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HOW ‘YA GONNA KEEP ‘EM DOWN ON THE FARM (After They’ve Seen Paree)

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Abstract: *Change is abroad across the land, as often destructive as constructive. No one is immune. The financial crisis is perhaps the most obvious wave of change, but as the title of this paper (and also the title of a song popular in America between World I and World War II¹) suggests, the most pervasive, seductive, and subversive changes are fueled by the view of the wider world provided by the internet with its blogs and social networks. How ‘ya gonna keep ‘em satisfied with a second-class life (or worse) after they have seen the luxuries and freedoms of the wider world? Knowledge is power, and frightening amounts of people-power can be marshaled via the internet. Tyrants fall and royal families quake in the face of so much focused intentionality. But even as freedoms are recovered, what are all the unemployed to do with that freedom, especially in those countries in which the average age is between late teens and early twenties – kids, really, with no prospects of the good life? Add to this the coming shortage of food, drinking water, and fuel and the resulting upward spiral of costs for life’s necessities, further imposing hardship on new members of ‘the internet generation.’ Social and political catastrophes are to be expected. What can the countries in ‘Europe’s southern neighborhood’ do to respond, to be proactive in the face of massive and predictable changes?*

Keywords: *predictable problems, proactive response, cross-border collaboration, food, fuel riots*

JEL Classification Codes: I0, I1, I3

1. INTRODUCTION

Two princes of the English language, first William Shakespeare in *Richard III*, and American author and Nobel laureate John Steinbeck with his novel, *The Winter of Our Discontent*, plugged that phrase into the lexicon. We have survived (one hopes) the winter of discontented people across the Middle East, and now we are in the ‘Arab Spring’ that was first announced in 2005 to describe the expected spread of Western-style democracy resulting from the invasion of Iraq. Whatever happens (this is being written in February), some uncomfortable truths will come out of the internet -- that invincible truth machine and source of the Wiki Leaks scandal.

What this means to me, even as a pretty hopeless *technopeasant*, is that we have more knowledge about coming events than ever before, and the question is, What will we do with our fore-knowledge? Will we pretend that the worst will not happen, that there will not be food riots, water riots, gas-price and availability riots this year or not too many years ahead?

Or will we continue to look the other way while people suffer deprivation? Or will we pretend to be surprised when the calamities inconvenience us? Maybe there could be some intelligent collaboration to build strong communities in this neighborhood so far removed from Washington, London, Brussels, and Paris. What do you think?

My guess is that selfishness among the states in this neighborhood will prevent pro-action. Self-interest is not illegal or even immoral, but it is a powerful set of blinders to block out opportunities to share resources for the benefit of people outside our territorial boundaries – and to protect our people from assaults by resentful neighbors.

I learned later that I should have that there are only two forces in our lives, two major headings for all that we do and think. Those two major life themes are *love* and *fear*. It seems that most religious systems counsel us to care for others as ourselves, but we all know that *he who has the gold makes the rules!* And as for fear – which institution do you know that does *not* use fear as an instrument of control and governance? In truth, all of us are programmed – by parents, priests, teachers, deans, and managers by any title – to be fearful of the consequences of wrong steps we might take.

In a way, we all live in the police state of our minds.

2. APPROACHING THE UNDEFINED PROBLEM

An American novelist who emigrated from Russia in 1925 and became an important intellectual icon, Ayn Rand created her Objectivist philosophy and explained it in best-selling novels and a powerful small book of essays published in 1964. The title? *The Virtue of Selfishness: A New Concept of Egoism*². I think she offers some great insights for those of you who will live-out the theme of this conference.

I first read the book at least thirty years ago, and liked it. Back then, I was practically militant in my conservatism. But unlike many people my age, I find that I am becoming more liberal, even more progressive, as I get older. And, surprisingly, Ayn Rand's philosophy still makes sense. On my first long-ago reading, I interpreted her philosophy as saying that "turn the other cheek" doesn't mean willingly suffering abuse – quite opposite from the usual Christian teachings; and it doesn't mean wearing a hair shirt nor does it mean buying into some kind of collective guilt. Altruism – suffering for others or asking others to suffer for you – is a distortion of rational thought and behavior. Having lived through two revolutions before leaving Russia, and experiencing the suppression of individuality in the state's quest for collectivist conformity, Ayn Rand wanted none of it. Instead, she celebrated the American capitalist experience, where individuality was celebrated. Even though the assimilation of so many people from so many cultures has led to labeling America as a 'melting pot', it never meant that all kinds of immigrants were melded into a single gray mass. That never happened. Instead, America celebrates its diversity, and the equal opportunity for all to see their fortunes decline together as the middle class – maybe America's crowning social achievement -- is disappearing on the waves of debt engineered by the banking and investment communities. The trends she predicted toward neutering rational intelligence seem to be arriving more or less on schedule. She died in 1982, maybe before she saw individuality – and the middle class that individuality created – begin the long slide into mediocre lives being lived by mediocre people drugged with consumerism and seeing their futures co-opted by credit card and mortgage debt.

What is most compelling about Ayn Rand's philosophy is that if there is a moral imperative in life, it is to be ethical. As she used the term, ethics refers to responsibility, to leadership of worthwhile causes, one of which is to benefit, if not profit, from everything you do for God, country, or company. As I understood her objectivist philosophy, it was about intelligent use of resources and returns on investment, about doing good for others and doing well for yourself. Maybe it would be called enlightened self-interest, and certainly that would be virtuous selfishness.

An American pastor friend, whose ministry is deeply invested in working with homeless people, ex-prisoners, and addicts, said recently that if churches in the U.S. spent more time doing what they were supposed to do, instead of congratulating themselves on their foreign missions, there would be a lot fewer hungry and homeless people across the street, in their own neighborhoods. But that kind of nurturing does not provide a platform for egoism, egotism, self aggrandizing. No one seems to care when their neighbor fails or falls, and lifting them up is not so praise-worthy as bringing light to the distant benighted.

3. WHAT SHALL WE DO IN OUR NEIGHBORHOOD?

Forgive me if I seem to speak now from stereotypes, because I really do not have a lot of personal experience in your neighborhood. I know that there are great and fine people everywhere, and that all cultures harbor some folks who missed out on citizenship training and end up being actively anti-social. Among them are people who have little going for them beyond ego, pride of place, and many hundreds of years of their forebears having essentially the same experiences and the same limiting outlook on the world beyond their villages and valleys. But now that the mobile telephone has intruded, bypassing telephone poles and copper wires, soon really cheap computers will arrive that work off that mysterious 'cloud' in which software and files are housed, and that will really let the genie out of the bottle. Those people, trapped for centuries in non-literate communities with women locked in servitude and silence watching child brides getting pregnant, milking goats, and carrying water; and boy soldiers carrying AK-47s and wearing ragged clothes – all of them are going to see Paree.

That vision leaves a lot of gaps to be filled for most of the world's people. Mobile technology has made it possible to bring New York and Paris into the most remote villages and valleys. And the impact of that? Who wants to herd goats when all that glitter is available in cities. But historically, that migration from fields and farms into cities has been going on as long as there have been cities. Now, that migration will intensify, but the migrants will be even more inept in coping with the intricacies of city life – not because they are more handicapped than those who migrated before them, but because urban life is increasingly more complex. (If you have not seen the films *Babel* and *God Grew Tired of Us*, check them out for sympathetic portrayals of culture clashes.)

From this brief sketch of current events, what can we imagine? Perhaps first, migrants need orientation to prevent their becoming victims in the city or joining the criminal underclass. That means jobs for migrants and job training and support networks to ease the transition. (It was hard for mainstream Americans to believe that during the early civil rights initiatives thirty years ago, and perhaps currently, people showed up for job training who honestly did not understand that they were to show up at 08:00 for five consecutive days. Work routines were not part of their experience, nor of those close to them.) As you have seen on TV, even Gay Paree is periodically afflicted by street riots, car burnings, looting, and

stone-throwing young people whose cultures are not being assimilated into that of their French hosts.

I know and you know these things are ‘wrong.’ But what would we do if we were in the 17 to 23 age range, with no jobs, no prospects of economic self-sufficiency, no future worth waiting for? Maybe we would be throwing stones and burning cars, too. And maybe blowing up ourselves and others.

The obvious answers are so ... obvious! Education and jobs! But education is based on deferred gratification, promises made by a society you cannot trust. And jobs for people with minimal education follow well-worn paths to Asia and Africa. How do you break that pattern?

