127	Physics and Astronomy	750	Engineering	692	Medicine	3597	Physics and Astronomy	217
Materials Science	1453	Biochemistry and Genetics and Molecular Biology	1009	Materials Science	576	Computer Science	580	Engineering	2289	Biochemistry and Genetics and Molecular Biology	102
Engineering	1371	Medicine	965	Mathematics	423	Mathematics	471	Social Sciences	1561	Earth and Planetary Sciences	58
Computer Science	1220	Chemistry	740	Chemistry	383	Chemistry	451	Agricultural and Biological Sciences	1537	Chemistry	56
Mathematics	747	Earth and Planetary Sciences	444	Engineering	376	Agricultural and Biological Sciences	385	Biochemistry and Genetics and Molecular Biology	1503	Agricultural and Biological Sciences	49
Chemistry	556	Agricultural Biological Sciences	436	Computer Science	223	Physics and Astronomy	373	Chemistry	1162	Multidiscipl.	45
Earth and Planetary Sciences	424	Mathematics	364	Biochemistry, Genetics and Molecular Biology	109	Medicine	356	Computer Science	1112	Engineering	39
Biochemistry and Genetics and Molecular Biology	281	Pharmacology Toxicology and Pharmaceutic	295	Social Sciences	100	Biochemistry and Genetics and Molecular Biology	338	Physics and Astronomy	1099	Materials Science	33
Chemical Engineering	227	Environment Science	291	Environment Science	87	Materials Science	282	Mathematics	931	Social Sciences	30
Energy	184	Materials Science	236	Chemical Engineering	79	Environment Science	212	Materials Science	814		

Source: SCOPUS <http://www.scopus.com>

Differences in the number of articles of SKOU between SCOPUS and WoS fall within the limits specified by the quoted article, which raises a question mark on the credibility of the data published by the Ministry of Science of Bulgaria.

Reported to the number of articles, another measure of performance in scientific research is the number of citations of these articles. From 2005 to 2011 articles from the 6 universities were cited by 94,892 times, which means an annual average of 13,556. Distribution of citations per year is slightly different compared to the number of articles, percentage of 22.58 or 20.81 were in 2005 and 2006 and much lower in 2010 respectively 2011. Table 32 shows that on average UZ articles are cited by 6372 times and UKB by 3678 times and for every assessed university, the values are maximum in 2005 and minimum in 2011.

Table 32 *Descriptive statistics – Number of citation in WoS*

	All	AGH	UKB	UAIC	NVU	UZ	SKOU
Citation	94892	11284	25752	5928	6406	44606	916
Citation/all		0,1189	0,2714	0,0625	0,0675	0,4701	0,0097
2005	0,2258(21425)	0,2107(2378)	0,2105(5421)	0,1540(913)	0,1667(1068)	0,2590(11552)	0,1015(93)
2006	0,2081(19751)	0,2096(2365)	0,2068(5326)	0,2341(1388)	0,1917(1228)	0,2098(9357)	0,0950(87)
2007	0,1866(17704)	0,1987(2242)	0,1770(4559)	0,1724(1022)	0,1881(1205)	0,1915(8541)	0,1474(135)
2008	0,1640(15559)	0,1754(1979)	0,1715(4416)	0,1771(1050)	0,1931(1237)	0,1487(6632)	0,2675(245)
2009	0,1218(11561)	0,1220(1377)	0,1209(3113)	0,1685(999)	0,1550(993)	0,1094(4881)	0,2162(198)
2010	0,0768(7290)	0,0580(654)	0,0872(2245)	0,0795(471)	0,0846(542)	0,0727(3242)	0,1485(136)
2011	0,0169(1602)	0,0256(289)	0,0261(672)	0,0143(85)	0,0208(133)	0,0090(401)	0,0240(22)
Mean	13556	1612	3678.857	846.8571	915.1429	6372.286	130.8571
SD	7160.749	857.1923	1755.159	430.8896	421.4852	3833.789	73.9221
Min	1602	289	672	85	133	401	22
Max	21425	2378	5421	1388	1237	11552	245

The indicator is more important for the universities in this European area than the number of articles, and I actually believe that scientific performance is measured by number of citations. Citing published articles means that researchers are recognized by the institution to which they belong. Researchers should be concerned about the quality of articles they publish as their citation in the field offers some advantages for researchers (international recognition, participation in conferences or seminars as a guest, visiting professor status in European universities) and also for the university (participation to European research networks, access to financial resources and technology by accessing European projects).

H-index is an indicator that clarifies the international relevance of articles published by researchers from the universities of Eastern Europe. An analysis of this indicator beneficial for the purpose of the present article would be for the year 2008, an intermediate year because, the h-index being an indicator calculated by the number of citations and the number of articles in an year, according to the tables 1 and 2, the two indicators does not have maximum or minimum values. An

h-index increased in 2008 have UZ 31 and UKB 28, AGH and NVU 16 and UAIC and SKOU 9 respectively 8. If we relate to the number of articles and number of citations, UKB is performant, which means that researchers from Bratislava are more recognized and appreciated in their scientific communities than those from Zagreb and the results impact is more relevant.

Table 33 *H-index*

	AGH	UKB	UAIC	NVU	UZ	SKOU
2005	22	30	11	15	41	7
2006	23	31	13,5	15	40	5
2007	18	29	8	15	32	7
2008	16	28	9	16	31	8
2009	12	20	7,5	11	25	8
2010	8	20	3,5	9	20	5
2011	8	10	2	3	6	2

Source: Web of Science

The University from Romania is inferior to the university of Sofia, the research conducted and published by the Romanian researchers from UAIC are not appreciated in the scientific domains or the journals where they are publishing are not as known by the international community.

Disciplinary structure of chosen universities allows us to study the number of patents indicator (EPO, USPTO, JPO). The patent is in touch with technological development and current conditions of technological change in the world, according to the studies of (Leydesdorff, Meyer 2009), performance on this indicator of universities began to decline in the U.S. and to grow in Japan. Institutions in Eastern Europe published a low number of international and national patents. Table 34 shows this indicator and only AGH publish a large number of both domestic and international patents and the other universities publish very few.

Table 34 *Number of patents*

	AGH		UKB		UAIC	UZ	
	National Patent	International Patent	National Patent	International Patent	National Patent	National Patent	International Patent
2005	47	0	1	1	0	-	-
2006	37	4	-	1	0	-	-
2007	85	3	-	1	0	7	-
2008	92	2	-	7	5	3	-
2009	113	2	-	-	2	7	-
2010	137	8	-	-	5	5	-
2011	111	11	-	-	-	-	1

Source: AGH : <http://www.bpp.agh.edu.pl/bpp.phtml>

UKB: <http://www.uniba.sk/index.php?id=1778>

UAIC: www.ancs.ro, www.ad-astra.ro, <http://chestionar.uefiscdi.ro/>

UZ: <http://bib.irb.hr/lista-ustanova?period=2007&lang=EN>

By publishing patents, the universities in Eastern Europe can support by their human and technological capacity the economic development processes and reduce the disparities compared to key European countries. Out of researcher curiosity I tried to identify the number of patents published in the United States of America by the studied universities. Following <http://www.uspto.gov/> specific search criteria, the result for each was "there is no record with the solicited affiliation."

4. CONCLUSIONS

Scientific research performances of Eastern European universities are modest and are often negatively affected by the lack of certain specific strategies or government. Scientific research is understood in many countries as "growth engine", but in many cases in this part of Europe, governments provide social facilities rather than invest in this area. I think that change of attitude on the field and following the success examples in this area, such as Czech Republic and Hungary, will increase the relevance both scientifically and economically.

The scientific research receives the majority of funds from public budgets (research projects, grants etc.) and the ministries responsible for this area inform taxpayers about the results through annual reports. Lack of transparency on the results publication is one of the problems facing the countries of Eastern Europe but has to be appreciated the fact that most countries, through the ministries, undertake considerable efforts by developing informatics information tools.

Universities from Bulgaria, Croatia, Serbia and Romania should consider the example of AGH University of Science and Technology which has developed its own portal of performance measurement or publish summary documents like Comenius University. The advantage in this case is twofold in that it can be a good management tool and periodic collection of information helps the organization to participate effectively in certain processes of evaluation. In addition would be eliminated significant differences occurred at SKOU between the assessment done by the Ministry of Education and international databases.

Looking at comparative results, high performances have consortium type universities with faculties of scientific areas such as science, engineering and medicine. UAIC case is eloquent, being only a university of science, cannot compete even with advanced institutions in the region, but only locally. Indeed in the UAIC case appear articles of medicine and engineering, but clearly they are written in international or internal research teams, involving chemists, biologists, physicists and mathematicians.

The quality of research, articles and journals where are published must be a permanent concern for researchers, university and assessment methodologies. In current conditions, when the market scientific publications was invaded by online databases, more or less reliable on how are selected the quality articles from less quality, evaluators attention must be greater. In many cases, due to a high impact factor of these databases, is preferred to publish in this way without taking account the international relevance. Quoting the article by colleagues in the field means that the expressed opinions are eloquent and the research is performant if citations are achieved by recognized authors and high impact factor journals (Science, Nature).

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THE ROLE OF STRATEGY IN ACHIEVING PERFORMANCE AND INTERNATIONAL RECOGNITION – THE CASE OF ROMANIAN ADVANCED RESEARCH UNIVERSITIES

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Abstract: *The paper addresses the issue of strategy in higher education, applied to a group of top Romanian public universities. After reviewing the concepts of strategy (and its related sub-concepts), performance and internationalization, the authors briefly analyze the websites of the twelve Romanian universities included in the category 'advanced research and education'. The study assesses the chances of Romanian universities to be included in the category of 'top universities worldwide' and concludes that analyzed universities need to, at least, double their scores in order to increase their chances to enter international rankings. Finally, two very popular instruments (SWOT, benchmarking) are briefly presented and suggested to be applied in higher education.*

Keywords: *higher education, performance, Romania, strategy, university*

JEL codes: *I23, L10*

1. INTRODUCTION

At the beginning of the 21st century, we became aware that universities acted like competitive companies (Altbach, Reisberg & Rumbley, 2009). Universities compete for image, a place in hierarchy and financing in general. Even though, in higher education, competition leads to progress and can encourage excellence, it can also lead to the decline of the academic community, its mission and traditional values. Therefore, strategic planning becomes a priority in the fight against 'competitors'.

Globalization has profoundly influenced the manner in which universities behave and the source for their strategies. The domination of the English language in scientific communication is unprecedented, but comparable with the domination

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of the Latin language in Medieval Europe. Information and communication technologies have created a universal environment of instantaneous contact and of simplified scientific communication (Altbach, Reisberg & Rumbley, 2009). In this context, higher education has become a market-determined process, producing skills for the global market (Varghese, 2009).

For some, the impact of globalization on higher education provides new opportunities of study and research, which are no longer limited to national borders. Others perceive it as an attack to national autonomy and culture. Without a doubt, both visions must be taken into account. In any case, universities respond to the environment behaving as companies, creating new modes and methods of delivery and new business structures such as alliances, among other things (Poole, 2001).

2. STRATEGY AND HIGHER EDUCATION INSTITUTIONS

Simply put, 'strategy is the long-term direction of an organization' (Johnson et al., 2011, p.3). Any organization has strategies for confronting complex environments (Buckland, 2009). For Mintzberg (1987), 'strategy is a pattern – specifically, a pattern in a stream of actions'. Thompson & Strickland (1987) prefer to define the process (that is, strategic management), rather than the outcome (namely, strategy) as 'the process whereby managers establish an organization's long-term direction, set specific performance objectives, develop strategies to achieve these objectives in the light of all the relevant internal and external circumstances, and undertake to execute the chosen action plans' (p. 4). Porter moves forward and combines strategy with competitiveness arguing that 'competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of values' (Porter, 1996, p.64). Porter also states that 'strategy is the creation of a unique and valuable position, involving a different set of activities' (Porter, 1996, p. 68). Strategy is thus immensely complex and also unique, at once, implying the impossibility of any 'rational' selection of an 'optimal' strategy (Buckland, 2009, p.526).

We do not intend to argue about the usefulness of the strategy or the importance of dividing it into strategic plans. Still, there are universities that develop strategies for the sake of having them and, afterwards, they do not create strategic plans to put strategies into practice. *Strategic planning* is 'one of the most pervasive and, arguably, most important management activities in higher education at the beginning of the 21st century' (Welsh et al., 2005, p.20). At the beginning of the 1960s, strategic planning started to be used in the corporate world, but only after 15 years it became part of the university reform (Buckland, 2009). Nowadays,

strategic planning is vital for universities as funding was reduced and competitiveness increased (Buckland, 2009), but it would be interesting to evaluate these results for a better strategy or, at least, better management.

Faculty and administrative *support* are affected by five predictor variables in this field (Welsh et al., 2005): level of involvement, depth of implementation, institutional planning model, institutional decision-making model, and support for state reform. However, not only institutional administrators get involved in the process of strategic planning, but also academic administrators (such as the president, provost, academic vice-president, or dean) may get involved in the process as they know their units extremely well and can be very helpful (Welsh et al., 2005). At the same time, the complex nature of activities within research universities may make their members less interested in supporting strategic planning (Welsh et al., 2005). *Strategic focus*, another concept, is defined as ‘the combination of strategic mission statements, strategic objectives and strategic planning’ for different purposes, including internationalization. (Elkin et al, 2008, p. 249)

In practice, *strategy* is sometimes confused with *policy*. According to Davies (2000), ‘strategy can be best understood if viewed as an element of a troika that includes policy, strategy, and resources (the PSR Troika)’, all being equally important. Policy refers to the goals and objectives that a company has in its field of interest, while strategy refers to the way in which the goals and objectives will be reached. ‘Strategy is a design or plan that defines how policy is to be achieved’ (Davies, 2000, p.26). Also, strategy is about moving an organization from point A to point B and there are always several ways of doing that. According to Porter (1996, p. 62), ‘Strategy is driven by its purpose, and its purpose is to achieve policy’. The *strategic option* refers to choosing the pathway which is also based on available resources.

Tactics is also sometimes called strategy, especially when referring to ‘short-term strategy’. The literature on strategy strongly supports the fact that strategy is always long-term. Strategy and strategic positions as their natural outcome ‘should have a horizon of a decade or more, not of a single planning cycle’ (Porter, 1996, p. 74). Actually, tactics supports the implementation of the strategy and ‘refers to the detail of strategic designs and to the detailed actions that are needed to effect strategy implementation’ (Davies, 2000, p. 26).

Especially in turbulent times, such as the current world crisis, strategic options can be extremely challenging, especially as the external environment of an organization can change very quickly. Therefore, planning for ten years time can be similar to driving on a highway while blindfolded – you never know what can

hit you. The literature acknowledges the fact that the strategy which an organization intended to follow may not be the one that it is actually going to implement. Therefore, nowadays we refer more and more to ‘emergent strategy’ instead of ‘intended strategy’ or ‘deliberate strategy’ (see Figure 12). Strategy being, at the same time, extremely complex and unique, it leads to the ‘impossibility of any ‘rational’ selection of an ‘optimal’ strategy’ (Buckland, 2009, p.526).

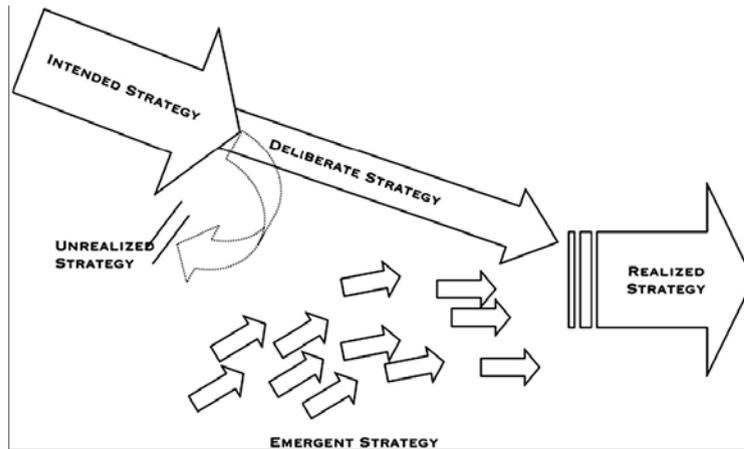


Figure 12 Factors that influence strategy

(Source: Bodwell & Chermack, 2010, pg. 195)

University strategy is regarded as a must by funding councils. In Romania, universities started elaborating strategies as a pre-condition for receiving funding. Buckland (2009) argues that university strategies do not address ‘the core issue: that universities’ strategies arise and derive from the ‘day job’ itself, not from a superimposed activity of ‘strategy’; and that the critical organizational imperative is to foster, nurture, corral and implement the best and most robust such embryo strategies, in internal and external competition’ (p.529).

The concept of *triple-helix* (university-government-industry linkages) has generated major organizational changes within universities (Altbach et al, 2009). Nowadays, universities play various roles in their communities and are able to enhance regional economic development through several sources of influence: employer, purchaser, real estate developer, workforce developer, advisor and network builder, technology transformer and incubator (Porter, 2007). More and more often, universities tend to behave in an entrepreneurial manner by maintaining ‘bottom-up’ strategy formation and an ‘intrapreneurship’ behavior (based on fostering the corporate culture, that is the management of a process, not

of a structure or plan) (Buckland, 2009, p. 530). Using a strategic approach, colleges and universities can have a dramatic impact on regional economic revitalization without requiring massive new funding (Porter, 2007). 'Higher education is increasingly viewed as a major engine of economic development' (Altbach et al, 2009, p. 10) and its impact will probably tend to increase due to the influence of globalization and the universities' becoming more entrepreneurial.

3. INTERNATIONALIZATION – A TREND AND A NECESSITY IN HIGHER EDUCATION

Globalization and internationalization are key realities of the 21st century and have already influenced higher education in several ways. Altbach et al. (2009 p. 2) define internationalization as 'the variety of policies and programs that universities and governments implement to respond to globalization'. University strategy is often approached in correlation with internationalization, as higher education institutions become the 'biggest and most important services exports' (Poole, 2001, p. 396). Maringe (2009) suggests that internationalization is now a key strategic aspect of the universities' mission across the globe, even though not many universities have separate strategies for internationalization.