Some countries in this southern neighborhood have created beautiful television commercials that invite tourists and even employers (!) to come see and stay. But if you were a business person looking for a congenial place to build a plant and create jobs, would you come to this neighborhood? It is common knowledge that bribes and associated corruption are a normal part of life around here. In fact, in my present home of Lithuania, Transparency International found several years ago that 30 percent of the citizens had paid bribes, and 49 percent thought their Parliament was “very corrupt.”⁴ In such an environment, why wait for months to get permission to do something when a few dollars can make it happen in days or weeks?

But it’s not always a matter of a few dollars. In one case in your neighborhood, a company that would hire 400 people was building a plant. The road to the site was paved, the foundation had been poured, the roof was in place. Alas, the representative of the telecommunication provider demanded several hundred thousand dollars to make the necessary connections. Work on the plant was halted that day, and the company withdrew. Those 400 jobs and the tax revenues the plant would have produced never happened. In another case, a former colleague reported that his friend, who managed a manufacturing plant also in your neighborhood, said that bribes he had to pay constituted forty percent of his operating expenses! If you or I had that information, would we bring our businesses here, no matter how little we had to pay our workers? That brings us to a fundamental, neighborhood-shaping, ethical decision. It can be said this way: If your operation cannot be profitable if you have to pay bribes *and* fair wages, and you cannot operate at all if you do not pay the bribes, which do you choose?

A rational person will say, “Why, that’s no choice at all!” Except, of course, to take our businesses elsewhere.

Also, in this small scenario, it becomes painfully obvious how residents of our neighborhood are condemned to earn the lowest possible wages. That, in turn, predicts really low payments into social security systems and that, in turn, means that people too old to work will not have adequate incomes; and that, in turn, means further burdens on the state that will be honored only grudgingly; and that, in turn, guarantees impoverished neighborhoods, inadequate educational services, an environment that does not encourage industrialization; and that, in turn, guarantees another generation of stone-throwing, car-burning kids on the streets.

4. IS THERE A BETTER WAY?

Surely, there must be! In this room full of educated and thinking individuals, there must be many thoughtful solutions – but none are likely to work because they will put you and me into opposition to your culture. The culture that supports corruption is the same one that

prompts your aunt to berate you for living in the city and leaving your widowed mother living alone in the village. Her sister lives nearby, but does not offer help because it is the duty of the daughter (or a son's wife) to take care of the mother in her own home! When duty/obligation and honor in a culture are so strong and so situation specific, it is not too large a leap of logic to expect honor killings and other tragedies.

Nothing less than heroic action by a very important person (VIP) relevant to the culture can break the cycle, recognizing that there still will be individuals who want to live with the old ways. They have to be accepted or sanctioned in some way (another ethical decision).

Sanctions? Where is this heading?

To a place – an idea – that may not have been one among the many in this room. Imagine this: Panoramic photographs of your country's most beautiful scenes; photographs of handsome and beautiful people, your country's work force; compelling background music. Then the images in this prime-time commercial on CNN International fade. Your president fills the TV screen. He or she speaks to business people, pitching the benefits of bringing jobs to your country. Then the camera closes on the president's face as he or she makes this remarkable statement: "If you bring your company and your jobs to our wonderful country, I give you my personal promise, the guarantee of my government, that you will not be confronted by dishonest and dishonorable officials with their hands out for pay-offs. And if anyone among the contractors you employ, or their sub-contractors, attempts to force you to engage in illegal payments, you have only to call the special telephone number I will give you, and we – my government and I -- will take care of your problem!"

I will leave you to imagine how such problems should be resolved. But do remember that any company that comes to your country, willing to pay bribes, is not coming for the good of your people. They come to take advantage of the desperation of workers without choices. Maybe poorly-paid jobs are better than no jobs, but still.... And as for ethics, count on those companies to take their jobs further south or east in the search for cheap labor and governments that are soft on health and safety issues and on workers' rights.

Since I come from the United States, I should say that these dynamics of corporate greed are not unknown there. In one case, a famous manufacturer of electrical hand tools escaped the unions, high taxes and utility bills in the northeast with its harsh winters, and moved to the so-called 'Sun Belt.' After taking advantage of local hospitality, low wages, no unions, and tax breaks, within five years the company moved south of the border into Mexico, leaving the workers and the local government-financed buildings behind. Many other companies, high-tech and low-tech, including the iconic Hershey's Chocolate, have made the move.

Perhaps there is an analog to be found in the issue of food availability and starvation. 'They' say that there is no shortage of food. Instead, there is a distribution problem rooted in political and economic decisions. That translates into governments, acting or not. Recently, the ambassador of a wine-producing country, serving in a country of wine consumers, approached that state's regulators about importing more wines. The ambassador was told that "transportation arrangements" had been made and did not include more wine from his country. "Suppose I bring it in my own trucks?" he asked. The government agent advised the ambassador, "Your trucks might never arrive!"

5. WILL PEOPLE EVER MATTER?

Again, later in my life than might have been the case, I learned that there are only two sources of problems in our world -- *religion* and *special interests* – and the needs, aspirations, and safety of real people are subordinated to these powerful forces and alliances.

Religion, and the conflicts and slaughter it spawns, are self-evident in current events. But what are these special interests?

Of course, religion is one, with its programs of proscriptions and divisiveness and money and power. But the more usual special interests might be universities competing for governmental funding; weapons manufacturers and the military establishments that buy the weapons (with government money); pharmaceutical companies controlling the price of drugs (with complicit governments, which is why many Americans make monthly trips to Canada or Mexico to fill prescriptions). And then there is counter-terrorism, which has spawned millions of jobs and consumes billions of dollars as the rights and freedoms of people are abrogated in defense against a relative handful of militant religionists and other disaffected nutcases.

But another special interest you probably did not consider is the prison industry. As our societies become more complex, what are we to do with all those who do not fit in, who cannot compete economically, who should never have left the villages and valleys where they knew how to cope? If you are in the prison industry, every person convicted of a crime is a new source of (government) revenue. A friend who worked for ten years at Riker's Island, the famous prison on an island run by the New York City Department of Corrections, said that very few people comprehend the scope of that industry. (I tell my students who are unclear about career direction to consider penology or gerontology as we will never run out of prisoners to be locked away and old people to be nurtured.)

Other special interests that impact us are hospitals and medical insurance providers, public safety programs and employees, teachers and administrators (and the text publishers and others who serve the educational establishment), and other government services and employees. (America's strongest and most aggressive union is said to be the California Teachers' Association.) So at a level that is not too abstract, all of us are beneficiaries of one or several special interest groups, and the victims of others.

So what do we do about the economics of our neighborhood? Well, job creation for sure, since your neighborhood probably is already at ten percent unemployment or higher, and the last thing we need is more people coming to town to become unemployed rock throwers. The transition from manual labor through the industrial to the post-industrial eras has left many without necessary skills beyond low-level service jobs. In fact, in mid-year 2010, UNDP estimated that 45 million jobs are needed around the world – right now -- to return employment to 2007 levels⁵. Further, if you consider the projected population increases from six-plus billion people on earth to nine billion, and that a minimum of one job is required for each 3 persons, then another billion or so jobs will be needed in the next several decades.

Do you have any ideas about how to create a billion jobs, and how to pay those employees and provide them with benefits? Staffing prisons and retirement centers will not be sufficient .

What about food production and distribution, and water-resource management? We have been warned about shortages that will lead to riots, and we can imagine that small or large wars will follow. Among all the talented people here and in other universities and think tanks, surely there must be some who can conjure workable schemes to avoid the predictable.

With all the weapons in the neighborhood and the overheated masculinity that is reported to exist, serious combat is not only possible, it's probable. But surely, in this room and in the rest of the University, and among your colleagues in other schools, there are some ideas about how to avoid calamities. You know, community development sorts of things. But that is another lecture, so moving toward ending this one....

Maybe the only real solutions are to be found in doing what we already know is needed – but lack the courage to do. For example, we all know about the problems of illegal immigrants who undermine labor rates wherever they congregate. And how do we handle that issue? We catch and deport illegals. But what do we do to the people who hire them, whose jobs are the magnets for the migrants? And what about the so-called drug problem? We persecute the entrepreneurs who supply the market instead of prosecuting the consumers who create the market. Can you imagine how much money is spent on drug interdiction, and how many other programs are never developed so we can pay for the war on drugs? And the war on Terrorism?

Meanwhile, no country's president can make a TV commercial promising legitimate entrepreneurs protection from graft and threats. Imagine what our societies could become if that were possible! Could that actually happen? Only, a company president said, if you have an honest judiciary. He recalled firing a woman for stealing 1,500 Euros. She rebutted by suing him for 30,000 Euros for the mental anguish he caused her. She paid-off the judge and won – but lost in a higher court in which she couldn't bribe the judge. What a waste of time and money for the employer!

At less utopian levels, there is much that can be done, given the ingenuity of those whose creative juices are now expended in beating the system to get the things they want. Can we recapture those talents and energies and focus them on solving problems that otherwise will diminish the quality of life for most of us? If you want to help in that process, you probably already know where to go and whom to contact.

None of us can do it all, but all of us can do some of it. But will we? What do you think?

CONCLUSIONS

Well, what can we conclude? Is precedence predictive, the prologue to another victory for special interests? The oil interests have driven up the price of fuels and other petroleum products. The military-industrial complex that U.S. President Dwight Eisenhower warned against in his last speech seems not to have lost its clout with decision-makers. China's growing middle class is consuming more, and that is creating powerful competition for the grains and fabrics we need to support our industries and peoples at prices that do not create economic disequilibrium. India is not far behind as a major and probably aggressive competitor for raw materials at convenient prices. Egypt had food riots two years ago as the price of wheat escalated, while grains are converted to motor vehicle fuels in South and North America, creating more demand and driving prices up.

We have been warned for years that water tables around the world are shrinking, that salt water is encroaching, and told that the cost of desalination plants makes water almost prohibitively expensive. What would a smart person conclude – about business opportunities, about life-style changes, about impact on the weakest economic competitors among our people, and the social threats these very visible trends predict as surely sunrises and sunsets?

Maybe it is time to return to the homeowners' fall-out shelters of the 1950s, where each of us burrows underground with our barrels of water and tinned biscuits and powdered milk. But if that happens, shame on us as so-called educated people. Shame on us as people trained to lead. Shame on us for being fearful to confront our governments about their preoccupation with wars and weapons instead of using scarce resources to support a quality of life that provides enough for everyone and directs us away from the old and proven lose-lose formula that those with the gold make the rules.

And there is this to be considered by smart people – your brains will ask more questions than they can answer, and one of the best ways to avoid action is to continue to ask questions – as though there really is a wide range of choices. And if the smart people do not organize into an intelligent force for change, you can be sure that someone will come, waving a flag and claiming to be God's own, who will offer to lead us to law and order and to impose a discipline that we will not enjoy. Haven't we already been there and done that? Do we have to do it again? What do you think?

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COMPARISON OF E-COMMERCE BEHAVIOUR AMONG WOMEN CONSUMERS OF BALKAN AND BALTIC REGIONS

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Abstract: Nowadays, more and more consumers prefer to make their shopping via Internet. Researchers wish to study the e-commerce behaviour and the factors influencing consumer's attitude while shopping on line. This paper investigates the differences and similarities of women's behaviour toward e-commerce in two culturally different Europe regions; the Balkans and the Baltic regions. Some attributes such as trust in vendor, trust in transactions, language, culture, age or education and their possible impacts on e-commerce use, are examined in this paper. A convenient random sample of 50 women from each region (Greece, Romania, Bulgaria, Lithuania, Estonia and Latvia) was used in order to answer a structured questionnaire including the aforementioned factors. The reply of the respondents was received through e-mail. The responses were analyzed using statistical methods and exploratory data analysis with SPSS software and Chic analysis software, respectively. The results show that there are some significant behaviour differences between the two regions. In particular, women in Baltic use e-commerce more than women in Balkans. Also, it is shown that much more factors such as use of Internet, marital status, education affect the intention to buy online in Baltic than in Balkans.

Keywords: e-commerce, women, Balkan regions, Baltic regions, data analysis

JEL Classification Codes: D12, O52

1. INTRODUCTION

The use of e-commerce is rapidly increasing. It is of crucial importance to study the behaviour of e-consumers. Women consist of a large group of e-consumers and Internet users and they are interested in a variety of websites and products. The study of women's behaviour towards e-commerce can give for online marketers a better understanding of factors which can influence women intention to buy online.

Some important factors influencing e-consumer behaviour are the following:

Culture: the culture in which an individual exists has an effect on all aspects of life. There is a diversion in different culturally built regions on how they process the overall trust, including how an individual views/uses information technology (Gefen, 2000; Van Slyke, 2010; Kimery and Amirkhalkhali, 2008; Whiteley, 2000).

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Trust and e-commerce (vendor and transactions): Trust becomes a potentially important factor for e-commerce, because trust between parties is most often critical for a successful outcome and to establish a long term business relationship (Van Slyke et al., 2010; Corbitt, Theerasak and Han, 2003; Gefen, 2000; Ramayah and Ignatius, 2005).

Trust in vendors: The trustworthiness of online vendors is an actual factor, because consumers consider online shopping as more risky than shopping through traditional face-to-face channels (Van Slyke, 2010; Corbitt, Thanasankita and Han, 2003; Constantinides, 2004).

Trust on transactions: According to EUROSTAT (2009) about one third of the population in the EU that does not use e-commerce has concerns about payment security.

Payment method used mostly and payment method that consumers would prefer: an important question is raised; if the most used payment method for online purchases (credit card) is the most preferred (F-Secure Company, 2009; Nielsen Company 2008).

Usefulness and ease of use: Studies show usefulness and ease of use were positively related to the attitude towards using the e-commerce websites and ultimately the behavioural intention to buy (Smith, 2008; Ramayah and Ignatius, 2005; Singh et al., 2006).

Reasons to buy on the Internet: Studies indicate that convenience is the main reason for the motivation to engage in Internet purchasing and could lead to an enjoyable shopping experience (Nielsen Company; 2007).

Language: Language proficiency affects the access to the information and the activity on the Internet (Kralish, 2004).

This paper investigates the differences and similarities of women's behaviour toward e-commerce in two culturally different European regions; the Balkan and the Baltic. We study some of the above factors and more like age and education. For the purpose of our study we use a convenient random sample of 50 women from each country (Greece, Romania, Bulgaria, Lithuania, Estonia and Latvia), in order to answer a structured questionnaire including the aforementioned factors. The distribution of the questionnaire was realized through e-mail. We analyzed the responses, using statistical methods and exploratory data analysis with SPSS v.17 software and Chic analysis software (Markos, Menexes and Papadimitriou, 2010).

2. RESEARCH

The study was conducted in both regions from March to July of 2011. The data were collected using a structured questionnaire. The questionnaires were distributed randomly by email to women who were asked to complete them anonymously and return them. The questions were of closed type, meaning the women had to choose specific answers. Finally, 300 respondents were collected, half of them from the Baltic and half from the Balkans. 65% have a bachelor or a master degree. 66.1% belong to the age group of 18-30 and 33.3% belong to the age group of more than 31. Almost 70% are married and almost half have medium level of incomes.

Several primary conclusions can be conducted by descriptive statistics of data. More women in Balkan than in Baltic region browse 1 to 2 websites on average during single sign-on to the Internet, but more women in Baltic than in Balkan region browse about 2 to 5 websites during single sign-on to the Internet. The majority of respondents in both regions (65%) buy online very rarely, while very few use e-commerce often or always (3.8%). Also, the majority of women who use e-commerce do not spend online a lot of money. From those who buy online, the majority spends less than the 10% of their medium level of incomes. The most important reasons to buy online were the economy of time and money. The most popular online

purchases were new technologies (25%) and cosmetics (24%). There is an important group of popular purchases (25%) which includes jewelry, holiday, travel tickets, books etc. The most frequent payment method is via e-banking (31%) followed by the credit card (21%).

3. ASSOCIATIONS AMONG THE FACTORS

For the purpose of our study we made 12 hypotheses. Further analysis includes the examination of factors/variables and their associations. A strong relation between two variables is recognized with the P-value lower than 5% and a high value Pearson Chi square. The variables are significantly related when the P-values are lower than 0.05. The higher value of Pearson Chi square than minimum required for exact meaning of χ^2 (degree of freedom) shows that the variables are related, have the tendency and can prove the hypothesis. The degree of freedom is calculated by the formula “(m-1) x (n-1)” where “m” is the number of possible answers in question x and “n” is the number of possible answers in question Y in the cross tabulations of selected questions.