Our century shed a different light on the process of internationalization from at least three viewpoints (Altbach et al, 2009):

1. rise of English as the dominant language of scientific communication (similar to Latin in medieval Europe);
2. information and communications technologies, that have created a global environment for instant contact and simplified scientific communication;
3. ownership of publishers, databases, and other key resources made available to the strongest universities and some multinational companies located almost exclusively in the developed world.

The Global strategy is actually an international strategy that includes four components: offshore campuses, university centers, alliances, further development of strength in distance education (DE) (Poole, 2001). Poole (2001, p.410) also claims that internationalization goals refer to the internationalization of the curriculum, research and academic staff, to the 'development and nurturing of overseas strategic alliances' and the 'promotion of high standards through international benchmarking'. Also, Varghese (2009) links university prestige and standing to its research capacity and credibility. As students analyze these when choosing a university, this is considered an important factor. At the organizational level, internationalization strategies focus on growth through offshore strategies,

diversification of country markets, as well as strategic alliances and partnerships (Poole, 2001).

Worldwide, the process of globalization provides interesting new opportunities for study and research regardless of the country of origin or destination. Europe is such an example in the field of higher education. While many processes in Europe are affected by the so-called ‘*Europeanization*’ (internationalization at European level), in higher education Europe offers a lot of opportunities for research and study, therefore attracting a lot of students from outside Europe. The Bologna Process and Lisbon Strategy in Europe are the clearest examples of international engagement at European level. Over 40 countries are now included in the Bologna Process and the purpose is to create a European Higher Education Area that aims at bringing uniformity and quality assurance across Europe while promoting transparency, mobility, employability and student-centered learning (Altbach et al, 2009).

About five years ago, more than 2.5 million students were studying outside their home countries and some estimate that their number will rise to 7 million international students by 2020 (Altbach et al, 2009, p. 6). Their coverage by geographic region is presented in Figure 13.

Note: These data include all post-secondary students (ISCED4, 5 and 6)

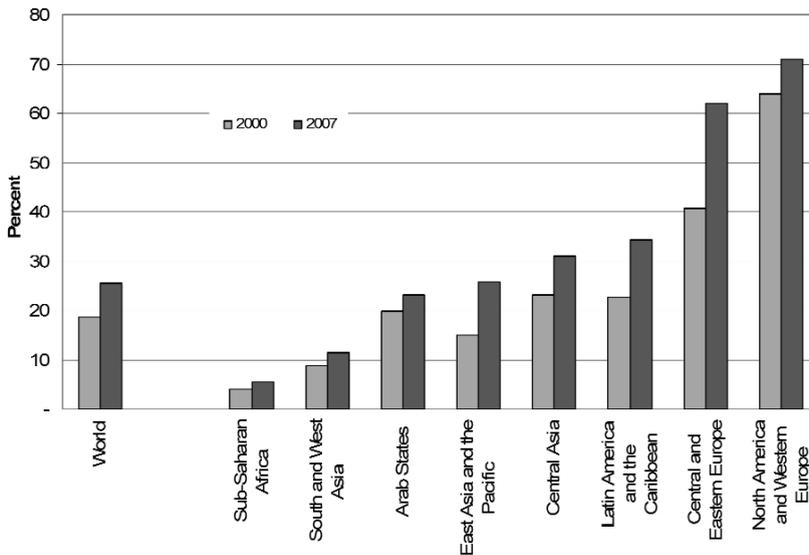


Figure 13 *Tertiary gross enrolment ratio by geographical region, 2000 and 2007 (Altbach et al, 2009, p. 6)*

The internationalization process implies three major phases (see Ayoubi, 2006; Ayoubi & Massoud, 2007):

1. **First phase** - setting up the design of internationalization

<ul style="list-style-type: none"> • strategic intent • mission statement • strategic vision • corporate strategy • strategic plan 	<ul style="list-style-type: none"> • international teaching programs • partnerships • students and staff exchanges • research activities • development of new disciplines • recognition of the importance of customer care and marketing skills • the importance of centralized management, cost benefit analysis and risk management • the application of modern technology 	<ul style="list-style-type: none"> • questions of identity and regulation • specialization • the increased use of branding in order to exploit reputational assets
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Source: adapted from Ayoubi & Massoud, 2007.

2. **Second phase** - choosing the best ways to activate the design with real actions (organizational steps taken by management to implement the design).

3. **Third phase** - evaluating the process by comparing the design with the implementation (by comparing real internationalization achievements with the intended initial strategy design).

Also, Ayoubi & Massoud (2007) identified the main available variables which could proxy the international achievements of universities. They performed a study on all 117 British Universities. Starting from the main variables identified (percentage of overseas students to the total number of students in each university, percentage of overseas income to the total income of a university and percentage of market share of first year overseas students to the total overseas market share), they used the factor analysis technique to obtain one factor or variable – called “international student factor” – that replaces the three variables. They also looked for key words in the mission statements of UK universities such as international, global, partnerships, overseas and other related concepts. They obtained the international strategy factor-international student factor matrix (see Figure 14).

International Strategy Intent Factor

		High	Low
International Student Factor	High	Cluster 3: International winners	Cluster 4: International actors
	Low	Cluster 2: International speakers	Cluster 1: International losers

Figure 14 *The international strategy factor-international student factor matrix*
(Source: Ayoubi & Massoud, 2007, p. 344)

Obviously, we can ask ourselves who benefits most from the process of internationalization. According to Altbach (2009), ‘international rankings favour universities that use English as the main language of instruction and research, have a large array of disciplines and programs and substantial research funds from government or other sources’. The existence of a large number of cross-border institutions may generate competition between domestic and cross-border institutions. As better students may choose to enroll in cross-border programs, domestic institutions are left with the poorer students (both in terms of knowledge and financial resources), which can weaken national institutions (Varghese, 2009). Also, universities look for at least one of the three top benefits associated with internationalization: enhanced quality and market position; maintaining institutional reputation and integration of diverse cultural and knowledge bases for global competitiveness. Key benefits from internationalization are considered to be increasing institutional competitiveness, attracting more international students and staff (Maringe, 2009).

The *key barriers* that seem to prevent the full integration of the concept of internationalization into institutional cultures include: conceptual and structural deficiencies in the organization of institutional internationalization; an over emphasis on human exchange initiatives over cultural integration efforts and increasing undercurrents of feelings among staff and students of local neglect at the expense of global attention (Maringe, 2009). Also, in terms of human resources, high workloads, reduced time for research and the absence of recognition of international activities in promotion criteria makes participation to the internationalization process problematic (Poole, 2001).

Universities have established partnerships with academic institutions in other countries in order to offer degrees and different academic programs, develop research projects, and collaborate in a variety of ways. Branch campuses, off-shore academic programs, and franchising arrangements for academic degrees represent only a few manifestations of internationalization strategies (Altbach et al, 2009).

Elkin et al. (2008) performed a study on 57 schools from 11 countries, with the most significant group coming from Canada, China, UK, USA and India, a small number from Europe and isolated responses from Saudi Arabia, and Egypt. Out of the 57 schools, 66.6 per cent had a complete strategic focus on internationalization. Given the fact that almost all universities and business schools claim to target internationalization, the number was lower than they expected. They concluded that institutions that are more internationalized target higher levels of internationalization as compared to institutions that are not very successful in this respect. The strategy of internationalization is the foundation of international success and, interestingly enough, strategy and greater success lead to even greater desire for high levels of internationalization (Elkin et al., 2008).

4. PERFORMANCE IN HIGHER EDUCATION

Traditionally, performance measurement is defined as the process of quantifying effectiveness and efficiency of action (Waal and Counet, 2009 in Zangouinezhad & Moshabaki, 2011, p. 827). Performance measurement provides the basis for an organization to assess how well it is progressing towards its predetermined objectives, helps it identify its strengths and weaknesses, and decides on future initiatives, with the goal of improving organizational performance (Purbey et al., 2007 in Zangouinezhad & Moshabaki, 2011). Performance measurement is not considered a target, but a tool for obtaining more effective management. Performance measurement results present what happened, not providing reasons (why it happened), or lines of action (what to do about it). In order to build on the effectiveness of an organization, the results of performance measurement must move from measurement to management, as well as anticipate necessary changes for following strategic direction and have a valid methodology in place for reaching strategic change (Zangouinezhad & Moshabaki, 2011). Some factors are connected to effective performance outcomes; such factors are managerial practice, culture, some authors link the two, while motivation, intellect, competence and resourcing confidence are thought to influence research performance outcomes (Edgar & Geare, 2011).

Some of the problems related to performance measurement systems (PMSs) in the public sector and universities are considered to be the following (Zangouinezhad & Moshabaki, 2011):

- lack of connection with strategy;
- focus on cost to the detriment of non-cost indicators;
- lack of a balanced approach; and
- lack of systematic thinking.

According to Agasisti (2011), ‘the problem of finding adequate performance indicators to measure performances in HE is well known in the literature’ (p. 200). They performed an efficiency analysis by using a DEA (data envelopment analysis) approach, as its use is widely spread in the public-sector nowadays. Agasisti reported two findings: there are some countries that seem to be efficient regardless of the measurement system adopted (Switzerland, the United Kingdom) and high *public* spending seems to lead to better results, in terms of efficiency in reaching performance levels, but only if distributed directly to institutions.

A trend in the policy context of European HE is increasing attention to the so-called ‘performance-based funding’. Under these schemes, universities are rewarded according to their performance. This trend could influence the performance levels achieved by the countries that have experimented these models for many years (e.g. Scandinavian countries), but in the near future, the same trend is expected to increase the overall performance of European HE – in fact, at present universities are facing liquidity constraints, and financial incentives could contribute to raise their performance levels (Agasisti, 2011, p. 220).

5. THE ROMANIAN REALITY

The Romanian Agency for Quality Assurance in Higher Education is the main evaluator for Romanian universities. Being a full member of the European Association for Quality Assurance in Higher Education – **ENQA** and listed in the European Quality Assurance Register for Higher Education – **EQAR**¹³, Romanian universities do not need to get international accreditations in order to accede to the international environment. The ARACIS criteria may be enough for the Romanian market, but not at all for internationalization purposes.

In the summer of 2011, 90 Romanian universities took part in the first national initiative for ranking universities¹⁴. Out of them, 12 were ranked as universities of advanced research and education, 22 were considered to be

¹³ Source: <http://www.aracis.ro/nc/en/about-aracis/> (accessed June 2012)

¹⁴ Source: <http://www.edu.ro/index.php/pressrel/16071> (accessed June 2012)

universities of education and research, 8 were included in the education and artistic creation category, while 48 were ranked as universities centered on education. The current study aims at drawing a brief overview of the top 12 universities in Romania (universities of advanced research and education), based on documents placed on their websites which are made available to the public.

Nowadays, organizational performance in the international environment can mean a lot of things. Still, in order to measure performance, it is required to develop and validate instruments that are applicable to all countries. Therefore, as the top three international rankings (Shanghai Ranking – ARWU, QS World University Rankings, Times Higher Education World University Rankings) meet these criteria (see *Annex 1, 2 and 3*), they can be objectively considered as a measure of performance. No Romanian university is included in any of the three main world rankings published in 2011 and 2012, respectively. Amongst Romania's neighbors, only Hungary has universities ranked in the top 500 universities worldwide. University Eotvos Lorand and University of Szeged are ranked between 301 and 400 in the Shanghai Ranking. This raises a question mark regarding the competitiveness of Romanian universities in the international environment.

We have established the following *hypotheses*:

H1: Romanian universities have organizational strategies.

H2: In Romanian universities, organizational strategies are updated regularly and supported by annual strategic plans.

H3: Romanian universities have adapted their strategies and strategic plans in order to meet the international ranking criteria.

Methodology:

The current study is an empirical, qualitative one. It implied checking all 12 websites belonging to the 12 universities of advanced research and education and three from British universities in order to identify whether the strategy and the annual strategic plans were made available to the public or not. This was performed by mapping (see Table 35). Given the fact that the information required by the international rankings is not available, we have only checked the presence of a strategic intent towards a strategy of internationalization. At least this proves the intention of competing in the international environment, of being confronted with a large number of direct or indirect competitors and, therefore, we tend to believe that this will lead to a performance measurement system that will be in line with international rankings.

Table 1 –

Table 35 Strategy mapping in advanced research and education universities in Romania

Rank	Organization	Updated university strategy	Updated annual strategic plan	International intent
1	University of Bucharest	√	√	√
2	Babes-Bolyai University of Cluj-Napoca	√	√	√
3	Alexandru Ioan Cuza University of Iasi	-	-	√
4	The Bucharest University of Economic Studies	√	-	√
5	University of Agricultural Sciences and Veterinary Medicine of Cluj-Napoca	-	√	√
6	University of Medicine and Pharmacy Carol Davila of Bucharest	-	-	√
7	University of Medicine and Pharmacy Gr. T. Popa of Iasi	-	-	√
8	University of Medicine and Pharmacy Iuliu Hatieganu of Cluj-Napoca	-	√	√
9	University Politehnica of Bucharest	-	√	√
10	Gheorghe Asachi Technical University of Iasi	√	√	-
11	Technical University of Cluj-Napoca	-	-	√
12	Politehnica University of Timisoara	√	√	√

The fact that on about half of the websites we were not able to identify the strategy and / or the annual strategic plan does not automatically mean that the universities do not have one. It only states the fact that these universities do not make their strategy and / or strategic plans available to the public, even though there are documents based on which they are evaluated and receive financing from the Ministry of Education. All twelve universities in this top category are state-owned, so they are public organizations and tend to behave as such. Therefore, it is quite awkward that they do not post these documents on their websites. In what follows, we try to guess why they decided to do so:

1. they would like to prevent ‘competitors’ from copying their strategy or counteracting with a different strategy;
2. strategy and / or plan is not a document they would be particularly proud of as they require major improvements;
3. strategy and / or plan is not updated.

The large majority of Romanian universities define themselves as universities with local or regional coverage. For example, the Alexandru Ioan Cuza University of Iasi (no. 3 on the list) defines itself as a regional university, attracting mainly students from the Eastern part of Romania. It does not directly compete with the University of Bucharest (no. 1) or the Babes-Bolyai University of Cluj-Napoca (no. 2), even though they overlap in several fields of study. As the logistics of each university improves and as they advance in their work so as to be included

in the world rankings, we can expect these universities to expand their national and even international coverage, therefore entering a tougher competition against each other.

The Romanian market of higher education studies is not only about Romanian universities. Since 2005, universities worldwide have been invited to present their offer at RIUF (Romanian International University Fair). More than 7100 participants and 58 exhibitors (out of which 40 were international institutions) were present¹⁵. In spring 2011¹⁶, the fair had already expanded into three cities (Bucharest, Timișoara, Iași) and attracted 114 exhibitors and around 12000 visitors.

If we look at the RIUF visitor's profile, visitors are mainly high school students (50,1% in 2009) and university students (39% in 2009). The main market forces driving them to acquire education in an international environment are the need for well prepared professionals in Romania, able to perform at international competitiveness standards, and the fact that international companies in Romania or other companies entering it look for people with the experience and education mandatory to grow successful companies¹⁷.

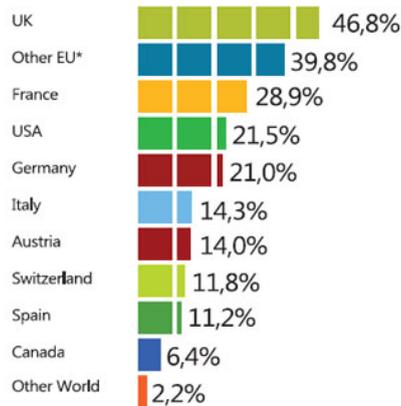
In terms of countries targeted by Romanian students, the UK is by far the most attractive one (see Figure 15). The advantages provided by the British educational system (including financing of studies)¹⁸, the reputation and its constant search for excellence are probably some of the reasons driving students to complete their studies in the UK.

¹⁵ Evaluation Report of RIUF 2005, http://www.riuf.ro/_RIUF-2005_Evaluation_Report.pdf (accessed June 2012)

¹⁶ Data not available for 2012.

¹⁷ Source: http://www.riuf.ro/index.php?page=visitors_profile (accessed June 2012)

¹⁸ Source: <http://www.riuf.ro/index.php?page=sisteme-educationale-uk> (accessed June 2012)



WHERE DO THEY WANT TO STUDY?

YEARLY DATA BEING FAIRLY CONSTANT, 2009 DATA IS SHOWN
*NETHERLANDS, SPAIN, SCANDINAVIAN COUNTRIES

Figure 15 *Countries attracting Romanian students*

Source: RIUF (http://www.riuf.ro/index.php?page=visitors_profile), accessed June 2012

Going back to the topic of this paper and in our quest to identify if strategy plays an important role in higher education, based on the exhibitor list at RIUF, we have decided to check the web pages of some universities that target Romanian students. Given the fact that it would be totally unrealistic to consider that Romanian universities are able to compete against the top universities worldwide (e.g. University of Cambridge, University of Princeton, King's College London), we have decided to use only two selection criteria:

1. given the preference of Romanian students for UK universities, we have decided to scan only the universities in the UK;
2. in order to be realistic, we have eliminated all of the major international competitors (such as University of Cambridge, King's College London, Imperial College London) and went for the smaller universities in the UK.

Therefore, we checked the list of the 500 universities that are included in the Shanghai Ranking looking for the British Universities that are placed between number 401 and 500 and who were present at the 10th edition of RIUF¹⁹ (spring 2012). We identified only one university: the *University of Essex* (401-500 in Shanghai Ranking), that was present at RIUF spring edition 2012 in Bucharest, Timișoara and Iași.

From the other eight British universities present at RIUF spring edition 2012 which are not included in the top 500 universities worldwide according to the

¹⁹ Source: http://www.riuf.ro/index.php?page=for_visitors_list (accessed June 2012)

Shanghai ranking, we selected the ones that were present in all three locations (Bucharest, Timișoara and Iași): University of Portsmouth (UK ranking in 2011 based on student satisfaction²⁰: 74 out of 113 UK universities) and University of Worcester (90) (see Table 36).

Table 36 *Potential UK competitors to Romanian universities*

Organization	Updated university strategy	Updated annual strategic plan	International intent
University of Essex	√	√	√
University of Portsmouth	√	√	√
University of Worcester	-	-	√

As can be seen from Table 36, two of the three universities publish their strategies on the website (not only the general strategy, but also strategies for different fields within the organization, such as: institutional strategy; administrative strategy; service user involvement strategy; strategy for economic development; strategies for centers; research strategy; quality strategy; marketing strategy; estate strategy; HR strategy; learning, teaching and assessment strategy; information services strategy; employability strategy; research and knowledge transfer strategy), as well as their annual strategic plans (including archives). They all emphasize the role of international students, trying to make all resources as available as possible by creating sections devoted to international students on their websites.