Hypothesis H1. Women in Baltic buy more online than women in Balkan.

Table 1 presents the answers regarding region and frequency of e-commerce usage in cross tabulation of the two variables.

Table 1. Region and frequency of purchasing online

Region - How often do you usually buy from websites?		
	Baltic	Balkan
Never	17.10	43.15
Rarely	46.70	30.50
Sometimes	33.00	22.15
Often	3.20	3.15
Always	0	1.05

Pearson Chi-Square analysis with the index of significance $3% < 5%$ and degree of freedom -4, shows that Pearson Chi Square value is 16.164, i.e. higher than the required 9.49. Chi-Square analysis shows that in fact Baltic women buy more than women in Balkan. A closer look at the results shows that women in Baltic buy significantly more in the groups of “rarely” and “sometimes” than women in Balkan. However, only the minority of women in both regions are active online shoppers (Figure 1).

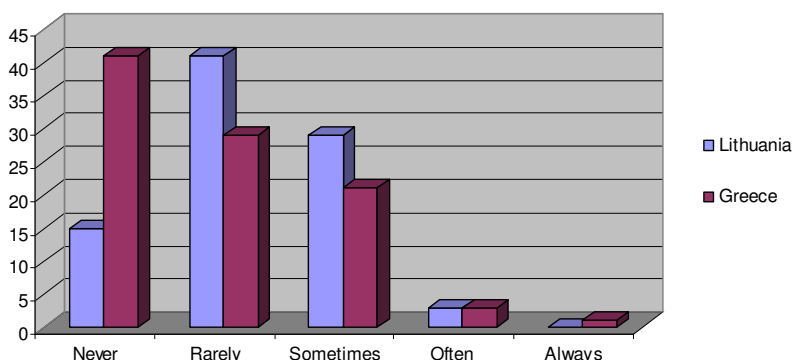


Figure 1. Region and frequency of purchasing online

Hypothesis H2. Women in Balkan consider e-commerce less useful than women in Baltic.

Table 2 presents the cross tabulated answers of region and the question “Do you think that e-commerce is useful for you?”.

Table 2. Region and frequency of “usefulness”

Region - Do you think that e-commerce is useful for you?		
	Baltic	Balkan
Yes	92.05	60.22
No	7.95	39.78

Pearson Chi-Square analysis with the index of significance $0.1\% < 5\%$ and degree of freedom - 1, shows that Pearson Chi Square value is 24.897, i.e. higher than the required 3.84. Chi-Square analysis indicates that women in Baltic consider e-commerce more useful than women in Balkan.

Hypothesis H3. Women in Balkan consider e-commerce less trustworthy than women in Baltic.

Test for this hypothesis consists of two parts, testing the relationship between region and trust in money transactions and testing the relationship between region and trust in vendors. Table 3 indicates a cross tabulation of region and trust in money transactions.

Table 3. Region and trust in transactions

Region - Money transactions are secure through Internet		
	Baltic	Balkan
I strongly disagree	1.14	13.78
Tend to disagree	18.22	16.96
Neither agree nor disagree	6.82	47.7
Tend to agree	71.80	18.38
I strongly agree	2.02	3.18

Pearson Chi-Square analysis with the index of significance $0.1\% < 5\%$ and degree of freedom - 4, shows that Pearson Chi Square value is 66.634, i.e. higher than the required 9.49. The Chi-Square analysis reveals the tendency that women in Baltic really trust money transactions more than women in Balkan. Also, the Chi-Square analysis shows that women in Baltic trust vendors more than women in Balkan. Analysis of these variables shows that Baltic women consider e-commerce as more trustful than women in Balkan.

Hypotheses H4 and H5. Women in Baltic trust transactions' procedure more than vendors/Women in Balkan trust online vendors more than transactions' procedure.

Regarding trust in transactions and trust in vendors within the regions, there is no clear difference between trust in transactions and vendors in Baltic and in Balkan to confirm H4 and H5, but there are some tendencies that show that these two hypotheses could be partly supported. In Balkan there is no higher trust in vendors than in transactions at lower ranking (tend to agree/strongly agree). On the contrary, in Baltic there is an increasing tendency

toward trust in transactions. According to what is defined H4 and H5 could be partly confirmed.

Hypothesis H6 - Higher level of trust in e-commerce will positively affect the use of e-commerce.

Tables 4 and 5 present the collected data.

Table 4. Trust in vendors and frequency of buying online

There is trust on Internet vendors - How often do you usually buy from websites?					
	Never	Rarely	Sometimes	Often	Always
I strongly disagree	6.56	1.64	0	0	0
Tend to disagree	7.65	7.10	9.29	0.55	0
Neither agree nor disagree	12.02	14.21	6.01	0.55	0
Tend to agree	4.37	15.3	11.48	2.19	0.55
I strongly agree	0	0	0.53	0	0

Pearson Chi-Square analysis with the index of significance 0.01% <5% and degree of freedom -16, showed that Pearson Chi Square value is 38.826, i.e. higher than the required of 26.30. Chi-Square analysis shows that the higher level of trust in vendor positively affects the use of e-commerce.

Table 5. Trust in transactions and frequency of buying online

Money transactions are secure through Internet - How often do you usually buy from websites?					
	Never	Rarely	Sometimes	Often	Always
I strongly disagree	6.59	1.10	0	0	0
Tend to disagree	4.40	9.89	2.75	0	0.55
Neither agree nor disagree	9.89	9.34	8.24	0.55	0
Tend to agree	8.24	17.58	15.94	2.20	0
I strongly agree	1.10	0.55	0.55	0.54	0

Pearson Chi-Square analysis (for the trust in transactions) with the index of significance 0.01%<5% and degree of freedom -16, showed that Pearson Chi Square value is 43.544, i.e. higher than the required of 26.30. Chi-Square analysis shows that the higher level of trust in transactions positively affects the usage of e-commerce. According to these two associations, it is clear that general trust in e-commerce has a positive relation with the level of e-commerce use.

Hypothesis H7. Women in Baltic use e-banking more frequently than women in Balkan.

Table 6 indicates the results.

Table 6. Frequency of e-banking usage within the regions

Region - Do you use e-banking?		
	Baltic	Balkan
Never	5.68	61.70
Rarely	7.95	22.34
Sometimes	20.46	8.51
Often	22.73	4.26
Always	43.18	3.19

Pearson Chi-Square analysis with the index of significance 0.01% <5% and degree of freedom -4, showed that Pearson Chi Square value is 95.885, i.e. higher than the required of 9.49. Chi-Square analysis shows that women in Baltic use e-banking more than women in Balkan.

Hypothesis H8. The higher level of e-banking use will have a positive impact on trust in transactions.

Table 7 indicates the collected data.

Table 7. The use of e-banking and trust in transactions

Do you use of e-banking? - Money transactions are secure through Internet					
	I strongly disagree	Tend to disagree	Neither agree nor disagree	Tend to agree	I strongly agree
Never	6.56	4.95	15.47	7.18	0
Rarely	1.10	3.87	6.56	3.31	0.55
Sometimes	0	1.65	4.40	8.25	0
Often	0	2.75	0.55	9.90	0
Always	0	3.85	1.10	15.47	2.53

Pearson Chi-Square analysis with the index of significance 0.01% <5% and degree of freedom -16, showed that Pearson Chi Square value is 74.044, i.e. higher than the required of 26.30. Chi-Square analysis shows that the higher level of e-banking use positively affects the trust on transactions.

Hypothesis H9. Education positively influences the respondents' opinion about e-commerce usefulness.

Table 8 indicates the collected data.

Table 8. The level of education and "usefulness"

What is your education level? - Do you think that e-commerce is useful for you?		
	Yes	No
Secondary	7.7	3.3
Not finished higher	17.6	3.3
Higher	30.25	11.55
Postgraduate	18.15	4.95
Not classified/post secondary	1.65	1.55

Pearson Chi-Square analysis with the index of significance $50% > 5%$ and degree of freedom - 4, showed that Pearson Chi Square value is 3.165, i.e. lower than the threshold value of 9.49. Chi-Square analysis showed that there is no significant relationship between education level and the considerations of e-commerce usefulness. Additional analysis of Pearson Chi-Square with the index of significance $10 > 5%$ and degree of freedom -16, where the Pearson Chi Square value is $23.198 < 26.30$, shows that the level of education and intention to shop online are not related.

Hypothesis H10. Age influences the respondent’s opinion about e-commerce usefulness in reverse relationship.

Table 9 indicates the collected data.

Table 9. Age and intention to buy

What is your age? – How often do you buy from websites?					
	Never	Rarely	Sometimes	Often	Always
Less than 18	0.55	0	0	0	0
18-24	14.3	16.5	8.25	0.55	0
25-30	3.3	13.75	7.7	1.65	0.55
31-40	3.85	3.85	7.7	0.55	0
41-60	8.25	3.85	3.85	0.55	0
more than 60	0.55	0.55	0	0	0

Chi-Square analysis shows there is no relation between age and the intention to buy from websites, because the index of significance was found $7% > 5%$ (which means there is no significance) and Pearson Chi Square value with the degree of freedom - 20, showed that Pearson Chi Square value is 29.654, i.e. lower than the threshold value of 31.41.

According to the analysis there is no relation between these two variables, so the hypothesis can not be supported by this research. On the other hand, age tends to have an affect on usefulness of e-commerce. The table below presents the results (Table 10).

Table 10. E-commerce sites browsed online on average

What is your age? - Do you think that e-commerce is useful for you?		
	Yes	No
Less than 18	0.55	0
18-24	29.15	9.35
25-30	23.1	3.85
31-40	12.1	3.85
41-60	10.45	6.50
more than 60	0	1.10

Pearson Chi-Square analysis with the index of significance $4% < 5%$ and degree of freedom -5, showed that Pearson Chi Square value is 11.714, i.e. not significantly higher than required (11.07). Chi-Square analysis shows that age has a trend to impact the consideration of e-

commerce as useful negatively – younger respondents consider e-commerce more useful, elder respondents consider e-commerce less useful.

Hypothesis H11. The higher level of foreign language knowledge has a positive impact on e-commerce sites browsing.

Table 11 indicates the collected data.

Table 11. The cross-tabulation between level of language knowledge and the level of browsing e-commerce sites

How many foreign languages do you speak? - How many e-commerce sites (on average) do you browse every time you are online?					
	None	About 1	1-2	2-5	More than 5
none	3.3	0.55	0.55	1.10	0.55
1	4.95	6.6	12.1	3.85	1.10
2	9.9	10.10	8.25	4.95	1.65
3	5.5	8.25	5.5	1.10	1.65
More than 3	1.65	2.10	1.65	0.55	1.10

Chi-Square analysis shows that there is no relationship between knowledge of foreign languages and the intention to browse e-commerce sites more, because the index of significance was found $23% > 5%$ (which means there is no significance) and Pearson Chi Square value with the degree of freedom - 16, showed that Pearson Chi Square value is 19.717, i.e. lower than the required of 26.30. Also, the relationship between knowledge of languages and foreign sites browsed, Pearson Chi-Square analysis with the index of significance $0.001 < 5%$ and degree of freedom -4, showed that Pearson Chi Square value is 42.642, i.e. significantly higher than required 9.49, in particular positively impact browsing site designed in foreign languages.

Hypothesis H12 - Higher level of browsing foreign websites has an impact to the higher level of online shopping.

Further analysis (the collected data is presented in Table 12) shows that there is a possible relationship between browsing sites designed in foreign languages and intention to buy online.

Table 12. E-commerce sites browsed and frequency online shopping

Do you browse the websites only on your native language? - How often do you buy from websites?		
	Yes	No
Never	10.45	20.35
Rarely	8.25	30.25
Sometimes	2.75	24.75
Often	0	3.3
Always	0	0.55

Pearson Chi-Square analysis with the index of significance $2% < 5%$ and degree of freedom -4, showed that Pearson Chi Square value is 11.27, i.e. not significantly higher than the required of 11.07. The results show that there is a partial association between browsing sites designed in other languages and buying online.

4. CORRESPONDENCE AND HIERARCHICAL CLUSTER ANALYSIS

Correspondence Analysis is a multidimensional data analytic method, suitable for graphically exploring the association among two or more, non-metric variables without a priori hypotheses or assumptions (Markos A. et. al, 2010). Hierarchical cluster analysis (or hierarchical clustering) is a general approach to cluster analysis, in which the object is to group together objects or records that are "close" to each other. A key component of the analysis is iterative calculation of distance measures among objects, and among clusters once objects begin to be grouped into clusters. The outcome is represented graphically as a dendrogram (The Institute of Statistics Education, 2011). In the dendrogram below (Figure 2), the sub-clusters are listed along the "x" axis (with their ID numbers). The "y" axis measures the inter-cluster distance. Considering drawing a horizontal line through the dendrogram at the level 0.04, then the vertical cluster lines intersect indicate clusters whose members are close to each other.

There are defined five sub-clusters which are closely related members within the group:

- 355 – This group is defined by those who are less than 24 year old, with minimum income, preferring to pay for online purchases by bank account.
- 358 – This group is defined by those who use Internet rarely, with low formal education, with children.
- 357 – This group is defined by those with high level of incomes, feeling secure about money transactions through Internet, browsing e-commerce sites frequently, sometimes having activities on selling online and often purchasing online.
- 356 – This group is defined by those who did not finish higher education yet, browsing a few e-commerce sites, use for online purchases as payment methods e-banking or Paypal.
- 359 – This group is defined by those who are 25-30 years old, higher educated, preferring to pay for their online purchases by credit card.

The above sub-clusters fulfill the multiple clusters such as 364 (Balkan) and 362 (Baltic). These two multiple clusters subscribe the Y of this research, i.e. the intention to buy online.

In conclusion, the outcome of analysis shows that there are much more variables effecting the intention to buy online in Baltic than in Balkan. Moreover, hierarchical cluster analysis provides more abstract definition for e-shoppers in these two regions.

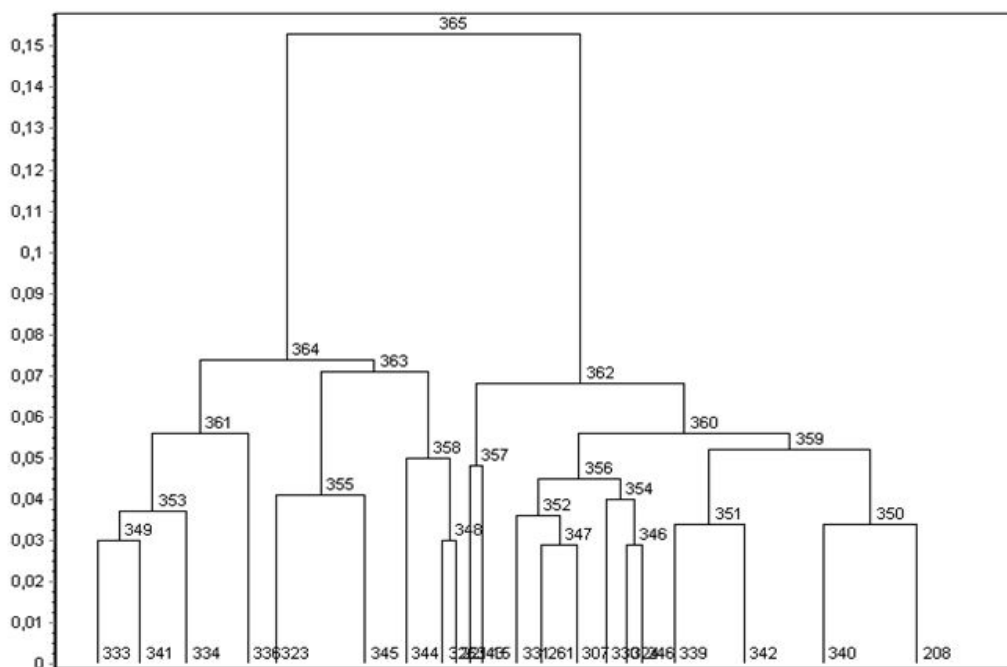


Figure 2. The dendrogram of Hierarchical clusters

According to the results, women in Balkan (364) are native speakers or speaking only one foreign language, never use e-banking, consider e-commerce as not useful, and almost never buying online. Whereas, women in Baltic (362) often or always use e-banking, consider e-commerce as very useful. Moreover, the main reason to purchase online for Baltic women is the economy of time. Further research includes Factor analysis.

The graphic outcome (Figure 3) depicts the relations among variables.