After having searched the web pages of the three British universities for comparable data with the Romanian universities, we are able to conclude the following:

- Universities ranked in the top 500 universities worldwide (according to the Shanghai ranking) do not only publish their strategy and annual plans on their website so that the general public can evaluate them and identify the direction where they are heading, but also create a lot of specific strategies for different fields within their organization in order to deliver the best services to their students (be they local, national or international), as well as to their teaching and administrative staff;
- British universities targeting Romanian students are very open to communication with their potential students, by making a lot of data available on their websites.

²⁰ Source: <http://www.university-list.net/uk/rank/univ-10001.htm> (accessed June 2012)

Access to the top 500 universities worldwide (regardless of the name of the ranking - Shanghai Raking-ARWU, QS World University Rankings, Times Higher Education World University Rankings) may be a difficult task for Romanian universities in the next decade. As Florian (2006) put it, even the best universities in Romania must increase their scores at least twice in order to reach top 500. His assumption is based on a comparison between top ten Romanian universities in 2005 (almost the same as in 2011) and the East-European universities present in the top 500 Shanghai Ranking. See Table 37 for the data.

Table 37 *Shanghai score of top 12 Romanian universities compared to the East-European universities in top 500 worldwide*

Organization	Country	Shanghai score (calculated in 2005)
University of Szeged	Hungary	13,12
University of Warsaw	Poland	12,37
University of Eotvos Lorand	Hungary	11,01
Jagiellonian University	Poland	10,50
Wroclaw University	Poland	8,54
University of Bucharest	Romania	4,09
Babes-Bolyai University of Cluj-Napoca	Romania	3,96
Alexandru Ioan Cuza University of Iasi	Romania	3,25
The Bucharest University of Economic Studies	Romania	-
University of Agricultural Sciences and Veterinary Medicine of Cluj-Napoca	Romania	-
University of Medicine and Pharmacy Carol Davila of Bucharest	Romania	1,65
University of Medicine and Pharmacy Gr. T. Popa of Iasi	Romania	-
University of Medicine and Pharmacy Iuliu Hatieganu of Cluj-Napoca	Romania	-
University Politehnica of Bucharest	Romania	3,66
Gheorghe Asachi Technical University of Iasi	Romania	2,44
Technical University of Cluj-Napoca	Romania	1,96
Politehnica University of Timisoara	Romania	1,94

We can assume that the five East-European universities in the top 500, as well as other universities aim at constantly improving their performance in order to reach better positioning. Therefore, as time passes by we can expect for Romanian universities to improve their performance more than twice (three or four times) in order to close the gap and ascend to the ranking.

6. INSTRUMENTS FOR SUPPORTING STRATEGY FORMULATION IN HIGHER EDUCATION

When discussing instruments to support strategy, the literature on strategic management refers mainly to intangible resources: benchmarking, best practices, outsourcing, ISO 9000, total quality management, core competencies, and competitive capabilities (Davies, 2000). Through programs such as TQM, time-based competition, and benchmarking, universities have changed their way to perform activities in order to eliminate inefficiencies, improve customer satisfaction, and achieve best practice (Porter, 1996).

According to Buckland (2009), modern strategy literature attempts to understand the manner in which strategies are generated, their pattern, how they are implemented and reviewed, also attempting to generate several normative outcomes. The author also presents the three phases followed by most companies:

1. 'best practice' strategy - quickly and reliably identified; it can be analyzed in relation with suitable environments and adapted to organizations facing collateral environments. This is a reflective approach and organizations using this strategy probably try to enhance their probable survival;
2. organizations try to understand better their strategic environment, their resource capabilities and the potential strategies to confront their environment, which should lead to a better-informed selection of strategy;
3. implementation of existing or of novel strategies may be improved through feedback based on the outcomes of strategic change and organizational renewal.

Probably the most simplistic and easy to use instrument in any organization is the *SWOT analysis*. Still, it has its shortcomings, the main one being that it is not sophisticated enough. For example, it does not provide a hierarchy for strengths, an order of importance. However, it is widely used, in higher education included. Dyson (2004) performed a strategic development study, including a SWOT analysis at the University of Warwick. He took into account a mixture of components including:

- the annual development of a corporate plan for submission to the Higher Education Funding Council for England (HEFCE);
- an annual five year planning process undertaken by the Strategy Committee (a body comprising the principal officers of the University, who form the Steering Committee, and a number of lay (external) members of the University's governing body, the Council);

- the formulation and sometimes adoption of strategic initiatives throughout the year.

Another useful instrument, but more complex than SWOT, is the *benchmarking* process. Benchmarking does not mean copying, but finding elements of differentiation from competitors. As Porter (1996, p. 64) put it, ‘the more benchmarking companies do, the more they look alike’.

A European initiative (the project ‘Benchmarking in European Higher Education’) presented, in its handbook, ten good reasons to use benchmarking as a management tool, as benchmarking strengthens an institution’s ability to successfully perform the following: self-assessment of their institution; better understanding of the processes which support strategy formulation and implementation in increasingly competitive environments; measuring and comparing to the competition; discovery of new ideas, looking out strategically; learning from others how to improve; obtaining data to support decision-making with new strategic developments; setting targets for improvement of processes and approaches in order to increase performance; strengthening institutional identity, strategy formulation and implementation; enhancing reputation and better position of the organization; responding to national performance indicators and benchmarks; setting new standards for the sector in the context of higher education reforms.

7. CONCLUSIONS

In higher education, performance is mainly related to international rankings as a means of comparing entities from a large number of countries. The criteria used by the rankings must be included in the organizational objectives and strategies must be developed and implemented in order to reach the objectives. We can even argue whether performance implies international recognition or vice versa. In the past twenty years, Romanian universities have developed strategies and strategic plans, but they are rather perceived as a requirement from the government, than as a tool that enables the university to successfully compete in an international environment. The twelve advanced research universities from Romania tend to develop strategies and strategic plans (as required from the Ministry of Education), but most of them either fail to publish them on the website or they do not update them. In a marginal attempt to benchmark the top Romanian universities with three British universities, we have found that two out of the three British universities have very thoroughly developed strategies, not only at the organizational level, but also for each type of activity. Out of the three hypotheses, H1 is confirmed, H2 is partially confirmed and H3 is not confirmed.

There are several *limitations* of this study, the main one being that we did not use an elaborate, validated instrument. This may be the purpose of a future study. Also, we analyzed a small number of universities. Generally, Romanian universities are very reluctant to give information and the lack of information made it difficult to provide a quantitative analysis. Should more specific information be available in the future, our intention is to prepare a more thorough analysis, based on information provided by active participation from the 12 universities of advanced research and education.

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ANNEXES

Annex I – Shanghai Ranking (ARWU) Criteria

Overall indicator	Percentage weightings
alumni winning Nobel Prizes and Fields Medals	10%
staff winning Nobel Prizes and Fields Medals	20%
highly-cited researchers in 21 broad subject categories	20%

articles published in the journals <i>Nature</i> and <i>Science</i>	20%
the Science Citation Index and Social Sciences Citation Index	20%
the per capita academic performance (on the indicators above) of an institution	10%

Source: http://en.wikipedia.org/wiki/Academic_Ranking_of_World_Universities

Annex 2 - QS World University Rankings Criteria

<i>Overall indicator</i>	<i>Percentage weightings</i>
Academic peer review	40%
Recruiter review	10%
Faculty student ratio	20%
Citations per faculty	20%
International orientation	10%

Source: http://en.wikipedia.org/wiki/QS_World_University_Rankings

Annex 3 - Times Higher Education World University Rankings Criteria

<i>Overall indicator</i>	<i>Individual indicators</i>	<i>Percentage weightings</i>
Industry Income – innovation	Research income from industry (per academic staff)	2.5%
International diversity	Ratio of international to domestic staff	3%
	Ratio of international to domestic students	2%
Teaching – the learning environment	Reputational survey (teaching)	15%
	PhDs awards per academic	6%
	Undergrad. admitted per academic	4.5%
	Income per academic	2.25%
	PhDs/undergraduate degrees awarded	2.25%
Research – volume, income and reputation	Reputational survey (research)	19.5%
	Research income (scaled)	5.25%
	Papers per research and academic staff	4.5%
	Public research income/ total research income	0.75%
Citations – research influence	Citation impact (normalised average citation per paper)	32.5%

Source: http://en.wikipedia.org/wiki/Times_Higher_Education_World_University_Rankings#Methodology



QUALITY IMPROVEMENT METHODS AND THEIR USAGE IN ALBANIAN PUBLIC UNIVERSITIES

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Abstract: Education and higher education in particular is one of strategic priorities for development, which guarantees progress. Its role is related to all characteristics of a society, and it undoubtedly constitutes one of the most important areas of life of a nation. It has stable and long-term impact on all aspects of activities related to people and their welfare. The challenge to be faced in the transition period requires that higher education in Albania to be developed, consolidated and follow the trend of higher education in developed countries. Quality itself and by using the continuous quality improvement methods by universities, it constitutes the basis for ensuring the success of the Albanian higher education institutions in the future.

In this paper, through the use of literature, the questionnaires and interviews directed mainly to the professors / pedagogues working in Albanian public higher education institutions, the focus is to show the continuous quality improvement methods used by universities / faculties / departments, and to test the hypothesis: The use or not of the continuous improvement methods is dependent on the studies type (those higher education institutions that offer first cycle studies, first and second cycle studies, or first, second and third cycle studies) that the higher education institution offers.

Keywords: Higher education, Continuous Quality Improvement, TQM

JEL Codes: A22, A23, I23

1. INTRODUCTION

Higher education institutions (public or private) in the XXI century are feeling the increase of pressure to reform and improve; they are expected to be efficient and to provide a qualitative education for students attending the university (Bailey, Chow & Hadad, 1999). These changes are forcing universities and administrators to rethink curricula and academic structure. As a result, these

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institutions are struggling to implement many of the same methods for operational and quality improvement, which have been operating successfully in business and industry (Birnbaum, 1999; Malaney, 1998; Juran 1995). These methods include: continuous improvement teams, benchmarking techniques, Balanced Scorecard method, Baldrige National Quality Award and the European Quality Award, etc.

CQI²³ can be focused in improvement efforts on a single area or department, and the times for improvements can be based on months rather than years. CQI does not require all aspects of TQM²⁴ elements, such as being strategically based or having empowered employees (Dahlgaard, Kristensen & Kanji, 2007). TQM and CQI use employees' teams and other techniques to proactively review the processes to improve the efficiency and effectiveness, and to improve customer satisfaction rather than respond to problems when they occur (Cullen, Joyce, Hassall & Broadbent, 2003).

In the '90s, many HEIs²⁵ (colleges and universities) began to implement new management programs (earlier embraced by private businesses) such as TQM and CQI (Birnbaum, 2000; Brower, 1994; Mergen, Grant & Widrick, 2000). Since 2002, many higher education institutions in the world use different quality award criteria (European or American) in order to improve their performance (many of these universities were honored for their commitment to quality) (Blazey, Davison & Evans, 2003). *Continuous Quality Improvement teams* as CQI method (originally launched as quality circles) means that employees' teams focus on a particular area (or different areas) for improvement within the organization (Goetsch & Davis, 2010; Hill, 1997). These quality improvement teams are often referred in the business as Kaizen teams, from the Japanese word for continuous improvement (Wittenberg, 1994). Sometimes called process improvement teams, the process for continuous improvement teams is similar to the benchmarking process (Munoz, 1999). *Benchmarking process* as a CQI method makes the systematic identification of improvement areas and then compares the institution (or organization) system with procedures used by the institutions or organizations "best practice or best - in - class", from within or outside its industry, and by doing appropriate adjustments or arrangements (Goetsch & Davis, 1997; Zairi & Hutton, 1995). *Balanced Scorecard* is a CQI method that uses a set of balanced goals and criteria to review business performance and to communicate when corrective actions are needed (Kaplan & Norton, 2001). Considering that BSC²⁶ method is

²³ CQI: Continuous Quality Improvement

²⁴ TQM: Total Quality Management

²⁵ HEI: Higher Education Institution

²⁶ BSC: Balanced Scorecard method

conducted by the institution / organization strategy, it helps in communicating the mission, goals and objectives to all employees and other stakeholders. Instead of focusing in one success indicator (generally a financial indicator), measurements are required in a variety of areas, such as on customer's focus, employees' satisfaction, and internal efficiency and effectiveness (Kaplan & Norton, 1996). *Baldrige Quality Award*²⁷ and *European Quality Award*²⁸ criteria regarding quality as CQI method can be used by HEIs to evaluate them related to the standards for excellent institutions. These criteria aim to establish a continuous improvement process. In general, the criteria for these awards focus on seven key areas: leadership, strategic planning, customer and market focus, measurement, analysis and knowledge management, human resources focus, process management, and institution performance (Goetsch & Davis, 2010).

Higher education has always been driven by the need for quality, so HEIs by keeping in mind quality in their activities and by using the continuous quality improvement methods (some of them explained above), it constitutes the basis for ensuring the success of the universities in the future (EUA, 2005; EUA, 2009). Higher education institutions in Albania, while continuing development are facing with a variety of problems, but they are considered part of the inevitable process of growth and development (Qefalia & Koxhaj, 2011). In this study there are taken into consideration only the public universities considering the fact that they have a teaching and research history, consolidated structures starting from the faculties, departments, together with the appropriate number of professors with proper qualifications. In the future, the focus will be extended even to private universities.

The focus of this paper, through the use of literature, the questionnaires and interviews directed mainly to the professors / pedagogues working in Albanian public universities, is to show the CQI methods used by the universities / faculties / departments, and to test the hypothesis: The use or not of the continuous improvement methods is dependent on the studies type (those higher education institutions that offer first cycle studies, first and second cycle studies, or first, second and third cycle studies) that the higher education institution offers. This hypothesis is made to prove exactly if professors / pedagogues perceive this as dependence or independence knowing that they are main stakeholders in this process (together with students). At the end of the material are made conclusions and suggestions regarding this issue.

²⁷ MBNQA: created by the USA Government

²⁸ EFQM: created by 14 European known businesses

2. RESEARCH METHODOLOGY

The methodology used in this study consists mainly in qualitative methods, combined with quantitative research methods. There're used primary sources like interviews, questionnaires [distributed to professors / pedagogues working in Albanian public universities], and secondary sources (literature that exists regarding this managerial approach). It's used survey by choice, where the selection is random probability sample. There're collected 141 questionnaires completed by professors / pedagogues from higher education institutions throughout the Republic of Albania (taken under consideration 9 Albanian public universities, excluding the 3 academies), so the sample size was $n = 141$, and the selection covers a significant proportion the population ($n / N = 141 / 2,000 = 7\%$), so the choice is considered large, which means that it is representative of the population). Universities taken under consideration are the Tirana University, Polytechnic University, Agricultural University, Elbasan University, Shkodra University, Gjirokastra University, Korça University, Vlora University and Durrës University. SPSS statistical program was used, where the data are numbers, and was proceeded with the Descriptive Analysis to analyze the statistical indicators for different variables (Trochim, 2006).

3. ASSESSMENT OF DEPENDENCE OR INDEPENDENCE²⁹ OF USE OR NOT OF CONTINUOUS IMPROVEMENT METHODS ON THE STUDIES TYPE OFFERED BY HEI_s

In this issue will be studied and assessed the dependence or independence of the use or not of continuous improvement methods on the studies type offered by HEI_s (those HEI_s that offer first cycle studies, first and second cycle studies, or first, second and third cycle studies).

3.1 Data consideration on dependence or independence of use or not of CQI methods and studies type offered by HEIs

Respondents represent nine different public universities in Albania, with 12.1% (17 responses out of 141) of responses from the universities that offer only first (bachelor) cycle studies, with 14.9% (21 responses out of 141) of responses from the universities that offer first and second (scientific or professional master) cycle studies, and 73% (103 responses out of 141) of responses from the universities that offer first, second and third (doctorate) cycle studies. The average number of responses for the universities was 15.7.

²⁹ According to professors / pedagogues' perceptions

After reviewing the frequencies of each type of higher education institution associated with the use of CQI, it was clear that very small frequencies in each cell may affect the use of data for an analysis of various examinations of statistical indicators. For this reason, the data manipulation is done by grouping them into categories, e.g. use or not of CQI methods from HEI_s that offer first cycle studies, first and second cycle studies, or first, second and third cycle studies (i.e., their categorization, for more details see Table 1).

Another issue related to the data was that the CQI methods' distribution resulted in some cases that had insufficient sample size. Of the 109 responses that indicate the use of CQI methods, and from the answers that listed a primary CQI method, 73 chose CQI teams, 34 chose Benchmarking techniques, only 2 chose BSC method and no one chose the method of different quality awards (see Figure 16). In further analysis considering the use of CQI methods, this involves the use of CQI methods as in Figure 16.

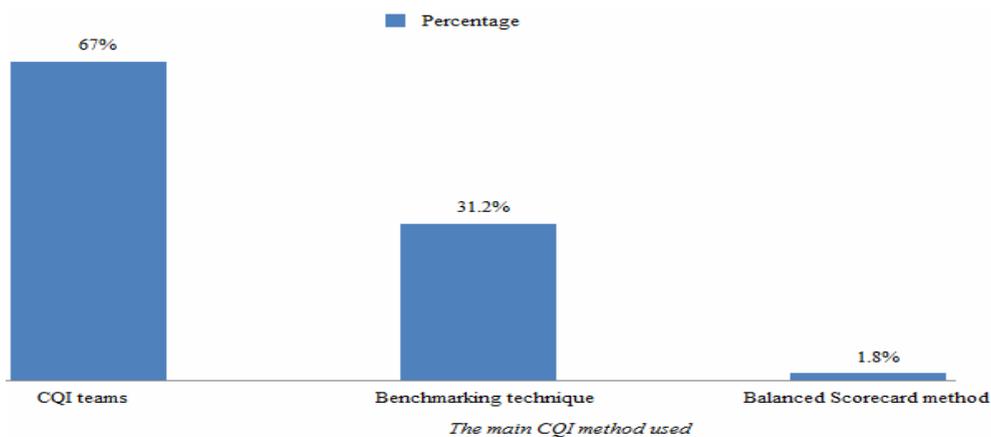


Figure 16 Frequency of the main method (in %) used for CQI in universities / faculties / departments (from 109 users of CQI)

Source: The questionnaire (2011)

Data manipulation is done by grouping them into categories, e.g. use or not of CQI methods from professors / pedagogues (respondents) working in HEI_s that offer first cycle studies, first and second cycle studies, or first, second and third cycle studies (see

Table 38).