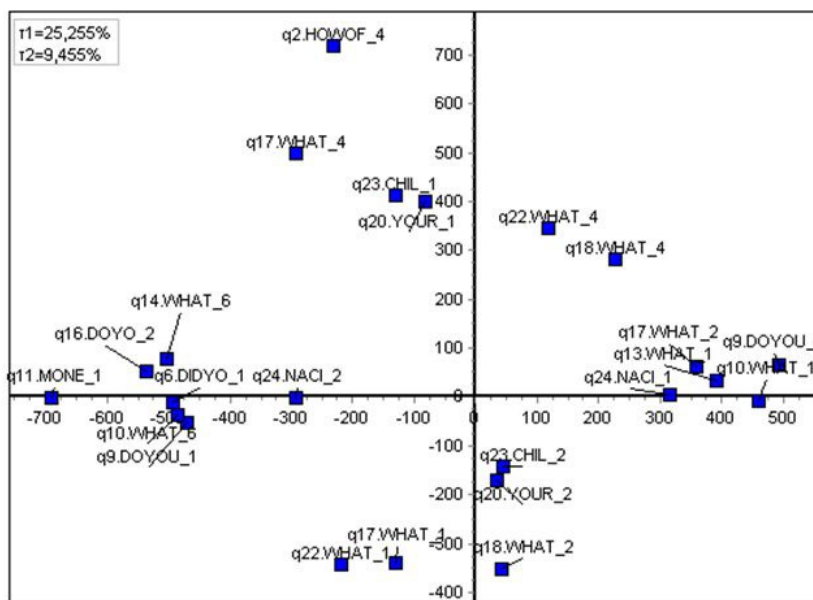


Figure 3. The asymmetric map of related factors

As it is clear from the graph above, there are four main groups of closely related questions in the research. The group in the right indicates the coherence among Baltic region and other variables, whereas, the group in the left presents the relation among Balkan region and other variables. According to the results the most correlated variables with Baltic region are age, the frequency of using e-banking, also e-banking as the most used and preferred payment method. On the other hand, most coherent variables with Balkan region are security of money transactions through Internet, use of e-banking, payment methods used, usefulness of e-commerce, use of e-commerce.

The related groups above and below indicate the coherence among variables such as incomes, use of Internet, marital status, existence of children, education level, thus as it is obvious from the graph, there is no such a strong relation among these variables. That endorses the previous results from descriptive and Chi-square analysis that age, education or incomes do not have an obvious impact on intention to buy online.

5. DISCUSSION - CONCLUSIONS

The overall research reveals that the main factors influencing consumer behaviour in e-shopping are culture, trust in transactions and vendors, usefulness and use of e-banking. On the other hand, contributing factors such as age, education, language and web experience do not have a significant impact on behaviour towards e-commerce in this study.

This research shows that in times of globalisation and cultural assimilation the culture still plays a strong role on consumer behaviour towards new commerce forms. E-commerce as a business form that has no clearly recognized boundaries and, in fact, most of the times is oriented to external markets and strongly dependent on how consumers adopt new applications of business in different regions. Understanding the factors of that influence can help improving the advantages of e-commerce.

The results show that Baltic women buy more than women in Balkans region. The study indicates that culture can influence directly and indirectly the intention to use e-commerce in this region.

The analysis reveals that there is reason to believe that better use of e-commerce is affected by better trust on e-commerce and higher level of treating e-commerce as a useful implication of business in Baltic. This can be explained because individualism also reflects the valuation of practicality, which means that culture indirectly affects the understanding regarding the usefulness of e-commerce. The Balkans as a region with a high level of uncertainty avoidance tends to adopt new technologies slower in comparison to the Baltic due to the fact that uncertainty appears through different typical ways of communication. Subsequently, a high level of uncertainty and risk have an indirect effect on the way that the trust in e-commerce is developed.

Further analysis shows in general women as e-commerce consumers constitute an e-commerce targeted consumer group because according to the results, only 30% of women in both regions have ever used e-commerce. However, the factors influencing the frequency of buying online have still not been examined and explained thoroughly. This is due to the fact that only 4% of women in the relevant regions were active e-commerce consumers. The results also reveal that the majority of women in the Balkans and the Baltic spend small amounts of money on online purchases. This outcome may be explained by the fact that the majority of respondents involved in the study have low incomes.

Consequently, it is shown that the economy of time and money still tend to be the most important reasons to buy online.

Whereas, the question why women in the Balkans are more price sensitive than women in the Baltic is answered. The main reason is that the standard of living is higher in the former than the latter.

Hence, a difference was found between the most used and the most preferred payment methods for online purchases. The analysis indicated that the payment method is influenced by the use of e-banking and indirectly by the culture. The case study revealed that the use of e-banking can improve the use of payment methods which are associated with money transactions through Internet. On the other hand, those individuals who do not use e-banking are still not familiar enough with Internet technologies. They prefer to decrease their risks by choosing payment methods which are more traditional and physically identifiable. In addition, the use of e-banking shows a tendency directly to affect the trust in transactions and indirectly the use of e-commerce. Thus, this research shows that there is no clear association between web experience, age, education and language with the use of e-commerce.

However, there were other findings which could be studied in future work. For example, age does not affect the intention to buy online, although it has a negative relation with the usefulness of e-commerce. In other words, younger respondents consider e-commerce more useful while older respondents consider e-commerce less useful.

Therefore, it is possible that younger women in both regions are more familiar with new technologies and tend to consider e-shopping positively, but due to income constraints or other restrictions, they tend to use traditional ways of shopping.

The aim of this study was to identify the factors that affect the behaviour of consumers as regards e-commerce and to compare two culturally different regions. The main group of factors, such as culture, trust, and usefulness were defined and supported as factors having an impact on the behaviour of consumers in different regions.

However, some factors could not be defined and analyzed in depth because of their qualitative nature. The research shows that such factors as education, age and knowledge of foreign languages could be defined and related with e-commerce with more quantitative data. In this study the weight of each factor on e-commerce use was not considered; future works could include the testing of how factors such as trust, culture and usefulness e-commerce. Nevertheless, some interesting findings emerged regarding the usage of e-banking. The research shows that there is a direct impact on using e-shopping; this outcome provides the reason to include in future work more detailed analysis of how other technologies can influence the use of e-commerce. Thus, such variables as development of e-government or e-learning could be new variables in future work.

The overall research has the limitation that the lack of trust in new technologies or other reasons obstructed the process of collecting data in the Balkans, since most of the women in this region were unwilling to answer the questions.

The cultural tendencies, which were revealed in e-commerce usage, show that future works could include not only the Balkans and the Baltic as representatives of different cultures. Application of the research with the involvement of more European countries from different regions could offer valuable insights as an outcome of future work.

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THE FISCAL REFORMS AND FLAT TAX IN EUROPE AND CEE COUNTRIES

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Abstract: *The aim of this paper is to realize a comparative overview of fiscal reforms and flat tax reform experiences of the new EU Member states which implemented the flat tax for fiscal policy making. In conclusion of this paper, we state that there is little evidence that the good economic performance of these countries after the reform was due to the flat tax itself: this could be attributed to wider macroeconomic recovery, better tax compliance and tax administration as a consequence of EU membership requirements.*

Keywords: European and CEE countries, fiscal reforms, flat tax.

JEL Classification Codes: F36, E62, H21

1. INTRODUCTION

Many fiscal reforms took place in the European area in the last decade, especially in the actual financial crisis context. One form of taxation has attracted a lot of attention over the last years: the flat tax. The debate really started in 1983 following the release of Hall and Rabushka's book on flat tax and was rather US-centred, given the complexity of the US tax code. It regained vigour in the last years in the EU enlargement to post-communist countries that have adopted this system. It should be mentioned that in these countries the introduction of the flat tax was part of a wider package of tax reforms, meant to improve tax compliance and administration. There is a certain irony to the growing popularity of the uniform rate of income tax in countries that were previously run by communist parties. It was Karl Marx who, in his Communist Manifesto of 1848, was among the first to call for "a heavy progressive of graduated income tax", at a time when across the early industrializing states the flat rate was the norm. Subsequently, as capitalist societies become more prosperous, they adopted Marx's demand and introduced higher rates of tax on higher bands of income to finance improved social welfare measures.

For those who see government not as benevolent but rather as inclined to waste and pursue the narrow self-interest of policy makers themselves, adoption of a flat tax can be desirable as a means of restricting the size of government. If government can somehow be restricted to using only a single marginal tax rate, then the amount it can raise will be limited, and so the amount of damage that government can do will be diminished. In the post-

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communist economies, the flat tax has been commonly adopted by new governments anxious to signal a fundamental regime shift towards more market-oriented policies and this signal appears to have been well-received. The economies flourished after the reforms.