Table 38 *Number of respondents by HEI type and CQI methods*

HEI type	Respondents that have used CQI methods	Percentage of respondents that have used CQI methods
HEI _s that offer first cycle (bachelor) studies	15	14%
HEI _s that offer first and second cycle (master) studies	16	15%
HEI _s that offer first, second and third cycle (doctorate) studies	78	71%
Total	109	100%
HEI type	Respondents that have not used CQI methods	Percentage of respondents that have not used CQI methods
HEI _s that offer first cycle (bachelor) studies	2	6%
HEI _s that offer first and second cycle (master) studies	5	16%
HEI _s that offer first, second and third cycle (doctorate) studies	25	78%
Total	32	100%

Source: From the analysis of Authors (2011)



In the following Figure 17 and Figure 18 there are given respectively the percentages of respondents (professors / pedagogues working in public HEI_s) that have used CQI methods and the percentages of respondents that have not used CQI methods.

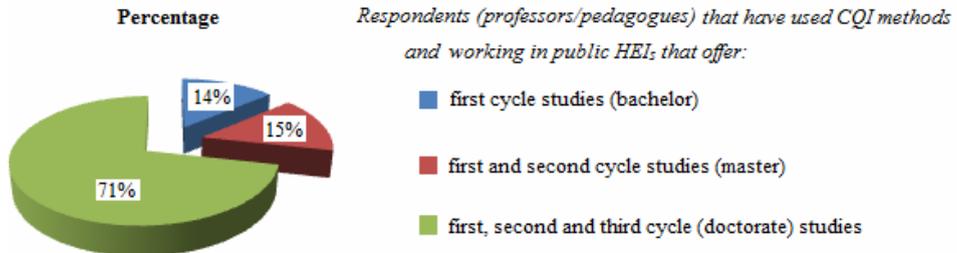


Figure 17 Respondents (professors/pedagogues) working in public HEI_s (offering different cycle studies) that have used CQI methods (values are percentage of total users 109).
Source: The questionnaire (2011)

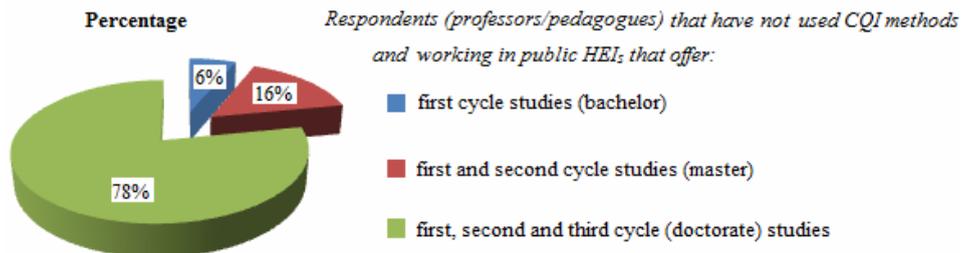


Figure 18 Respondents (professors/pedagogues) working in public HEI_s (offering different cycle studies) that have not used CQI methods (values are percentage of total users 32).
Source: The questionnaire (2011)

Based on the above data (obtained from the questionnaires), the authors will try to prove the following hypothesis: The use or not of the continuous improvement methods is dependent on the studies' type (those HEI_s that offer first cycle studies, first and second cycle studies, or first, second and third cycle studies) that the HEI offers.

3.2 Testing the hypothesis

Hypothesis: The use or not of the continuous improvement methods is dependent on the studies type (those HEI_s that offer first cycle studies, first and second cycle studies, or first, second and third cycle studies) that the HEI offers.

To prove the above hypothesis, the authors will use statistical technique of *goodness of fit test and independence criterion* by using crossed data obtained from the questionnaire and processed by SPSS statistical program, as well as values obtained from the distribution (contingency) table χ^2 (Levesque, 2007; NIST, 2006;

Sanders, 2009). The model requires that H_0 to be *independence*, and H_a (alternative) to be *dependence* (which is the hypothesis that the authors seek to prove). Specifically we have:

H_0 : The use or not of the continuous improvement methods is *independent* on the studies type (those HEI_s that offer first cycle studies, first and second cycle studies, or first, second and third cycle studies) that the HEI offers.

H_a : The use or not of the continuous improvement methods is *dependent* on the studies type (those HEI_s that offer first cycle studies, first and second cycle studies, or first, second and third cycle studies) that the HEI offers.

Based on the conditions this model requires, **the authors seek to prove the alternative hypothesis, H_a** , so that the use or not of the continuous improvement methods is *dependent* on the studies type (those HEI_s that offer first cycle studies, first and second cycle studies, or first, second and third cycle studies) that the HEI offers. So in this way, the authors should reject H_0 to prove the H_a hypothesis, for which they're interested.

H_0 hypothesis is rejected if $\chi^2_{\text{observed}} > \chi^2_{\text{critical}} = \chi^2_{(n-1; m-1) \text{ and } (\alpha=0.05)} = \chi^2_{(3-1; 2-1) \text{ and } (\alpha=0.05)} = \chi^2_{(2; 1) \text{ and } (\alpha=0.05)} = 5.99$ [value found from the distribution table χ^2 (with two degrees of freedom)]. As shown, there is uses $\alpha = 0.05$ (error rate 5%), so the authors are trying to prove a hypothesis or not, with a confidence interval 95%.

$$\chi^2_{\text{observed}} = \sum_{i=1}^n \sum_{j=1}^m \frac{(f_{ij} - p_{ij})^2}{p_{ij}}$$

Data for f_{ij} (the *actual* data from the questionnaire) are taken from Table 39 below (data obtained from actual responses of the respondents and processed with SPSS program).

Table 39 Table of actual data ' f_{ij} ' (from the questionnaire): crossed data of studies' type offered by HEI_s and the use of CQI in university departments

		<i>m</i>			
		The use of CQI in university departments			
		No	Yes	Total	
<i>n</i>	Studies' type offered by HEI:	First cycle (bachelor) studies	2	15	17
		First and second (master) cycle studies	5	16	21
		First, second and third (doctorate) cycle studies	25	78	103
Total		32	109	141	

Source: From the analysis of Authors (2011)

The authors now will draw p_{ij} table showing the *expected values in conditions when H_0 is true.*

Values are calculated as follows (mark with 'c' respective cells):
 $c_{ij} = (\Sigma \text{ of column 'Do you use CQI in your department?' from the table 'f}_{ij}' * \Sigma \text{ of the row 'Studies type offered by HEI'}) / \text{Total of respondents}$

$$c_{1:1} = 32*17/141 = 3.86; c_{2:1} = 32*21/141 = 4.77; c_{3:1} = 32*103/141 = 23.37$$

$$c_{1:2} = 109*17/141 = 13.14; c_{2:2} = 109*21/141 = 16.24; c_{3:2} = 109*103/141 = 79.63$$

Above values are transferred in Table 3 (which is the table of expected values p_{ij}).

Table 40 Table of expected values ' p_{ij} ': crossed data of studies' type offered by HEIs and the use of CQI in university departments

		<i>m</i>			
		The use of CQI in university departments			
		No	Yes	Total	
<i>n</i>	Studies' type offered by HEI:	First cycle (bachelor) studies	3.86	13.14	17
		First and second (master) cycle studies	4.77	16.23	21
		First, second and third (doctorate) cycle studies	23.37	79.63	103
Total		32	109	141	

Source: From the analysis of Authors (2011)

Based on the formula:

$$\chi^2_{\text{observed}} = \sum_{i=1}^n \sum_{j=1}^m \frac{(f_{ij} - p_{ij})^2}{p_{ij}}, \text{ we find } \chi^2_{\text{observed}}:$$

$$\chi^2_{\text{observed}} = [(2-3.86)^2]/3.86 + [(15-13.14)^2]/13.14 + [(5-4.77)^2]/4.77 + [(16-16.23)^2]/16.23 + [(25-23.37)^2]/23.37 + [(78-79.63)^2]/79.63 = 1.3209$$

$\chi^2_{\text{observed}} = 1.3209 < \chi^2_{\text{critical}} = 5.99$, which shows that H_0 is not rejected (the condition for hypothesis H_0 to be rejected was $\chi^2_{\text{observed}} > \chi^2_{\text{critical}} = \chi^2_{(n-1; m-1)}$ and $(\alpha=0.05) = \chi^2_{(3-1; 2-1)}$ and $(\alpha=0.05) = \chi^2_{(2; 1)}$ and $(\alpha=0.05) = 5.99$, so $\chi^2_{\text{observed}} > \chi^2_{\text{critical}} = 5.99$).

But, the authors sought to prove the alternative hypothesis, H_a , so the use or not of the continuous improvement methods is dependent on the studies type (those HEIs that offer first cycle studies, first and second cycle studies, or first, second and third cycle studies) that the HEI offers. As to prove the hypothesis H_a , for which the authors were interested, they should have rejected H_0 , which was not achieved,

and this shows that the *authors' hypothesis*: "The use or not of the continuous improvement methods is *dependent* on the studies type (those HEI_s that offer first cycle studies, first and second cycle studies, or first, second and third cycle studies) that the HEI offers", IS NOT PROVED [with confidence interval 95% and 5% error rate ($\alpha = 0.05$)].

4. FINAL RESULTS AND CONCLUSIONS

Quality and the use of the continuous quality improvement methods constitute the basis for ensuring the success of the Albanian public universities in the future. That's why the focus of this paper was to show the Continuous Quality Improvement methods used by Albanian public universities / faculties / departments, and to test the hypothesis: The use or not of the continuous improvement methods is dependent on the studies type (those higher education institutions that offer first cycle studies, first and second cycle studies, or first, second and third cycle studies) that the higher education institution offers; hypothesis made according to professors / pedagogues' perception knowing that they are the main stakeholders in this process together with students.

From the analysis of this hypothesis, the authors thought that shifting from HEI_s that offer first cycle (bachelor) studies, in HEI_s providing first and second (master) cycle studies, and in HEI_s that offer first, second and third (doctorate) cycle studies, would increase the number of CQI users, and thought that was a link between the increased number of cycles of study offered by universities and increased number of CQI users (Qefalia, 2010). However, the analysis performed by the statistical technique of goodness of fit test and independence criterion by using crossed data obtained from the questionnaire and processed by SPSS statistical program, as well as values obtained from distribution table χ^2 , showed the opposite, so that the use or not of the continuous improvement methods is *independent* on the studies type (those HEI_s that offer first cycle studies, first and second cycle studies, or first, second and third cycle studies) that the HEI offers.

From a critical reasoning, it results true considering the fact that even the public higher education institutions in Albania's districts [which until recently offered only first studies (bachelor)] use continuous quality improvement and its respective methods. If we see data from Table 2 without making any statistical analysis, we should have thought that higher education institutions offering first, second and third cycle studies (until recently only the University of Tirana) were more numerous in the CQI use compared with HEI_s offering first and second cycle studies, and with those HEI_s offering only first cycle studies (which generally until recently corresponded to public universities in Albania's districts). But the

statistical analysis revealed the opposite, and what has caused this thing is that despite the number 78 of CQI users from HEI_s offering first, second and third cycle studies (compared respectively with number 16 and 15 of CQI users from other HEIs offering first and second cycle studies or first cycle studies), these HEI_s that offer first, second and third cycle studies have also the highest number of non users of CQI methods, i.e. 25 [different number compared from other types of HEI_s offering first and second cycle studies or first cycle studies with respectively 5 and 2 non CQI users].

So, finally we can say that no matter the type (HEI that offers first, second and third cycle studies, or first and second cycle studies, or first cycle studies) of public higher education institution (*is independent*) in CQI use, all HEI_s (universities / faculties / departments) implement or not CQI (from Table 1, it results that 77.3% of respondents apply CQI methods in their faculties / departments, and 22.7% don't not apply CQI methods).

Currently, all public universities in Tirana or Albania's districts (whether universities that offer first, second and third cycle studies, or first and second cycle studies, or first cycle studies; they improve their selves / departments / faculties / universities despite of the limits offering by the HEI_s) use CQI methods though not at the institution level, but at the departmental level, which is very important to increase their competitiveness, and to successfully face new changes like pressures of competition from private universities, insufficient funds, etc.

5. FURTHER DIRECTIONS OF RESEARCH

In this study it was tested the hypothesis: The use or not of the CQI methods is dependent on the studies' type that the HEI offers (hypothesis made according to professors / pedagogues' perception), and it was concluded that no matter the type (HEI that offers first, second and third cycle studies, or first and second cycle studies, or first cycle studies) of public higher education institution (*is independent*) in CQI use, all HEI_s (universities / faculties / departments) implement or not CQI. An area for further study would be that of using specific quantitative and qualitative data regarding the implementation and results of CQI users - Albanian public and private universities. Another area would be that of investigating the implementation and results of Bologna Process, and its impact in improving the Albanian universities. Also, another area for further research would be that of studying the accreditation impact in improving the quality in Albanian HEI_s and in transforming them into competitive units.

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CASE STUDY



ANALYSIS OF THE RELATIONSHIP BETWEEN FOREIGN DIRECT INVESTMENTS AND ECONOMIC GROWTH – CASE OF ROMANIA

Lenuta CARP³⁰

***Abstract:** FDI are appreciated as an important catalyst in the host country economy due to their positive externalities they generate through fixed capital accumulation, stimulating the development of organizations, technological transfer and exerting a strong impact on equilibration of the balance of payments. The aim of the paper is to study the dynamic of the foreign flows in Romania and to examine the relationship between FDI flows and economic growth using SPSS. The results of the analysis emphasize the positive, direct and strong correlation between the variables. Further analysis can be developed by including other variables in the econometric study like trade, human capital or by expanding it to a time series analysis using other techniques.*

***Keywords:** FDI, economic growth, GDP, correlation*

***JEL Codes:** E22, F21, F43, O47*

1. INTRODUCTION

The negative influence of the worldwide economic and financial crisis on the dynamic of the Romanian economy is reflected in the low trend of the national macroeconomic indicators (global or GDP per capita, inflation rate, unemployment and employment rates, budget deficit, public debt), with important repercussions on the volume of attracted FDI. In this context, the role of the foreign capital flows increased mainly due to their benefic effects both on the beneficiary and source economy revealed by the relevant literature on the topic and the authorities, being aware of the externalities generated by the flows attracted develop several policies and strategies to enhance the attractiveness of the national economy.

The unstable international economic situation has strengthened the beliefs that the foreign inflows have positive and favorable impact in the host country

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economy, materialized in high – level technology transfer, managerial experience, organizational and work skills, expansion of foreign markets which facilitates the amplification of sales volume and eases the access to various and diversified markets (Ioneci, Mandreci, 2010). Foreign capital movements among international economies enhances the development of the economies through the interdependencies between the economies involved and stimulates the integration of less developed countries in the worldwide financial market.

In Romania, the impact of FDI on the national economy is reflected, on the one hand through the role of Greenfield project investment and on the other hand, their role is studied emphasizing their contribution in the privatization process. Foreign capital flows are considered efficient solutions in the recovery process of the economy stimulating development in all the economy sectors through modernizing the equipment and the technology used in the production process and by enhancing competitiveness in the economy. The main results of the integration process, liberalization of capital movements and openness of trade barriers materialized in an amplification of the degree of international attractiveness of our country, the investors being encouraged to develop their business in the Romanian environment by incentives and tax breaks offered, along with other advantages: cheap and qualified workforce, strong development potential of the national market and economic activities, the richness of material resources available (Danciu, Gruiescu, 2010).

The paper is structured into four sections: the first one is dedicated to the theoretical analysis of the relationship between FDI and economic growth and the main findings; the second part of the paper presents the dynamic of the FDI flows, their distribution on economic regions, branches of the economy and by country of origin. The econometric analysis between FDI flows and economic growth in Romania and the results are provided by the third one, meanwhile the final part of the paper reveals the concluding remarks.

2. LITERATURE REVIEW

The relationship between FDI flows and economic growth represents a subject that is intensively debated in the relevant literature due to the controversial perspectives offered by the results, some of the studies have found a positive correlation between the volume of attracted FDI and economic growth, while others have identified a negative relationship between the variables. Although UNCTAD (2003) highlights the essential role of foreign capital flows on international economic development along with other relevant studies on the topic,

the main goal is to find an answer to the significant question of the study: “*does FDI contributes to host country economic growth?*”.

The theoretical studies on the topic allows the analysis of this relationship corresponding to two main theories: *the neoclassical growth theory*, according to which FDI flows encourage economic growth as a consequence of the attraction of an increased volume of investments and *the endogenous growth theory* and its specific models presented by Romer (1990) and Lucas (1998) and emphasizes FDI contribution in gaining a superior rate of economic growth, through technological transfer from developed countries to emerging economies based on a detailed analysis (Li, Liu, 2005). Endogenous growth theory has created the adequate conditions to study the correlation among different variables and support the results by empirical evidences.

Past studies are characterized by diversity in the methods and the techniques used to determine the existence of any relationship between FDI flows and economic growth: the correlation and regression analysis, ARIMA, panel and cross – country studies, OLS. The impact of the FDI on economic growth is both directly, influencing GDP growth rates and indirectly, due to the influence of other main macroeconomic indicators: volume of exports and imports, the level of education, investment ratio, unemployment rate, but, in the mean time, political and financial national stability exerts a significant impact.

Using OLS method on data on developing countries, Balasubramanyam et al.(1996) proved the positive externalities generated by foreign capital inflows on economic growth based on exports stimulation strategy and showed that, in the same countries, the results are different from those obtained after applying import substitution tactic. Borensztein et al. (1998) emphasized the key role played by FDI in the process of technology transfer, concluding that the intensity of this effect is correlated to the development degree of human capital and the national conditions, appreciating that "FDI are an important vehicle for the technology transfer, contributing relatively more to growth than domestic investments". However, Bengoa and Sanchez - Robles (2003, p: 529) consider that "the host country still needs adequate human capital, economic stability and liberalized markets to benefit in long term of foreign capitals".