The aim of this paper is to realize an overview of fiscal reforms and flat tax reform experiences of the EU Member States which implemented the flat tax and to assess the impact of these reforms for fiscal policy making. In order to attain these objectives, the paper is organized as follows. Section 2 describes the flat tax implementation around the world and presents briefly the arguments and counterarguments in introducing a flat tax based on the experience of the European and CEE countries with the flat tax, focusing on the effects on revenue collection. Section 3 provides the concluding remarks.

2. FISCAL REFORMS IN THE EUROPEAN COUNTRIES. AVANTAGES AND COSTS OF ADOPTING THE FLAT TAX REGIME

In the world, there are now twenty two jurisdictions that have some form of flat tax, but the detailed provisions vary a lot across countries (see Table 1). Most of the new flat tax nations are communist countries, perhaps because people who suffered under communism are less susceptible to class-warfare rhetoric about “taxing the rich”. Among the new EU Member States, Estonia was the first one in introducing a flat income tax reform in 1994, charging 26% on all personal and corporate income with no deductions allowed. The Estonian example was followed by other two Baltic countries, Lithuania (33%) and Latvia (25%). In 2004, Slovakia imposed a flat tax of 19%. Romania’s flat tax, instituted in January 2005, is 16%.

Table 1: Flat taxes on personal income in the world
(at the time of introduction)

Country	Flat tax rate	Year of introduction	Country	Flat tax rate	Year of introduction
Jersey	20% /1	1940	Iraq	15%	2004
Hong Kong	16% /2	1947	Slovakia	19% /7	2004
Guernsey	20% /1	1947	Georgia	12% /10	2005
Jamaica	25%	1980	Romania	16%	2005
Bolivia	10% /4	1986	Kyrgyzstan	10%	2006
Estonia	26% /5	1994	Paraguay	10% /11	2006
Lithuania	33% /6	1994	Macedonia	12% /12	2007
Latvia	25% /6	1995	Iceland	35.73% /13	2007
Russia	13% /7	2001	Mongolia	10%	2007
Serbia	14% /8	2003	Mauritius	15%	2009
Ukraine	13% /9	2004	Tonga	10% /14	n.a.

Source: Rabushka (2007), *The Economist* (2005), Teather (2005), Grecu (2004), Bird (1992).

/1 Applied to personal and corporate incomes for both Jersey and Guernsey. None have VAT. The channels islands do not tax dividends, interest or capital gains. /2 Taxpayers have the choice between being taxed at a 16% flat tax or under a progressive tax system with marginal tax rates ranging from 2 to 20%. Hing King does not tax dividends, wealth, and capital gains and has no VAT, sales or payroll tax. /3 Accompanied by a 24% corporate tax rate. /4 Capped at £ 250,000, making it therefore regressive as soon as revenues reach £ 1,250,000. From 2007, the corporate tax rate is reduced to zero. /5 With no basic allowance. /6 13% since 1992. The tax base is all income (wages, salaries, rentals, interest, royalties, etc.),

except foreign-income and capital gains which remain tax-free. There is also a general allowance equivalent to two (previously four) monthly minimum wages (this minimum wage is about Bs 240 or USD 45). The system is designed to fight VAT fraud, so that individuals can offset against this tax the VAT paid, provided they have invoices or receipts. /7 Reduced to 24% in 2005, 23% in 2006, 21% in 2007, 20% in 2008. Estonia has a zero corporate tax rate on retained earnings but taxes distribution (mainly dividends) at 21%. This is accompanied by a general non-deductibility of interest payments./8 VAT paid is tax deductible. /9 Both Lithuania and Latvia's corporate tax rates are set at 15% in 2007. /10 10% from 2008. /11 15% in 2007./12 Corporate tax rate is at 18% and capital income taxed at 10% under a Dual Income Tax System. /13 Accompanied by a 24% corporate tax rate. /14 On both corporate and personal incomes. /15 15% since 2007. /16 Above 2,500 USD. The date of implementation is unknown. The following countries have no tax on personal income: Andorra, the Bahamas, Bahrain, Bermuda, Burundi, Cayman Islands, Kuwait, Monaco, Nigeria, Oman, Qatar, Saudi Arabia, Somalia, United Arab Emirates, Uruguay and Vanuatu.

The proponents of the flat rate income tax reform put forward several arguments in favor of this fiscal system (Saavedra *et al.* 2007):

- reduces the complexity of the tax system and thus administrative costs;
- creates incentives – through lower and simpler rates and clearer rules – for accurate reporting of income and consequently higher compliance by taxpayers;
- lowers marginal tax burdens, creating incentives for investment and saving;
- reduces inefficiencies in the economy by avoiding double taxation and reducing tax-induced distortions in investment behavior;
- promotes labor force participation, including for individuals in higher income brackets that may also have higher skills.

Besides the above mentioned issues, the other most significant legal incentive offered to direct investment towards Romania is the single tax reform, introduced by the Government at the beginning of 2005. This modification brought Romania among the most competitive investment destinations in the region. Starting with 2005, following a successful model already introduced by other countries in the region, corporate and individual incomes are levied with a single tax rate of 16%.

Nevertheless, companies have the possibility of choosing to pay tax on incomes of micro-enterprises, if they qualify as such an entity (annual turnover up to EUR 100,000, number of employees between 1 and 9 and should derive more than 50% of its income from activities other than consultancy and management). Under this regime, a 2.5% in 2008 and 3% in 2009 income tax is applied to revenues of the company.

In spite of the advantages of the new single tax system, its downside appeared already six months later. In order to counter the lower taxes collected on corporate and individual income, the Government was forced to raise quotas for other taxes, such as: tax on dividends (from 5 to 10% for individuals, and subsequently to 16%), tax on capital gains (from 1 to 10%, and then 16%). However, presently, the Romanian single tax rate is competitive compared to the other countries levels of taxation. To date, the following countries have introduced flat tax regimes (Table 2).

Table 2 Flat tax regimes in CEE region

Some countries that adopted flat tax regimes		
Country	Rate (%)	Year of enactment
Albania	10	2008
Bulgaria	10	2008
Czech Republic	15	2008
Estonia	21	2008
Latvia	25	1995
Lithuania	24	2008
Macedonia	10	2008
Romania	16	2005
Russia	13	2001
Slovakia	19	2004
Slovenia	21	2008

Source: Different national reports and other Internet sources

Taxes on business play an important role for attracting investors. So, according to a European Commission, in the EU member states, the tax on profit ranges between 10-35% and VAT is between 15 and 25%. EU states with a low tax on profit are: Ireland with 12,5%, Lithuania and Latvia with 15%, Bulgaria and Cyprus with 10%. Romania has a 16% tax on profit. Next are Slovakia and Poland with 19%. The highest tax on profits is in Belgium (34%), France (34,4%) and Malta (35%). A high tax on profit of 29,8% is in Germany, Spain (30%), Italy (31,4%), Luxembourg (28,8), Portugal (29%), Norway (28%), UK (27%). Then Finland follows with 26%, and Sweden (26,3%), Austria (25%), Netherlands (25%). Summing, it appears that the economically developed states tax the profit higher, but this frame is supported by conditions that facilitate the access of the companies to this final stage of results. Regarding the tax on companies profit in Romania, we have to mention that beside the flat tax of 16%, the fiscal code grants to micro-entrepreneurs the possibility of opting for a tax on the total income. For 2007, this tax was of 2%, it increased to 2,5% in 2008 and in 2009 to 3%.

The causes of high budget and current account deficits in CEE region are explained by excessive expenses generated by a lax monetary or fiscal policy. The economic literature shows that in developed countries, with opened economies, both deficits arise as a result of an expansionist fiscal policy, the current account deficit being explained 50% by the diminishing of the share of budgetary incomes of GDP (Botman and Kumar, 2006).

We underline that nine of the ten ex-communist states that are now members of EU, are in the top of the countries with low tax on profit, under a level of 20%. This situation can be a positive signal for the investors that came late in these countries, because of their political regime. The impact of the fiscal frame can be best observed in attracting foreign investments. That is why there were so many critics to Romania when the flat tax was adopted here. The foreign investments were also stimulated in Romania by this flat tax on revenue and on profits of 16% starting with 2005. The value of the FDI inflows in Romania in 2005-2006 was with 70% higher than in the previous year, reaching over 9 billion euro. This amount includes the acquisition of 36,8% of the shares of BCR by Erste Bank (2,2 billions euro). Equity participation were the main component of the FDI inflows in Romania (45,1% of the total FDI), followed by the inter-group loans (33,3% of the total FDI) and the reinvested earnings (21,5% of the total FDI).