Selecting data from several countries, Olofsdotter (2001) and De Mello (1999) have confirmed the existing of a direct relationship between FDI volume and the economy level of development, foreign capital influence being higher as the degree of institutional capacity is higher. Using Johansen cointegration test and Granger Causality test, Zhang (2001) has identified a positive relationship between the economic development degree and host country characteristics: trade regime,

macroeconomic stability, regulation environment, while Blomstrom (1996) highlighted a favorable impact in countries with high incomes, meanwhile in the countries with low incomes there could not be found no influence.

The existing literature permits the selection of a few studies that failed in confirming the positive and direct relationship between FDI and economic growth, despite applying various methods like OLS method or panel studies (Durham, 2004; Choe, 2003). The studies implemented have brought sound arguments concerning the strong about between FDI inflows and macroeconomic characteristics: financial and institutional absorptive capacity, trade regime, existing regulations, political stability, human resources development degree, domestic market size (Vu Le, Suruga, 2005; Trofin, 2010). The negative correlation between FDI and economic growth is also demonstrated by Lyroudi and Papanastosiou (2004, p: 98) through the Bayesian analysis and by Carkovic and Levine (2005, p: 197) who obtained a negative correlation by including in the econometric model the level of education, the degree of economic and commercial development in the beneficiary country, as “the exogenous part of FDI do not exert a positive and robust influence on economic growth” showing that “does not exist any empirical, trans-national and confident evidence to support the claim that FDI accelerates economic growth”.

3. DYNAMIC OF FDI INFLOWS IN ROMANIA

FDI impact on host country economic growth varies according to the different types of investments: in the case of Greenfield projects, the influence on foreign capital flows on economic development is clear and easy to recognize it, because they cause creation of a new production capacity and new working places, determining the appearance of a new economic agent in the economy. Talking about the implication of foreign capital flows in the privatization process, their role is complex and contributes to an increase of the productivity and quality of the work in the enterprises.

FDI flows in Romania has known an upward trend especially during the economic transition period when the authorities confronted the corruption and the fragility of institutions and regulations generating uncertainty in the economic environment and implemented various policies and developed national development strategies to increase the country attractiveness for foreign investors, due the externalities they might generate on national GDP and balance of payments. Romania succeeded to attract an increased volume of foreign capital flows as a consequence of the EU integration, trade openness and capital account liberalization, through elimination of the barriers among countries. However,

Romania has become an important destination for the investors who want to develop their business, although in the first years after 1990 had a marginal position, but the stable and sound macroeconomic and law system was the key reason that stimulated FDI attraction and transformed out country in one performers in Central and Eastern Europe.

FDI flows dynamic in Romania emphasizes a sinuous evolution till 2000, mainly correlated to the privatization process, but over the period 2004 – 2008, the inflows recorded raised strongly. The last years, due to the current economic and financial crisis that affected international financial markets, the worldwide FDI decreased significantly in most of the economies and Romania is also affected by the worsening of economic conditions. Economic turbulence in the global economy determined multinationals reaction to limit or reduce their extension plans or international activities.

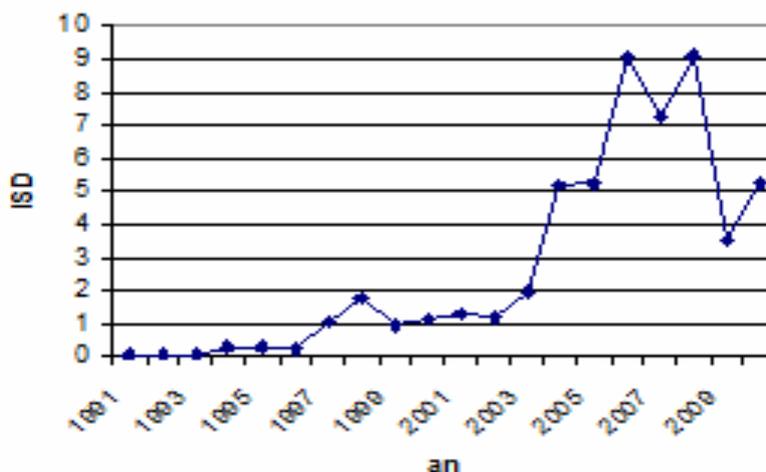


Figure 19 FDI evolution during 1991 - 2010 in Romania

—◆— FDI (EUR million)

Source: processed based on data published on www.insse.ro

The negative impact of recession on FDI flows is highlighted by Ernst & Young statistics by comparing FDI volume in 2009 to the level recorded in 2008, along with a decrease of the number of new jobs created by the transnational companies by 44 %. The downward trend recorded by all types of investments in 2009, also continued in 2010: the number of investment projects decreased by 48 %, our country attracting only 75 %, equal to 2 % of the entire number of investment projects in Europe. The projects carried out in Romania permitted the

creation of 6384 jobs, stimulating the 7th place for Romania in the European top about new jobs and the 11th position in the FDI inflow hierarchy.

FDI flows analysis in Romania implies an analysis of the number of multinational companies which carried out their activity in Romania, presenting an upward trend till 2007, but after the beginning of the crisis their number reduced considerably being in 2010 only 488 firms. The dynamic of FDI in Romania can be studied on regions of development, the evolution of FDI stock and flows in the considered period, FDI distribution on economic activities and by the investment country.

- a) FDI distribution on economic regions of development reveals foreign investors orientation especially to geographic areas and historic zones with a rich economic potential in some activities fields, with developed infrastructure and historical traditions. The capital of the country has the first place in the preferences of the investors with percentages that exceed 60 % over the period 2007 - 2010, the difference up to 100 % is divided among the other regions of the country. Regional disparities were caused by: the high level of economic development, availability and qualifications of the working force, various opportunities on a more stable market than other regions and increased possibilities to satisfy better the requirements of the investors.

The region with the lowest degree of attractiveness is the north - east, the lack of foreign investments in this area is justified by its fundamental characteristics: reduced development concerning high technology, area mainly with agricultural activities, infrastructure in an early stage of development, the phenomenon of migration and advanced age of the existing working force. Territorial distribution analysis of foreign flows must consider the fact that sometimes, the office of the foreign direct enterprise does not always correspond to the location of the economic activities (Pauna, Dumitescu, 2005).

Table 1 FDI distribution on development regions in 2007 – 2010 in Romania

Development region	2007	(%) of FDI	2008	(%) of FDI	2009	(%) of FDI	2010	(%) of FDI
TOTAL, of which:	42770	100	48798	100.0	49984	100.0	52585	100.0
Bucharest	27516	64.3	30594	62.7	31699	63.4	32720	62.2
Center	3541	8.3	4146	8.5	3703	7.4	3909	7.4
South	2942	6.9	3411	7.0	3576	7.2	3816	7.3
West	2365	5.5	2626	5.4	3095	6.2	3446	6.5
South – East	2448	5.7	3551	7.3	2938	5.9	3290	6.3
South – West	1379	3.2	1226	2.5	2058	4.1	2232	3.7

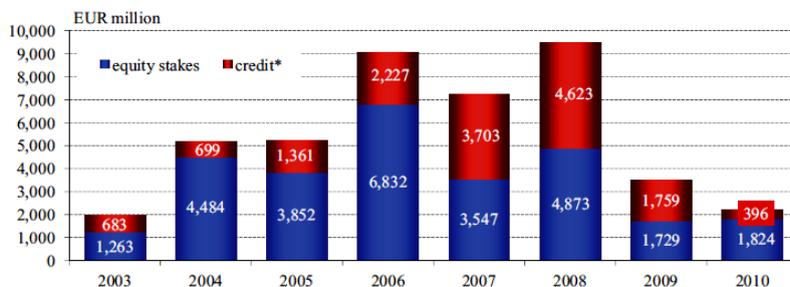
Development region	2007	(%) of FDI	2008	(%) of FDI	2009	(%) of FDI	2010	(%) of FDI
North – West	1907	4.5	2108	4.3	1940	3.9	1928	4.2
North – East	672	1.6	1136	2.3	975	1.9	1244	2.4

Figure 20

Source: processed, based on data published by The National Bank of Romania - *Foreign direct investment in Romania*, reports for 2008, 2009 and 2010

The table above shows the domination of Bucharest region in the total flow of foreign investments, because it is the most developed, the infrastructure is very performance and the workers are very trained and skilled. The less attractive region of Romania is the North – East region and the main causes of the reduced flow of inward FDI are: aging population, underdeveloped infrastructure and the migration of the young people in other economic regions of the country or abroad, determined by a higher level of minimum economic salary and the economic and financial conditions of the country.

- b) FDI flow evolution emphasizes an upward trend till 2007, the integration year in the EU, the maximum value of flows was reached in 2008, but the subsequent evolution was under the influence of the current economic and financial crisis, the value in 2010 is about 2220 millions euro, down 36.35 % from previous year. While, in the transition period, FDI flows present reduced levels, almost insignificant as impact in the economy, the accelerated growth can be attributed to the opportunities offered to investors who can take advantage of high profits, either through Greenfield operation or through mergers and acquisitions. Greenfield investments require a consistent effort from the investor, both financially and managerially, and therefore are less practiced and accepted by foreign investors against the acquisition of state assets.



* net credit from foreign direct investors

Figure 21 FDI flows dynamic in Romania during 2003 – 2010

Source: National Bank of Romania, *Foreign direct investments in Romania – 2010*

- c) The evolution of FDI stock during 2003 - 2010 highlights a strong upward trend over the entire period, due to the increased importance of our country among the international beneficiaries. Studying the main components of FDI stock, the figure below emphasizes that equity stakes registered an upward trend till 2007 and afterwards, began a period characterized by a slow growth. On the other hand, the credits increased steadily, proving that the economic and financial imbalances determined the multinationals to cut or even stop their investment projects made from the net income realized.

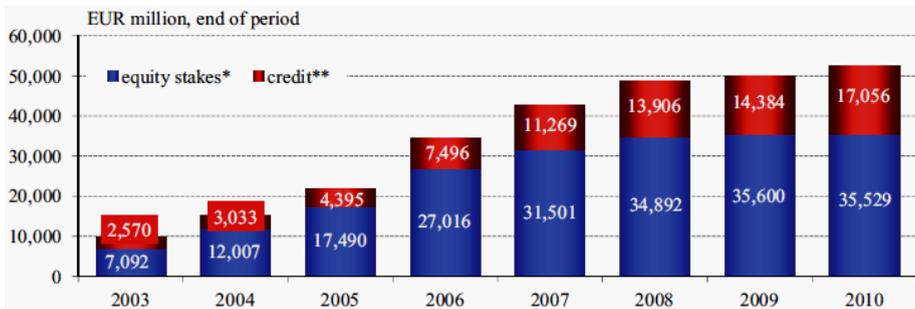


Figure 22 FDI stock in Romania over the period 2003 - 2010

Source: National Bank of Romania, *Foreign direct investments in Romania - 2010*

- d) The distribution of foreign flows on economic activities proves based on data from 2007 to 2010 that the most attractive economic field for the investors was the industry, especially the manufacturing industry, opposed to the hotel and restaurants that have a low weight. Romania has a rich tourism potential, which unfortunately, is not promoted and exploited at its full capacity, therefore, we consider that authorities should start viable projects to enhance the key role of tourism and hotels in the national economy and enhance economic development. Despite of the fact that the crisis effects were felt later than in other economies, our country does not have the ability and the macroeconomic environment sound enough to recover from the negative effects generated by the financial turbulences.

Table 41 *FDI distribution on economic activities during 2007 – 2010 in Romania*

Economic branches	2007	% of FDI	2008	% of FDI	2009	% of FDI	2010	% of FDI
TOTAL, of which:	42770	100.0	48798	100.0	49984	100.0	52585	100.0
Industry	17409	40.7	20138	41.3	20680	41.4	23093	43.9
Extractive industry	2046	4.8	2158	4.4	2221	4.5	2388	4.5
Manufacturing	14071	32.9	15236	31.3	15555	31.1	16840	32.0
Electricity, gas and water	1292	23.3	2744	5.6	2904	5.8	3865	7.4
Professional, scientific, technical and administrative activities	1970	4.5	1617	3.3	2299	4.6	2560	4.9
Agriculture, forestry and fishing	700	1.3	707	1.4	552	1.1	1068	2.0
Trade	5970	14.0	6060	12.4	6164	12.3	6519	12.4
Construction and real estate	3329	7.8	6155	12.6	6453	12.9	4746	9.0
Hotels and restaurants	270	0.6	181	0.4	213	0.4	417	0.8
Information and communication technology	2784	6.5	3283	6.7	3235	6.5	3081	5.9
Finance and insurance	9961	23.3	10026	20.5	9510	19.0	10055	19.1
Transports	529	1.2	500	1.0	684	1.4	788	1.5
Other activities	578	1.4	131	0.4	194	0.4	258	0.5

Source: processed, based on data published by The National Bank of Romania - *Foreign direct investment in Romania*, reports for 2008, 2009 and 2010

FDI orientation to the industrial sector is influenced by the advantages Romania has to offer to foreign investors: the lower price of the field than in other countries, developed infrastructure, qualified and cheap workforce, the existing production capacities and advanced technologies used. The significant percent of foreign flows in the industry can easily be correlated to the privatization process of all state enterprises which has led to an amplification of the capital entries.

- e) FDI distribution on origin country in 2009 and 2010 emphasize the unequal distribution among countries and the origin of the main investors in Romania, the figures for 2009 and 2010 showing that they came from Holland, Germany, Greece and Cyprus. The significant volume of FDI from EU countries amplifies the interdependencies among other the source country and the beneficiary one especially after the EU integration, but also the interrelation between exports and foreign capital attracted in our country.

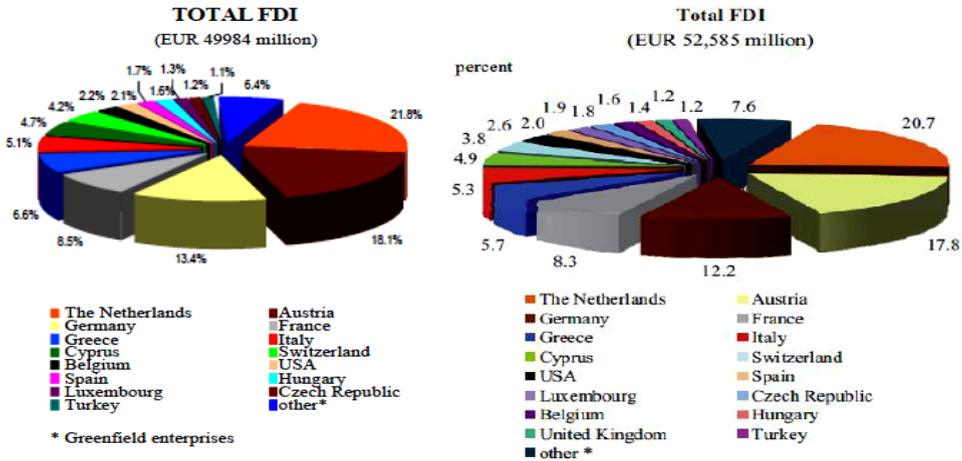


Figure 23 FDI stock as of 31 December 2009 and 31 December 2010 by country of origin
Source: National Bank of Romania, *Foreign direct investments in Romania*, reports for 2009 and 2010

4. THE ANALYSIS OF THE CORRELATION BETWEEN FDI AND ECONOMIC GROWTH IN ROMANIA

During 1991 – 2010, Romania has known significant changes of the institutional and legislative framework concerning FDI and has passed from a positive discrimination of foreign investors to according national treatment and than to applying the laws and regulation in capital liberalization.

The method used to analyze the correlation between FDI and economic growth is based on data selected from The National Bank of Romania – *Foreign direct investment in Romania 2010* and The National Institute of Statistics, for the period 1991 – 2010, presented in the table below.

Table 42 FDI and GDP evolution during 1991 - 2010

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
FDI (vol. mill euro)	0.035	0.059	0.081	0.28	0.32	0.21	1.07	1.8	0.98	1.14
GDP (vol. bill euro)	25.10	15.10	22.60	25.30	27.40	28.20	31.30	37.40	33.50	40.30
Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
FDI (vol. mill euro)	1.29	1.21	1.94	5.18	5.21	9.06	7.25	9.1	3.49	5.26
GDP (vol. bill euro)	44.90	48.5	52.60	60.80	79.30	97.20	112.10	137.00	30.50	122.00

Source: NBR, www.insse.ro

The relationship between the two variables is tested using linear regression model carried out in SPSS, with a general form $Y = a + b \cdot X$, where Y is the dependent variable (in our model is represented by the GDP of Romania) and X is the independent variable (in our model is the volume of attracted FDI).

The existing relation between the variables, its type, intensity and direction is highlighted by the correlation coefficient Pearson, which value of $\rho = 0.909$ shows a direct and strong correlation between GDP value and the volume of attracted FDI in the economy. The significance of this coefficient is tested by comparing Sig value to the value of statistical test T : ($\text{sig} = 0.000$) < ($\alpha = 0.05$) emphasizes that the correlation coefficient Pearson is significant, within a probability of 95 %.

Correlations

		FDI	GDP
FDI	Pearson Correlation	1	.909**
	Sig. (2-tailed)		.000
	N	20	20
GDP	Pearson Correlation	.909**	1
	Sig. (2-tailed)	.000	
	N	20	20

The coefficients table offers information used to build the linear regression model, that has the following form: $\text{GDP} = 23.603 + 10.898 \cdot \text{FDI}$. After establishing the estimated equation of the linear model, the parameters must be tested and the results are provided in the Coefficients table.

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	23.603	4.761		4.958	.000
	FDI	10.898	1.181	.909	9.228	.000

a. Dependent Variable: GDP

The coefficient $b_0 = 23.603$ shows that the estimate average level for the dependent variable – GDP is 23.603 billion euro when the FDI volume is equal to 0. The coefficient $b_1 = 10.898$ corresponds to a direct, positive relationship between the parameters considered. An increase in FDI volume with 1 million euro causes an amplification of the GDP volume with 10.898 billion euro. The

significance of the test student for the independent variable and the constant is $\text{Sig. } t < \alpha = 0.05$, that leads to the decision of rejecting the null hypothesis with a 95 % probability and to confirm that the parameters of the linear regression model are significant different from 0, which means the independent variable FDI has a strong and benefic influence on GDP.

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20666.387	1	20666.387	85.161	.000 ^a
	Residual	4368.163	18	242.676		
	Total	25034.550	19			

a. Predictors: (Constant), FDI

b. Dependent Variable: GDP

The determination coefficient R square = 0.826 highlights that 82.6% of GDP variation can be explained by the value of FDI attracted in Romania during 1991 - 2010.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.909 ^a	.826	.816	15.57805

a. Predictors: (Constant), FDI

The econometric analysis carried out in SPSS emphasizes the positive impact exerted by the FDI flows on the economic growth of Romania, measured through the volume of the GDP. The results proved the strong correlation between FDI flows and GDP highlighting the fact that the foreign capital flows attracted are placed in the sectors of the economy contributing to national development and increasing the value created.

5. CONCLUDING REMARKS

Foreign direct investments can exert a positive influence in the beneficiary economy and this impact is reflected by the dynamic of the macroeconomic indicators: GDP growth, fixed capital accumulation, absorptive capacity, human capital, unemployment rate. However, according to the theoretical and empirical literature analyzed, the externalities generated by foreign inflows are in the mean time dependent on the internal economic conditions, the degree of political stability having a key role in attracting FDI flows. As the analysis on the dynamic of foreign

capital flows showed, when the economic environment is characterized by a high level of corruption the volume of FDI attracted is very low, but the authorities made significant efforts and implemented sound policies and strategies that had a positive contribution on the volume of the FDI inflows.

Past studies allowed the identification of the main favorable effects generated in the host country economy, materialized in technological transfer, contribution in equilibration of the balance of payments through deficit financing and development of new organizational, cultural and managerial skills in the new enterprises.

The analysis implemented in SPSS using data for Romania proved that the FDI inflows have a positive and significant impact on the national GDP and between the variables exists a strong and direct correlation. Further analysis on the relationship between foreign capital inflows and GDP growth rates can be developed by considering others determinants that play a key role in this relationship or through including in the econometric model independent variables through which these flows can generate favorable effects in the national economy.

Future studies can improve this analysis by applying different and modern econometric techniques like VAR model, ARDL or time series analysis. These correlation can be expanded at the countries in Centre and Eastern Europe or can be implemented a parallel study using data from developed countries and developing countries to examine the impact of FDI inflows in these economies. The results will allow comparison among these economies and drawing the significant conclusions which will facilitate establishing the measures which can enhance the country attractiveness.

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ESSAY



ISSUES AND EPISTEMOLOGICAL MUTATIONS IN THE ECONOMIC FIELD

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Abstract: *Knowledge in economics, as well as in other fields included in social sciences, can not be achieved upon the Galilean model, so customary in natural sciences. In time, its transfer conducted to the finding of some inconsistencies at the level of theory or between theory and practice. The subject-object discernibility, a possible simplification in natural science, becomes problematically in social sciences, where this delimitation operates only in theory, and, actually, the effects of the whole "package" are registered in. Also, the repeatability of initial conditions, possible in natural sciences through the control of the variables, becomes inoperative within social sciences that can not recreate the original context. All these lead to the idea that explanatory models and theories based on the causal-type determinism do not provide satisfactory answers. That is why the Aristotelian tradition is brought into attention, emphasizing the determinism of intelligibility type.*

Keywords: *praxeology, economics, human action, causality, teleology*

JEL Codes: *A14, B49, B59*

1. INTRODUCTION

In economics, as in other areas of social and human sphere, many voices³¹ are heard claiming the necessity of resettling the field, due to observation of some epistemological and methodological difficulties, which occurred because of inappropriate consideration of differences between natural sciences and those

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³¹ These aspects, although stated previously by the representatives of the Austrian School of Economics and in general by the creators of the marginalist doctrine (Carl Menger, Eugen von Böhm-Bawerk, Leon Walras, William Stanley Jevons etc., *apud* Rothbard, 2001), become important because of the economic crisis, reason to look for answers and explanations, both abroad and in Romania, about the phenomena involving human action. Thus, within the courses of the Post-Doctoral School of Economics, from the Romanian Academy, many teachers and researchers, some of them quoted in this article, have shown interest in highlighting and solving problems of this nature.

involving human action. Taking over the conceptual, epistemological and methodological system by the human action and ignoring the specific elements that arise because human actions can not be analyzed only through causal-type determinism raise problems that need to be solved and that constitute current debates. In the following lines we present the raised problems with reference to this issue and the proposed solutions.

2. PECULIARITIES REGARDING HUMAN ACTION AND ECONOMIC ACTION

2.1 Economy - science or research discipline?

The economy, considered a science by some experts, and only a discipline³² by others, is included in the praxeology field, namely the general theory of human action. This is why we consider the delimitation of the field should start exactly with the analysis of the specific elements of human action and with the definition of the economic action; that situation occurs if this type of action can be delimited by other types of actions.

However, we name below some of the objections that appear when the economy is presented as a science, as they are issues which professionals must provide solutions to (Mises, 1966; Rothbard, 2001; Dinga, 2009, 2011; Munteanu, 2011; Nicolescu, 2007, 2011; Marin, 2011):

1. The causal-type determinism that can explain the phenomena of natural sciences can not explain and comprehend the economic processes.
2. A science can make predictions. The economy encounters problems especially in the field of macroeconomic prediction.
3. Testing the hypothesis, possible in natural sciences through the repeatability of conditions, is impossible in the social field, and therefore in the economic one, because the original context can not be recreated. We may mention, therefore, only a local, contingent validity.

The questions arising from the reasoning presented above are the following:

Is human action subject to the same laws as natural processes? Are there specific laws of human action? How can they be known? Which aspects of the human action peculiarities lead to these problems?

Briefly, the differences between natural and economic processes could be described using the paradigmatic comparison between the *classical* realism (based on continuity, local causality, determinism, objectivity) and the *quantum* one

³² The economy is included in the hermeneutic (non-scientific) theories when signification is emphasized (Dinga, 2009).

(based on features such as discontinuity, the principle of superposition, non-severability, indeterminism, anthropomorphic construction of space, time, etc. variables - Nicolescu, 2011).

In natural processes, the experiment can conduct to laws' discovery, through the control of the variables. This method can not be extended to human actions, neither to verify nor to invalidate a certain type of determinism. At least two problems arise (Wright, 1995; Mises, 1966; Dinga, 2009, 2011; Munteanu, 2011; Nicolescu, 2007, 2011; Marin, 2011):

- *Subject-object indiscernibility* (when we talk about human action we can not omit the fourth Aristotelian cause, the final one, that can not be found in natural processes, where there are three categories of causes – the material, the formal and the efficient one);
- *The complexity of factors, system-type interactions, nonlinearity* lead to the impossibility of knowledge and consideration of all effective causes or synergistic effects due to their internal or external interactions.

That is why there is the insufficiency of the causal-type determinism. It emphasizes the determinism of intelligibility type and the teleological explanation. Positivist explanatory theories, that do not take into account the subject in the structure of *explanandum*³³ nor all the factors that form the *explanans*³⁴ (that is more simplified compared to reality), can not lead to the understanding of economic phenomena.

Due to the mentioned specific aspects, the validity does not depend on the truth of nomic connections, as in natural processes. This is the reason why the Aristotelian tradition is preferred, with reference to practical syllogism and intuition. Consequences appear also in the predictability sphere (in the economic process we have only retrodictions, based on setting the goals).

There are problems to which answers are looking for. On the other hand, there is not any science that claims the universal validity of its thesis for all human action in general, and for the economic ones, in particular. A general science of action can not be developed through *a posteriori* thinking. It could be a product of *a priori* thinking (Mises, *op. cit.*). At this point, the economy is far from this goal.

2.2 Human action and economic action

Problem: delimitation and definition of the economic action

³³ *Explanandum* or *explicandum* constitute the object of explication (the event, the observed phenomenon).

³⁴ *Explanans* or *explicatum* constitute the base of explication.

Regarding the classification of human actions as being economic or non-economic ones, the classic materialism supports this possibility. Modern economy, compared with the classical one, comes with the idea of a subjective interpretation of value, context where the distinction between the economic and non-economic purposes does not make sense; hence the inability to draw a strict line of demarcation between "purely economic activities" and all the other concerns and human actions. But methodologically, this approach does not offer a pragmatic response to the researchers. The boundaries of the economic field, and therefore of the economic action must be clearly outlined in order to specify the field to which we refer. One solution might be the dialectical-type thinking and the methods from the inter- and trans-disciplinarity sphere.

Highlights on defining the economic and the economic action are already met in the literature. It is considered that *the economic* means: the ontological (the existential), the choice, the purpose, the entropic exchange between man and nature. It exists only through human action. *The economic act* is defined as the act (seen as the exteriorization of intent) which has as its subject *the economic subject* and as its object *the economic object* (Dinga, 2009). A specific element is that the economic intentionality can only be cognitively or actionally, not affectively. *The economic action* is defined as "a concatenation of economic acts, in the direction of the arrow of time" (*ibid.*).

To understand these definitions, in the following lines we specify the meaning of the economic subject and object (Table 43):

Table 43 *Economic subject and object – Conceptual demarcations*

Subject	- a real system capable to produce representations <i>about</i> or generate evolutions <i>in</i> systems;	Object	- a real system capable to generate evolutions in systems, including self-evolutions;
Scientific subject	- the subject capable to produce representations under the form of explanations regarding the systems;	Scientific object	- the object that, affectively or potentially, enters into relationship with the subject;
Economic subject	- the economic subject capable to generate causally evolutions in the economic systems;	Economic object	- the actional object describable in the form of the economic system.

Systematization (A.N.O.) *cited* Dinga, 2011.

2.3 Human action and rationality

Problem: delimitation and definition of the rational

Max Weber (*cited* in Mises, 1960; Giddens, 2003) realises the distinction between the original rational actions on the one hand, and other types of actions, on the other one. Thus, he distinguishes between human actions performed with a

certain goal, with a particular meaning for the actor, and mere physiological reactions of the human body. But from the *praxeological* (and therefore economic) point of view, *spontaneous reactions of human body' organs and instinctual activity do not constitute actions.*

According to the author, there are four types of rational activities (Radulescu, 2006:114):

- Rational activity in relationship with a goal (the actors are determined in their actions by achieving the intended purpose; it requires norms, specific rules and strategies);
- Rational activity in relationship with a value (the actors are determined in their actions by the values they adopt);
- Activity based on traditional behaviour (the actor's activity is dictated by custom or tradition);
- Activity based on affective behaviour (emotional reactions).

It is noted that, in praxeological terms, only the first two activities require a purpose and they can be considered *actions*.

Another view consists in the demarcation made by psychoanalysts. They oppose "the irrational action" (instinctual or emotional behaviour, all unconscious functions) to "the rational action" (related to rational thinking). But emotional actions are considered rational or irrational as a result of personal value judgments. On "irrational thinking" it can only be said that it is a poor thinking in logical validity, which leads to erroneous conclusions (*ibid.*). But what is logical and what is non-logical? The analysis can also continue in this direction, but for simplicity, we present only the classification on human actions made by Pareto (Table 44):

Table 44 *Types of human action*

Types and species of actions		Have the actions a logical purpose?		Examples
		Objective	Subjective	
1. Logical actions		+	+	Economic acts
2. Non-logical actions	Type 1	-	-	Habitual acts
	Type 2	-	+	Superstitious, magical, religious acts
	Type 3	+	-	Instinctual acts (reflex ones)
	Type 4	+	+	Political acts based on tradition

Source: Radulescu, 2006:125.

Therefore, we have the following types of actions:

1. Logical actions (assuming the coincidence of the subjective purpose with the objective one (economic, artistic, scientific actions that require compliance with the rationality norms - precision, accuracy, rigor);
2. Non-logical actions (involving either the absence of the objective purpose and / or of the subjective one, or inconsistencies between the actor's subjective purpose and the objective one, validated by the observer).

According to this classification, the economic acts are logical actions. However, can we delimit, operationally talking, these acts by other types?

There are many other attempts that try to delimit the rational action by the non-rational or irrational one. Rational human action means the most appropriate behaviour for achieving the aimed objective, in the opinion of the acting person, whether this opinion is shared by others or not. The level of knowledge of individuals being different, which may be considered irrational for a person can be rational for another. Similarly, what seems rational in a certain period, may seem irrational in another one, what is considered rational in a social system can be irrational in another one (Mises, 1960). Weber (*cited* Radulescu, 2006) describes two types of rationality, the *formal* one (in relationship with the purpose) and the *substantial* one (a material one, in relationship with the value), which guide the human action.

The terms of rational or irrational can be applied both to the means (are behaviours appropriate for achieving the aimed objectives?) and the purposes of certain types of behaviour (are they approved or disapproved in terms of their own value judgments?). But the outsiders have their own value judgments. They can approve or disapprove the analyzed behaviour; they may see as irrational what may appear rationally to the actional subject (Mises, 1960).

The logical structure of the individual's mind does not allow, alone, the understanding of behaviour of his peers. But he knows there is a "sense" for which a man do act or do not (*objectives* and *means*, *success* and *failure*, *costs*, *profit* or *loss*). Therefore, the praxeological apriorism is also necessary, in addition to the apriorism of the logic, because the significant order incorporates the causal one, through the individual's ability to introduce meanings and intentions. This is why we can not state that human existence is rational, but rationalized (Bădescu, 2011). This idea is supported by the theory of knowledge through pure or ideal types, types which "are not copies of a rational social reality, but they are the development until the last consequences of a rationalization, the correspondent of a mental experiment in real, helped by the tendencies a researcher identifies in the dynamic of the real. In this sense, the pure types do not describe, but construct the reality as it would be if it follows those dynamic tendencies that move the real in

the framework of a possible, purely utopian, ideal deployment" (*ibid.*). The individual is neither rational nor irrational, but *rationaliser* by the fact he has the power to rationalise the real (even in an irrational direction).

In a conclusive manner, we can say that we agree with the statement of Ludwig von Mises (1960) who states: "It is also certainty that actually, the main objective of praxeology and implicitly its best developed part so far, the economy, is to distinguish between methods that are suitable to achieve the aimed objectives and those which do not. But as it was shown, it is inappropriate or rather unclear to use the "rational" and "irrational" terms for this distinction. It is more appropriate to state about methods that serve and those which do not serve to achieve the aimed purpose".

2.4 Human action, economic action and predictability

Problem: predictability of human action

Regarding the predictability of human action there are different opinions, presented in the lines below (Mises, 1960):

A. It may make predictions about human actions:

Knowing the regularities that appear in the sequence of events, valid for all actions regardless of the conditions of their appearance, it may make predictions about events that will occur. Nothing could be predicted without accepting this situation, so specialists could not make recommendations regarding the required actions.

B. It can not make predictions about human actions:

Contingency (local conditions, spatial and temporal determinations) makes that the economic laws be identified *a posteriori*, by studying the produced events in that context. It does not mean that the discovered laws will govern also what is happening in the future. The impossibility of contextual repeatability, the complexity of factors that influence social processes, including the economic ones and the subject-object indiscernibility create problems in making predictions.

C. "The trend doctrine" (it may make predictions about human actions, only if the disturbing factors do not appear to alter the trend)

The asserted idea of this doctrine consists in if there are no disturbing factors, there is no reason that trend should change. The problem is nothing is known about the emergence of such new factors.

Regarding the prediction of human actions, the theorists in the field of epistemology and methodology of research affirm that the prediction is normatively (human actions involves intentionality, as we mentioned above, i.e. the purpose, which is related to significations, consequently values and norms). It means that we can not explain human action, implicitly the economic one, based

solely on reasoning made on law-like connections. Judgments must have also a teleological nature (explanation should be accompanied by interpretation, to lead to understanding), based on normative causality, generated by purposes (Wright, 1995; Dinga, 2009; Dima, 1980).

The economic processes³⁵ involve economic activities, therefore, the predictability, in the classical sense, does not constitute an attribute of them. It may make only retrodictions (on "future-present" axis). It appears again the two obstacles mentioned at the beginning of the article (*subject-object indiscernibility* and *complexity and non-linearity of the economic phenomena*), which we detail below.

3. ISSUES OF KNOWLEDGE IN ECONOMIC

3.1 Economic action - object and subject

Problem: subject-object indiscernibility

Natural sciences have based their theories through a procedure that eased the research work, namely, through location of the observer subject outside the observed object. This led to axiomatic derivations on which the logic of the respective science was built up. The procedure was "imported" without much reflection and also without anticipation of the consequences in human sciences. Later, inaccuracies were identified. On the one hand, the subject was not outside the system that included the object supposed to be researched (actually the evaluated "consequences" reflected the object-subject simultaneous action), so the principle of objectivity was altered (Dinga, 2009; Moscovici, Buschini, 2007; Silverman, 2004; Zait, Spalanzani, 2006). On the other hand, human nature raised problems through actions settled by the researcher in the non-logic field, because they did not fit to the expectations or his logic. These early findings made the researchers from the field of social and human sciences thoughtful, realizing that the developed models and theories are on a moving land as long as their logic fundament was not solid.

A first step was to demonstrate the indiscernibility. If this had failed, the problem would have been solved. Unfortunately it was not happening in this way. The general indiscernibility between subject and object was demonstrated. Even in the economic field there were brought contributions in this regard. The

³⁵ The economic process, and the economy in general, may be perceived rather as a process, respectively as a theory of hermeneutic type (that supposes comprehension, understanding) rather than a theory of scientific type (that offers explanations based on a causal determinism, ignoring the fourth Aristotelian cause) - Dinga, 2009.

indiscernibility between the economic subject and the economic object can be seen in terms of four significant aspects (Dinga, 2009):

- *The conceptual aspect of indiscernibility* (the self-referentiality of the economic object transforms it in subject, from the logical point of view);
- *The structural aspect of indiscernibility* (causes³⁶ and modalities³⁷ are not necessarily associated with the economic process);
- *The functional aspect of indiscernibility* (they fulfil similar functions in the economic act);
- *Indiscernibility in terms of finality* (the common finality of the economic subject and object; it is actually about the finality of the economic act).

Current models do not account for this indiscernibility. Solutions must be found if the economy aspires to the statute of science with full rights among the sciences considered to be "scientific" ones.

3.2 Economic action – a complex, nonlinear effect

Problem: The complexity of the economic phenomena claims the inefficiency of the causal-type determinism

The economic realities have often contradicted the theories or models proposed in the economy. In addition to the issues that arise from the subject-object indiscernibility, there are other possibility logical conditions in the economic knowledge that overload the results of the expected validity, such as (Dinga, 2011, Munteanu, 2011; Marin, 2011; Nicolescu, 2011):

a) Complex systems, as the socio-economic ones, co-evolve in the same time with the environment; they are sensitive to initial conditions, they present self-organization processes, they can move from one operating mode to another one. They can not be shaped through isolation and they can not be explained by the identification of strict causal relationships, because they are dependent by the context.

The complexity implies the non-linearity, the evolutive, the contextuality, the holism, the transdisciplinarity, elements which highly complicate the attempts of shaping and explaining the investigated phenomena.

b) The economic phenomena are pluri-determined, reason for which explanations / models / theories based on the classical causal relationship, which has a reductional character, lead to a distorted image on them. It is extremely

³⁶ "The economic subject is an integral synthesis of causes of the economic act" (Dinga, 2009, p. 405).

³⁷ "The economic object is an integral synthesis of modalities of the economic act" (idem).

difficult to know and introduce all the factors that cause that phenomenon in the explanatory models.

These possibility logical conditions can be surpassed with holistic approaches, using methodologies offered by transdisciplinarity and comprehensiveness.

4. GUIDELINES ON SOLVING ISSUES RELATED TO KNOWLEDGE IN THE ECONOMIC FIELD

These difficulties are not insurmountable. They require only a new paradigm for explaining and understanding the economic processes / phenomena. Theoretical elements that can function as guidelines for this approach are already formulated (Dinga, 2009, 2011; Nicolescu, 2007, 2011; Marin, 2011; Munteanu, 2011; Pârveu, 2011; Bădescu, 2011; Hoffman, Popescu, 2009; Popescu, 2010):

- a) Acceptance of self-referentiality of the economic subject, respectively of the economic object;
- b) Renouncing to the ambition of knowing the economic subject by limiting the knowledge of the "economic subject - economic object"³⁸ package (by reintroducing the subject in the economic knowledge object and considering the economic system as a *living logical system*);
- c) Consideration of the structural indeterminacy (with an actual, permanent and continuous character) of the economic process;
- d) Consideration of the *knowledge* capital, specific to the *new economy*, in the economic process;
- e) Either renouncing to making phenomenological predictions and replacing them with normative predictions, namely scenarios that achieve *aims developed normatively* ("irrational"), either making predictions referring to the "so" package (subject-object package);
- f) Completion of the causal determinism (associated to the efficient cause) with the one of intelligibility type (specific to the final cause);
- g) Completion of the rational explanations, based on nomic connections, with elements of interpretation concerning the understanding, and which use values in terms of desirabilities (because human activity in general and the

³⁸ Package named also the „so” package (Dinga, 2009, p. 408).

economic one in particular is a "significant" activity, comprehension³⁹ is need in addition to causal explanation);

- h) Acceptance of conjectures, hypotheses through a "qualitative test", which implies teleology, intuition, understanding;
- i) Renouncing to analyse the human activity as being rationally or non-rationally and focus on understanding the meanings of intentions and on identifying methods that serve to achieve the aimed purpose (purpose that is valid in a normative context, an axiological one, which can be understood only related to it);
- j) The dissolution of disciplinary boundaries through interdisciplinary and transdisciplinary approaches: using knowledge of the transdisciplinarity field (analysis on levels of reality, appeal to the logic of the included third party, dialectical type thinking), appeal to the methodological holism and to the newly developed theory (such as chaos theory, complexity theory, etc.) and appeal to what knowledge management offers;
- k) Introduction of new concepts for solving the problems related to the ontological non-linearity logic of living logical systems: economic space, economic time, quantum of economic action;
- l) Identification of the logical-linguistic components of the structure of the economic type explanation that allow description of meta-theoretical entities and of the inter-theoretical relationships.

5. CONCLUSION

As a result of this approach, related to the description and analysis of the main problems the economic theory is facing with now, in an interpretative-critical perspective, we distinguish the following conclusions:

a) The economy is not neutral in choosing final purposes, issue that need to be taken into consideration while explaining the economic phenomena. The economic action would not occur if the individual / individuals were satisfied / fully satisfied by the state of things. Dissatisfaction determines action, which implies intentionality, orientation towards a particular purpose (even if sometimes it is not reached). The existence of the purpose has epistemological consequences: the economic phenomena can not be known, they can be explained only by appeal to causal explanation; understanding is also needed by appeal to teleology.

³⁹ Through comprehension we enter in the area of significations that constitute the basis of the action / actions.

Regarding this aspect, there is even the problem to find a logical-linguistic structure of the explanation offered in economy, which facilitate the way to knowledge in this field.

b) The economy is not trans-subjective. On the contrary, the subject-object indiscernibility raises problems. Moreover, it involves inter-subjective action in a context where the dynamic of human values plays an important role.

c) In economics we approach complex phenomena, inhomogeneous, nonlinear ones, which can not be recreated and shaped like phenomena in the natural sciences. All these attributes create difficulties to the economists, in an attempt to meet the criteria for "scientificity" through a solid theoretical foundation.

The above mentioned problems are issues that should be analyzed, debated and solved. The question we raise is the following: can a new paradigm solve these dilemmas or we have to admit that the two categories of sciences - natural and social ones - are different in nature and they should be evaluated based on criteria adapted to each one?

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WORLD TRADE LIBERALISATION SINCE THE NINETEENTH CENTURY UP TO DATE

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Abstract: *The present paper aims to disseminate how liberalisation processes were conducted around the globe and especially in Europe since the XIXth century up to date. The research objective is to review the liberalisation of trade dynamics and create an image of the architecture of the most important trading blocs. Analysis will be conducted considering the three major regional blocs: Europe, North America and East Asia. The main findings will show that, despite the few mutations that occurred in international trade as a result of the emergence of developing nations as major trade partners, the European Union and the United States remain the economic and trade hegemons.*

Keywords: *European Union, trade blocs, protectionism, regionalism, trade agreements, multilateral negotiations, financial crisis*

JEL Codes: *F10, F13, F14, F15, F36*

1. INTRODUCTION

Since the intensification of the financial crisis in September 2008, the issue of protectionism has received considerable attention among the general public. These pressures of escalating protectionism threatened and still threaten to intensify such practice in response to the downturn of the world economy. Early signs quickly became apparent to the world economies. Immediately after the commitment of the Group of Twenty most developed countries in the world (G20) to refrain from raising new barriers to investments or trade in goods and services, imposing new export restrictions or implementing disjointed measures to stimulate exports recommended by the World Trade Organization, 17 out of 20 states have announced protectionist measures (Gamberoni and Newfarmer, 2009). According to the World Trade Organization, 13 of the 20 G20 countries have implemented the

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announced measures, and issues such as "buy / invest / lend or hire locally" has taken the forefront of the political flavor urgings.

Protectionism explosion that took place after markets collapsed in 1929 contributed to the spread of a worsening economic depression. Between 1929 and 1933 world trade trend had turned into a complete downward spiral contraction of 66 percent (Grossman and Meissner, 2010). Protectionist policies implemented at the time of the Great Depression had taken a variety of forms. To illustrate, we can mention the surge in import tariffs on the ground of the U.S. Smoot-Hawley Act introduced in the 17th of June 1930, but many other non-tariff measures have been introduced in that period including: import quotas, competitive exchange rate devaluations, export subsidies and other indirect actions (Eichengreen and Irwin, 2009).

The probability that a similar event would materialize as a response to the current crisis is not negligible. Nowadays, similar to the period of the Great Depression, one could take into consideration promoting protectionism as a tool of macroeconomic policy management in times of severe fiscal and monetary restraints (Almunia *et al*, 2010). The purpose of this paper is thus to capture the context of the escalating protectionism that can occur in response to the financial crisis burst in the late 2007. There would be observed the movements of the "commercial tectonic plates" over the last two centuries which caused either the decay of the trade puzzle or conversely have brought the solution to the puzzle.

2. HISTORY OF TRADE FROM THE SIXTH CENTURY UP TO DATE

Trade liberalization has acquired a pronounced character in the early nineteenth century, when the forefront of the global economy was the United Kingdom. Its economic domination could not have been translated in a sort of interstate ordered relations and in the construction of an open international economic environment. Thus, throughout the world, there were periods of global trade openness (1846-1879, 1945-1970) continued by periods in which protectionism had made its presence felt (1879-1914). Periods of economic openness during the nineteenth century and the twentieth century were overlapped by the succession of global hegemonic position of Britain and the United States. The repeal of the Corn Law by the United Kingdom (1846) and the Navigation Act signed in 1849 are seen as steps towards building an European free trade area (Ruffin and Dogan, 2012). The steps that followed were mostly shy, at least until the end of World War II. Britain's inability to turn, after 1815, its industrial and financial predominance in military domination of Europe did not allow the government of this country to securitize interests by force or threat of force.

Military expenditures as a ratio of national income were the lowest compared with those of the Great Powers during 1820-1913. Thus, countries like Russia and France were considered the most powerful states with real capacity to interfere in the social and political affairs of the continent (Lacher and Germann, 2012).

The step taken by Britain unilaterally towards free trade was not followed by other European countries. The lack of bargaining power or persuasion with regard to mutual tariff reduction and the integration of its trade partners in an institutionalized system of free trade caused the island state to abandon trade agreements based on the principle of tariff autonomy and to refrain from exercising military force on open markets in the continental Europe, to undertake a non-interventionist policy, and to give up its attempts of peacefully persuasion by using the hegemonic leadership related tools. The critical result of the British government insistence on an unilateral focus on promoting free trade and tariff autonomy was the absence of an engine strong enough to put in motion a mechanism of institutionalization under British leadership. No attempt to punish or prevent commercial libertinism and the return to the protectionist policies of its commercial partners has been undertaken by the island state. Therefore, the first European network of trade agreements that sprang from Anglo-French Treaty signed in 1860 had France as an architect and not the United Kingdom. This endeavour being taken, the Most Favoured Nation principle was institutionalized, which was subsequently borrowed by the United States and promoted as a mechanism of reciprocity.

The isolation of Great Britain has manifested most in the monetary and financial sectors. Even after the gold standard monetary system replaced the system based on bimetallism - promoted by France (1880) - Great Britain assumed no responsibility for creating or maintaining a stable international monetary system. The slow and diffuse spread of the system based on gold standard among other nations by the mid-1870s underlines the supremacy of the local political considerations over liberal internationalist motivations and the dynamics of geopolitical competition to the detriment of hegemonic stability.

The monetary system based on gold fell in 1914. European countries had adopted this system as an effort to establish an unified currency, to improve control over the banking sector and to create stable conditions for foreign investments. Giving up the gold standard indicated a divergence of economic policies on the continent and beyond. World War I was the key event that anticipated the split of the world into military and economic blocs. The Smoot-Hawley Act (1930) triggered trade wars raged between the United States and Germany, Italy, Japan and the Soviet Union. Behind these conflicts there were hidden autarchic and

militaristic motivations. Small countries in Europe have formed the Group of Oslo (1930), while France and Britain have supported their colonial empires applying preferential trade tariffs within.

The early 1950s brought with them the establishment of the General Agreement on Tariffs and Trade (GATT). The conflict between Britain, which insisted on the reduction of trade tariffs on British goods, and the United States - that was calling for the abolition of the British system of imperial preferences - threatened to strangle the agreement in the bud. At that time Great Britain (and the colonies) was still the most important actor on the stage of global trade. By 1963, the European Economic Community (EEC) appeared on the firmament. Great Britain formed the European Free Trade Association (EFTA) with Northern Ireland, Denmark, Norway, Sweden, Austria, Switzerland and Portugal, and applied to join the EEC. Many colonies were represented by independent states that imposed tariffs on manufactured goods of British origin. Rich countries have become richer while the poor led a race track at a distance. In particular, Europe has experienced extraordinary GDP (gross domestic product) growth rates and North America keep up with the old continent. In the 1960s there were already outlined two major trade centers: Western Europe and North America. A large fraction of global trade has been carried out within or between these two hubs. Trade flows between these two centers and various "spokes" - Latin America, Africa, The Middle East, Asia and Japan - were very small (insignificant was also the trade between spokes).

This model of bipolar commercial development has continued to evolve during the second half of the nineteenth century, with one major exception: the emergence of Asia. Japan trade grew by about 5% in the total volume of global trade and was followed by China's assertion and the increasing of intra-Asian relations. Currently, Asia accounts for about 25% of the world trade. Trade between and within Western Europe and North America represent about two-fifths out of the total (O'Driscoll and Cooper, 2008).

With regard to tariffs, the 1950s average tariffs exceeded 15% both in Europe and North America. However, the main obstacle to trade was represented by quantitative restrictions (imposed in most cases on behalf of the balance of payments interest). In other parts of the world prices were also higher in the early 1960s, but with the Kennedy Round they went on a downward trend. To give the appropriate extent to the impact of the negotiation rounds in the General Agreement on Tariffs and Trade on the Asian trade, the situation can be exemplified by Japan, a country where rates fell from 18% in 1960 to about 3% in

the close 2000. In the same period, the average applied tariff to imports of manufactured goods and services in the U.S. and Europe was 4%.

Post-war liberalization was the main focus in the industrial sector, in which bidirectional trade flows (imports of parts and components - exports of finished products with high added value) prevailed. Rich countries have liberalized more than poor nations did within the General Agreement on Tariffs and Trade and the various regional trade agreements (RTAs). Regional tariff reductions were accompanied by multilateral liberalization. Unilateral liberalization has gained importance in developing countries since the mid 1980s. Tariff reductions under the GATT began to be applied when the worldwide ceilings were very high and the process took at least 40 years till the initial targets to be achieved (Baldwin, 2006).

The motor of trade liberalization in the post-war were the United States. Lessons on the dangers of isolationism were well assimilated by the American politicians appointed to lead the destiny of this country in the second half of the twentieth century. United States assumed the lead quickly and consistently acted to create an open international trading system (GATT) and a stable monetary system (contributing decisively to the establishment of the International Monetary Fund). However, the establishment of the World Bank and the launch of the Marshall Plan symbolized the significant contribution and responsibility of the U.S. for peace and prosperity creation beyond its borders. U.S. hegemony has helped building the foundations for a sustainable economic growth of the countries in Western Europe until the early 1970s, and the rapid development of the Asian countries such as Japan or South Korea. The rapid ascension of the American continent has created concerns in other parts of the world, so that, stimulated by this example, many developed countries have followed a process of economic catching-up (in some cases countries have resorted on protectionist practices to ensure success). In this context, protectionist sentiment has began to win preponderance mainly leading to a series of challenges to the traditional policy based on free trade. The financing of the war in Vietnam and the launching of social programs had fueled inflation, a phenomenon that has been exported abroad automatically given the role of the U.S. dollar as an international reserve currency.

In 1971 the United States abandoned the fixed exchange rate system established by the Treaty agreed at Bretton Woods, announcing a period of international exchange currency. The Oil crisis, followed by the world debt crisis, combined with the maintaining of a series of barriers in the way of international trade, have questioned the ability of American hegemony to ensure future stability and global interstate order.

In summary, the 1970s witnessed the assertion of largely protectionist sentiments in the United States of America, motivated by the suffering domestic industries engaged in international competition, sufferings caused by state interventionism practiced by the participants in the cross-border trade. However, the project of trade liberalization, which was launched in 1934 and revived after World War II, survived the wave of hostility (Chorev, 2005). This was accomplished by replacing existing institutions governing international trade at that time. In 1974 a new institutional agreement was signed - The Trade Act - which had raised more solid obstacles in the way of protectionist outburst. The United States of America have followed the path of free trade and, amid an extraordinary industrial development, have emerged as an economic and military hegemon in the second half of the twentieth century. Unlike the United Kingdom in the nineteenth century, the United States played a more active line of trade liberalization, both through multilateral negotiations and regional agreements (Baldwin, 2006).

The shaping of the U.S. hegemonic status after 1950 led to reactions across the Atlantic. After several failed attempts in the direction of economic integration, the six major European countries except Great Britain (Germany, France, Italy, Belgium, the Netherlands and Luxembourg) signed the 1957 Treaty of Rome that gave birth to the European Economic Community (EEC). The domino effect was reflected on Britain that, along with Norway and Switzerland founded the European Free Trade Association (EFTA). However, the success of the European Economic Community led Britain to join the EEC in 1961 and countries like Ireland, Norway and Denmark to apply for membership in the community. Trade liberalization within these regions has led the United States of America to find a way to rectify the situation. Thus, in 1961, President Kennedy began negotiations on establishing a common external tariff in relation to the EEC under the umbrella of GATT. Consequently, in 1962 the Trade Expansion Act was signed that triggered a fundamental change in how multilateral negotiations are held. Since the Kennedy Round, reducing trade tariffs occurred in a much smaller pace. The event kicked off a period of 30 years of increased trade liberalization. Kennedy, Tokyo and Uruguay Rounds have each reduced industrial tariffs by about one third. But more important is that each cutting limit imposed to trade brought a repositioning of pro-liberalization economic policies in relation to anti-liberalization forces in most countries that participated in the various trade agreements on a reciprocal basis. One of the most important sectors that made exception was agriculture. EEC's Common Agricultural Policy introduced in 1962 and the EFTA have not included in the agenda the agricultural liberalization issue.

By 1973 Western Europe had already established a virtual free trade area if we take into consideration the concatenation that was produced between the EEC, EFTA and the series of Free Trade Agreements (FTAs) between members of these interstatal organizations. This deepening and widening of the free trade area in Western Europe was perceived as a threat to the other major players in the international trade - the United States, Japan and Canada (trade diversion effect).

Tokyo Round negotiations (1973-1979) had made official the asymmetric treatment of the developing countries. Similar to the past periods, regionalization, unilateral liberalization and multilateral trade were complementary in a multicoloured landscape. The focal point of the Tokyo Round of negotiations was to cut off non-tariff barriers. The two oil crises (1973 and 1979) taken together with the failure of the monetary policies accros the globe have established stagflation in the major nations involved in the international trade. The economic climate characterized by a high unemployment rate and a rampant inflation has dissipated the excitement posed on unilateral, regional or multilateral liberalization. Europe sank into pessimism and the United States turned to an aggressive unilateralism after giving up the fixed exchange rate system based on dollar.

In 1986, after the stagflation phenomenon had been defeated and economic growth had been recovered in the main countries involved in the international trade, a new session of negotiations was launched in Uruguay. Prices set by the United States and Europe in the Most Favoured Nation Clause fell by 2% to the level that is present today. Similar to the developments recorded in the 1960-1980 period, regional trade liberalization occurred in parallel on both sides of the Atlantic, on one hand as a result of the domino effect and on the other hand due to the realignment of the economic policy forces in the nations participating in the global trade - in this way making any liberalization politically optimal. European Economic Community has grown visible, signing and ratifying the Single European Act (1986) that has been translated into a consistent set of directives regarding liberalization and deeper economic integration. EFTA sought an agreement with the EEC, negotiations being finalized only in 1993. In the North America area, Canada proposed to the U.S. to sign a free trade agreement (CUSFTA – Canada and United States Free Trade Agreement) which came into force in 1989. Australia and New Zealand also took the path of regional integration in 1983 ratifying the close economic relations (ANZCER – Australia New Zealand Closer Economic Relations).

The liberalization pattern was maintained throughout the 1980s. Unilateral or multilateral negotiations have taken the place of regional integration, so that regionalism has been especially intensified not enlarged. Contrary to the

expectations, the free trade agreement signed between the U.S. and Canada had not created a domino effect because of the expected resistance of Mexico to open out its trade in general and its trade with the United States in particular. Faced with a series of debt crises and severe recessions in the 1980s, Mexico began to liberalize trade unilaterally, then became a signatory to the GATT, and later joined Canada and the United States in the North American Free Trade Agreement (NAFTA) in 1994. This event led countries such as Chile, Brazil, Argentina, Paraguay and Uruguay to seek agreements with the U.S. on the establishment of Free Trade Zone. As the U.S. Congress rejected many of these requests, Latin American countries had reacted the same way that Britain did in 1960 - formed blocs along with the excluded states. The most important of these was by far the MERCOSUR (Mercado Comun del Sur – Common Market of the South, March, 1991). The idea started from a bilateral agreement between Brazil and Argentina, and the domino effect drew Paraguay, Uruguay, Chile, Bolivia, Colombia, Ecuador, Peru and Venezuela as associate members.

3. THE FALL OF THE USSR

In the late 1980s the failures of the Soviet Union on the economic ground had imposed application of pro-market reforms (perestroika) and greater openness to foreign trade (glasnost). By 1991, the East European bloc disappeared and the USSR split into several independent republics. The European Union seized the opportunity and signed a series of bilateral trade agreements with 12 countries from Central and Eastern Europe (CEECs countries). To avoid trade discrimination, the EFTA countries have signed bilateral agreements with all 12 countries in CEECs. This created a "hub and spokes" situation type around the European Union (Baldwin, 1995, in Baldwin, 2006). The domino effect manifested in this case, the Mediterranean countries seeking to conclude free trade agreements with the EU (Turkey, Tunisia, Israel, Morocco, Jordan, Palestine Liberation Organization, Egypt, Algeria, Lebanon, Syria).

By 1997, the European Union (EU 15) established the Pan-European Cumulation System (PANEURO) with EFTA states and 10 countries from Central and Eastern Europe. In 1999 the PECS included Turkey.

Across the Atlantic, Mexico took advantage of the bilateral agreements with the United States and Canada and signed other agreements with the European Union and Japan, as well as with 40 other nations. Chile along with the EFTA states took the example of their neighbour, the United States. The effect of this multiplicity of bilateral agreements – a situation when small states seek free trade agreements worldwide - was the transformation of the three classic trade blocs

(Europe, North America, East Asia) in regions with unclear borders and multiple links (Chortareas and Pelagidis, 2004).

4. TARIFF REDUCTIONS IN THE UNITED STATES OF AMERICA

Subsequent to the creation of NAFTA and the Uruguay Round, the United States returned to the liberalization model based on three levels (unilateralism, bilateralism and multilateralism) used since the 1960s. Regarding unilateral liberalization, a noticeable innovation was the African Opportunity and Growth Act 2000. On the front of multilateralism, the United States were completely involved in taking the Doha commitment for further tariff reduction, especially in the agricultural and services sectors (Bussiere *et al*, 2011). At the bilateral level, the policy was taken to increase the number of such agreements (agreements were concluded with Singapore, Jordan, Chile, Australia, Morocco, El Salvador, Nicaragua, Costa Rica, Honduras, Bahrain, Guatemala, Korea and many other countries in the East Asia).

Signing many trade agreements conducted only to an increase of the complexity of the global landscape.

5. TRADE LIBERALIZATION IN ASIA

By the early 1980s, the reduction of trade tariffs in Asia was limited to the liberalization undertaken by Japan in the Most Favoured Nation Clause (GATT) and the unilateral extension of preferences to other nations. Since 2006 one can see the emergence of an economic integration process outside regional free trade arrangements. The only major trade agreements - the free trade agreement between ASEAN (the Association of Southeast Asian Nations) and China, the Free Trade Agreement between ASEAN and Korea have not generated the expected results because they were not completed, and the only Asian arrangement officially implemented - AFTA - was characterized by very low usage rates.

The liberalization process has received a big boost when China decided to open global economy. This has accelerated the erosion of the industrial comparative advantage held by East Asian nations with higher incomes and increased the attractiveness of offshoring. Race to attract FDI pushed China and ASEAN countries to reduce tariffs unilaterally (Kuchiki, 2003 in Baldwin, 2006). As the complexity of the Asian Factory increased and the speed of the production process had become a key competitive factor, the time spent and the costs of tariff negotiations and agreements for certain products or companies could have emerged in the failure of the business relations within the continent. Therefore, Asian

countries have considered appropriate to shift their attention from special agreements to tariff reductions without discrimination under the Most Favoured Nation Clause (Wei, 2011). The results were really impressive. Most developing countries in East Asia have reduced tariffs unilaterally in the past 20 years, especially in the 1990s.

The China's accession to the World Trade Organization has represented a key event that may indicate the start of a regional or multilateral liberalization process (Lee, 2011). The agreement signed by China with ASEAN induced a domino effect on Japan and Korea, which, following the example of Great Britain in 1960, began a series of bilateral agreements concluded within the continent. In the last few years trading powers were included from outside East Asia, like Australia, New Zealand, India and the U.S. But the nature of bilateral trade agreements within Asia creates a web of trade flows charged differently from one arrangement to another.

6. CONCLUSIONS

The shaping of the regional trading blocs in the world along with the implementation of an array of bilateral agreements between different countries provide a hub of global connections and spokes. Economic and financial crisis has shaken the foundation of these tectonic trade plates and challenged the uncertainty of the hegemonic position of the United States and the European Union. The economic downturn has raised the possibility that protectionist measures would test the vulnerability of the nations affected by the crisis phenomenon. Such a scenario is likely to stop the progress made towards trade liberalization in several areas of the globe. The economic growth associated with a growing degree of openness to trade in goods and services will slow as the „spokes” connections to the „hubs” will break. The domino effect will produce reversed results accordingly to the ones liberalization induced.

The main result of this study was the capture of the development of international trade through interstate connections. Unilateral liberalization, regionalization or multilateralization of trade relations occurred in complementary relationships over the past two centuries. Since the ratification of the General Agreement on Tariffs and Trade and the foundation of the World Trade Organization (WTO) one tried to implement multilateral liberalization solutions, covering a broad range of countries within an area characterized by relationships based on reciprocity.

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BOOK REVIEW



LUDWIG VON MISES, PLANNING FOR FREEDOM, THE PUBLISHING HOUSE OF THE “ALEXANDRU IOAN CUZA” UNIVERSITY OF IAȘI, 2012

Reviewed by Liviu-George MAHA⁴⁰

Ludwig von Mises, the foremost representative of the Austrian School of Economics, promotes its ideas in the second half of the 20th century, his main contributions to the economic theory cover aspects concerning the currency, the quantitative theory of money, the trade theory, the private property and the impossibility of economic calculus in socialism. In his opinion, a centralized economy does not permit the efficient allocation of resources and the rational calculus of costs, planning distorting social cooperation, mechanism of establishing prices on the market and the division of labor.

Planning for Freedom was published for the first time in 1952 and contained *Profit and Loss* and other eleven essays written by von Mises. The second edition, published in 1962, contained thirteen essays, followed by a third edition (1974) and a fourth one (1980), four more articles being included, the final number of articles becoming seventeen. The subsequent editions, published after von Mises's death (1973) included also a series of articles, written by other authors, about Ludwig von Mises's contribution to the development of the economic theory.

The language used in this paper is adequate for general audience, the essays addressing the students in Economics and not only, professionals from economic and business field, those preoccupied in the specific issues related to a national economy, thus also the general public. The book is a criticism of the governmental interventionism and due to the latest economic evolutions worldwide it has become more useful, as the economic and financial crisis has been bringing to the foreground new opinions about the beneficial role of the state in the economy.

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In the first essay, *Planning for Freedom*, the author defines the concept of *planning* and correlates it with the *interventionism*, underlining the distinction between mixed economy, interventionism, and socialism, both in the Marxism form, purely bureaucratic, and in the German form, *Zwangswirtschaft*. Furthermore, von Mises moves the discussion on the labor market area, ensuring us that the minimal wages lead to unemployment, the traditional policies of trade unions are harmful to the workers, while the market economy serves better to the interests of the individuals, stating that *the inequality of incomes and wealth is fundamental in a capitalism system*.

In the second essay, the author pays attention to those who, rejecting both socialism and capitalism, proposes another way, placed midway between the two consecrated systems and which, they state, would preserve its advantages, eliminating, also, the disadvantages of each of them. Von Mises tries to discern what is actually the interventionism, the alleged policy of the third way, and if it can or cannot be considered a stable way of economic organization of the society. Based on the analyzed historical experience, the conclusion is very clear: *Middle-of-the-Road Policy Leads to Socialism*.

The third essay, *Laissez Faire or Dictatorship*, starts with an analysis of the *Laissez faire, laissez passer* slogan, which was used since the second half of the 18th century by the famous *French supporters of economic freedom*. In von Mises's opinion, they did not want to create a political movement or party, but they focused their efforts to elaborate a new system of political and social ideas good for humanity. Subsequently, at the beginning of the 19th century, the term of *liberalism* appears, specifically meant to designate *the whole political philosophy of freedom*. During the analysis, the author connects the economic freedom and political one, explains why the political freedom cannot be preserved in the absence of the economic one, presents the way in which the concept of *freedom* was seized by the supporters of the interventionism, emphasizing the fact that *we actually have to choose between market economy and communism*, the *laissez – faire* being not compatible with the dictatorship.

In the essay *Stones into Bread, the Keynesian Miracle*, von Mises starts with Lord Keynes's statement from *Paper of the British Experts* (April 8, 1943), according to which *the credit expansion leads to the "miracle of turning stone into bread"*, analyzes the impact that *The Economic Consequences of the Peace* (1920) had on the evolution of Germany, Europe and European economy, in order to conclude that *The General Theory* (1936) did not open a new era of the economic policies, but, rather, marked the end of a period.

In *Lord Keynes and Say's Law*, starting with a description of Say's contribution to the economic theory, especially from the point of view of the way in which, together with Adam Smith, *Say demolished the oldest and most common explanation of the economic crisis that was provided by the popular effusions of the inefficient traders*, von Mises opposes these ideas to *the Lord Keynes's "new economy"*, whose main achievement was actually the justification of some policies already practiced, as deficit of the public budget. When the inevitable effects of this kind of policies will happen, the ordinary people will realize that Lord Keynes did not teach us how to transform stones into wheat, but instead he taught us *the no miraculous way to eat the seeds of wheat*.

Inflation and Price Control may be considered a plea in favor of the price control inutility, von Mises stating that *there is nothing automatic or mysterious in the proper functionality of the market*. He emphasizes a series of historical experiences, like the German one, in order to conclude that people confuse inflation (increasing the amount of currency and monetary substitutes) with its effects (the generalized increase in prices and wages). In this context, the conviction that the government can remove the consequences of inflation through the price control represents *the main danger, because it deflects the public attention from the essence of things*.

In the paper *Economic Aspects of the Pension Problem*, von Mises makes an analysis of the principles that should underpin the wages, the pension contribution, of the way in which this contribution influences the level of wages, assuming that, *on a free labor market, unemployment can happen only on a temporary basis*. At the same time, he underlines the fact that pensions do not represent a gift from the employer and that paying the contribution to the pension fund decreases the liberty of the employee to use his total income in accordance with his own plans. Opposed to the reality according to which *the unlimited expansion of credit and the imprudent increase of currency quantity in circulation became the most essential postulate of the popular government and economic democracy*, von Mises is quite pessimist, stating that is less probable *to abandon in a near future the practice of budget deficit*, this practice being *very useful for a government full of idiots*.

In *Benjamin M. Anderson Challenges the Philosophy of the Pseudo-Progressives*, von Mises clarifies the two coordinates of the Marxist political thought, underlining that, between communists, on the one hand, and socialists, proponents of the New Deal and Keynesians, on the other hand, there is a controversy related, only, to the means that have to be used in achieving the same final purpose: the establishment of a complete system of centralized planning and the full elimination of the market economy. He appreciates Anderson's fight with

the *destructionism*, drawing attention to the inadequacy of the New Deal's politics. The constructivism of his critiques is proved, in von Mises's opinion, by the fact that, when his suggestions and objections were ignored, he showed how the damage generated by the blamed measurement could be reduced.

The essay *Profit and Loss* contains, at the beginning, a detailed analysis of the economic nature of profits and losses, being clarified the difference between profit and other forms of income (interest, dividend etc). Moreover, it also approaches the special character of *the governmental activities, of the administration of the coercion and oppression system, of the police force*, of the activities unguided by the desire of obtaining profit, in general. In a capitalist economy, the decision concerning the allocation of capital within different economic activities and sectors belongs, exclusively, to the entrepreneur, anyone being able to become an entrepreneur as long as he sees a business opportunity, while, in a socialist economy, only the state has this responsibility. In the second part of the essay, are analyzed aspects related to the profit legitimacy, to the consequences of the profit abolition, are rebutted a series of arguments against the profit and is questioned the efficiency of the Marshall Plan. In conclusion, *the profit elimination, no matter which are the methods used, would turn the society into an absurd chaos and would poor everybody*. Von Mises resumes the idea mentioned before, according to which *there is not a third system*, a non-socialist system, without profits and entrepreneurial losses, the only alternatives between which we have to choose being *the capitalism and the socialism*.

In *Wages, Unemployment, and Inflation*, the author starts from the reasoning according to which, in a market economy, *the consumer is sovereign*, paying, actually, through the acquisition of goods and services the wages of the workers from that sector. An increase of the retributions becomes in this way possible *as long the technical equipment improves*. The unemployment appears when *wages are artificial raised through trade union pressure or governmental decree* and he is convinced that *establishing a free wage policy is the only reasonable way to achieve a full use of labor*. Von Mises disagrees with the fight against unemployment through credit expansion because the inflation cannot be maintained indefinitely, decisive historical experiences underlining the inefficiency of such a method. In this way, becomes imperative *the return to a healthy monetary policy*, the capitalism being the one that ensured *an unprecedented improvement of the living standard of the workers*.

Concerning the *Economic Teaching at the Universities*, from the author's point of view, the essential issue is to find the adequate methods to offer students *the opportunity to understand something about the economists that reject the*

interventionist, inflationist, socialist and communist principles. Von Mises contradicts the opinions of the intellectuals, the so called *progressives*, who believe that the capitalism is *the worst of all evil*, the spiritual and moral effects of the capitalist production being, in their opinion, even worse, and ascertains that *this is the philosophy taught in schools, preached in novels and plays, and which guides the actions of contemporary governments.* In his opinion, *the most arrogant proponents of this ideology can be found in the departments of political science, sociology, literature and, especially, history,* they having the excuse that do not have enough knowledge in Economics. The worst consequence of *this proscription of the authentic Economic science* is that the most valuable graduates avoid the academic career, feeling a total discordance with those who accept the compromise and become fans of socialism and interventionism.

The essay *Trends can change* starts from the idea that *the trends of the social evolution from the recent past can also prevail in the future,* the study of the past revealing *the physiognomy of the future events.* To all these, von Mises adds up the Hegelian idea of the progressive improvement of human condition, *any stage of the history representing a jump through comparison with the previous ones.* That is why any doubt concerning the future wealth would be *unjustified, unscientific and blasphemous,* knowing what has been made yesterday allowing us to understand what should be put in practice today.

The Marxist dogma is based on the presumption that the capitalism leads, finally, to a progressive impoverishment of the majority of population. But the history contradicted this kind of hypothesis, in the capitalist countries the living standard of ordinary people being incomparably higher than in Marx's time. Von Mises sustains that, nowadays, *the doctrine of the irreversible character of dominant tendencies replaced the Marxist doctrine of the inevitable character of progressive impoverishment.* He emphasizes the fact that there is no logical or empirical validation of this theory, *being impossible for the historical trends to propagate to infinity.* In his opinion, the assumption according to which the human condition always needs to ameliorate can be appreciated as false, a return to a much less satisfactory lifestyle, to penury and barbarism being impossible. Because the relative increased life standard which ordinary people enjoy in capitalist countries is the result of the *laissez-faire* capitalism, it is clear which direction should follow each economy.

In the last essay, *The Political Chances of Genuine Liberalism,* von Mises considers that *the ideologies that generated all bad things and catastrophes are not the opera of the majority, but of the pseudo-savants and pseudo-intellectuals.* They appeared, many times, in the academic world and propagated from the university

departments, through dissemination in mass media, novels, plays, movies and radio transmissions. In this way, you might say that *the intellectuals converted the majority to socialism and interventionism*. So, we may say that if the mentality of intellectuals will change, the majority will follow them and we will assist a reversal of the trend.

During the whole paper, we notice the continuous reference to the simple person, the ordinary individual, the consumer, *the human aspect* of the economic theory not being neglected at all, the main feature of the capitalism being, in von Mises's opinion, *the mass production that responds to the population needs*. The author considers that, although the specific domain of Economics is related to *prices and production, currency and credit, taxes and budgets, and other similar phenomena*, all these are *consequences of people's intentions, actions, plans and ambitions*. The main subject of economic history is *the individual, with his own knowledge or ignorance, with vices and virtues, with his truths or his errors*.

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