Still, in 2007, the FDI inflows in Romania decreased with 43% comparing to 2006. The main component of FDI inflows in Romania was represented by reinvested earnings (48,2% of the total FDI), followed by inter-group loans (39,6% of the total FDI) and the equity participations (only 12,1% of the total FDI). During 2008-2010, FDIs in Romania decreased significantly, because of the crisis and the investors' lack of confidence and prudence.

The FDIs amount decreased also because of the competitor markets. Bulgaria and Hungary are two of the neighbor countries that hold some advantages into attracting investors. The tax on profit is one example. In Romania its level is 16%, while Bulgaria has a level of 10% and Latvia and Lithuania with 15%. As far as Serbian fiscal incentive measures are concerned it is important to emphasize that the tax on profit in Serbia is 10% from 2007, which represents one of the lowest rates in the region and it is far lower than EU average. Still, regarding VAT, Romania doesn't hold an advantage against its main competitors in the region. Only Hungary in the CEE region has a VAT of 25%, while Romania increased VAT to 24% from 19% in the crisis context. Moreover, comparing to European developed countries, Romania has one of the highest VAT in Europe. Only Denmark and Sweden (that are highly developed and with high life standard) have a VAT similar to the Romanian one (25%).

EU legislation for VAT stipulates the basic principles, but leaves the member states some options. The EU member states that have a VAT below 20% are: France with 19,6%, Germany (19%), Spain (18%), Cyprus and Luxemburg (15%), Malta (18%), Netherlands (19%). Bulgaria, Czech Republic, Estonia, Italy, Austria, Slovenia, Slovakia and UK have a VAT of 20%. EU member states that have the lowest VAT of 15% are Cyprus and Luxemburg, according to European Commission - VAT rates (2011). The other countries with a VAT that overcomes 20% are: Belgium, Denmark, Greece, Portugal, Ireland, Latvia, Lithuania, Hungary, Poland, Romania, Finland and Sweden (21-25%). The higher level of VAT, of 25%, is in three EU member states: Denmark, Sweden and Hungary.

We have to mention that there are still states that have also super reduced levels of VAT for some products, even though the EU opinions converge to eliminating this special regime applied to some products (Spain – 4%, France – 2,1%, Ireland – 4,8%, Italy – 4% and Luxemburg – 3%), namely food products, books, pharmaceuticals, TV license, supply of new buildings. Also, there is a 0 VAT level, mainly used in UK for social housing or for collection of domestic waste and street cleaning, for talking books for persons with handicap, although EU makes efforts for eliminate this 0 VAT level. There are also exemptions of VAT paying mainly for TV license, social services, medical and dental care in many European countries.

However, a country's competitiveness is determined by a number of other factors besides the tax system. It is clear that investment and savings behavior may depend on economic drivers that go well beyond this limited reform. Flat taxes are usually lower taxes. While it is generally true that lower taxes leave more money to circulate and thus to be invested, and that flat rates generally increase the citizens' willingness to pay their taxes, lower taxes may also mean lower tax revenues, which in turn may be detrimental to the given state's budgetary status. Flat taxes are attractive because of their transparency and simplicity in administration. Transparency is indeed an interesting feature, notably because each worker knows about his marginal tax rate, which is something more difficult to assess in a progressive tax system. Nevertheless, in practice, the effective tax on labor income also depends on the pattern of social insurance contributions (Carone *et al.* 2007). Even in countries having a flat tax rate, the effective labor tax schedule is far from flat (see Table 3), especially if social security contributions are considered. Even where flat tax is levied at a low rate, the overall effective rate of tax on labor income may be quite high. Flat tax may also have negative effects on equity. Keen *et al.* (2006) find that the distributional impact of the flat tax reforms is commonly quite complex, and by no means unambiguously adverse for some of the least well-off. Romania has the lowest labor tax rate in the CEE region, followed by Bulgaria and Latvia. Moreover, Romania has one of the lowest labor tax rates in the EU-27. Cyprus, Malta, Portugal, Ireland and UK have low labor tax rate, below 30% and close to

the Romanian level. But Romania has also one the lowest share of tax revenue of GDP (27%), among Latvia (26,6%), Ireland (28,2%), Slovakia (28,8%), Bulgaria (28,9%) and Lithuania (29,3%).

Table no. 3

Tax revenue and implicit tax rates by type of economic activity

	Tax revenue, % of GDP			Implicit tax rate ^a on:								
				Labour			Consumption			Capital		
	2000	2008	2009	2000	2008	2009	2000	2008	2009	2000	2008	2009
EU27**	40.5	39.3	38.4	35.7	33.8	32.9	20.8	21.4	20.9	25.0	25.3	24.6
EA17**	41.1	39.7	39.1	34.5	34.0	33.5	20.4	20.7	20.4	25.1	25.2	24.7
Belgium	45.2	44.4	43.5	43.6	42.5	41.5	21.8	21.2	20.9	29.6	32.6	30.9
Bulgaria	31.5	32.3	28.9	38.1	27.4	25.5	18.5	24.9	21.4	:	:	:
Czech Republic	33.8	35.5	34.5	40.7	39.2	36.4	19.4	21.1	21.6	20.9	19.8	19.3
Denmark	49.4	48.1	48.1	41.0	36.2	35.0	33.4	32.6	31.5	36.0	43.4	43.8
Germany	41.9	39.4	39.7	40.7	39.2	38.8	18.9	19.7	19.8	28.4	23.0	22.1
Estonia	31.0	32.1	35.9	37.8	33.7	35.0	19.5	21.1	27.6	6.0	10.5	14.0
Ireland	31.5	29.7	28.2	28.5	25.3	25.5	25.5	23.3	21.6	:	16.3	14.9
Greece	34.6	31.7	30.3	34.5	32.2	29.7	16.5	14.8	14.0	19.9	:	:
Spain	33.9	33.2	30.4	30.5	33.1	31.8	15.7	14.1	12.3	29.9	31.7	27.2
France	44.1	42.9	41.6	42.0	41.5	41.1	20.9	19.1	18.5	38.4	38.1	35.6
Italy	41.8	42.9	43.1	42.2	43.0	42.6	17.9	16.5	16.3	29.5	35.6	39.1
Cyprus	30.0	39.1	35.1	21.5	24.7	26.1	12.7	20.8	17.9	:	:	:
Latvia	29.5	29.1	26.6	36.6	28.5	28.7	18.7	17.4	16.9	11.2	17.0	10.3
Lithuania	30.1	30.2	29.3	41.2	32.7	33.1	17.9	17.6	16.5	7.2	12.7	10.9
Luxembourg	39.1	35.3	37.1	29.9	31.7	31.7	23.0	27.3	27.3	:	:	:
Hungary	39.0	40.0	39.5	41.4	42.1	41.0	27.5	26.6	28.2	17.1	18.6	18.8
Malta	28.2	33.9	34.2	20.6	19.6	20.2	15.9	19.3	19.5	:	:	:
Netherlands	39.9	39.1	38.2	34.5	36.2	35.5	23.8	26.9	26.2	20.7	16.6	15.4
Austria	43.2	42.6	42.7	40.1	41.3	40.3	22.1	21.6	21.7	27.7	26.5	27.0
Poland	32.6	34.3	31.8	33.5	32.6	30.7	17.8	21.1	19.0	20.5	22.8	20.5
Portugal	31.1	32.8	31.0	22.3	23.3	23.1	18.2	18.0	16.2	31.3	37.5	33.8
Romania	30.2	28.0	27.0	33.5	27.3	24.3	17.0	17.7	16.9	:	:	:
Slovenia	37.5	37.2	37.6	37.7	35.9	34.9	23.5	23.9	24.2	15.7	21.7	21.0
Slovakia	34.1	29.2	28.8	36.3	33.1	31.2	21.7	18.7	17.3	22.9	16.9	17.1
Finland	47.2	43.1	43.1	44.0	41.4	40.4	28.5	26.0	25.7	36.4	28.0	29.9
Sweden	51.5	46.5	46.9	46.8	41.2	39.4	26.3	27.8	27.6	42.8	26.2	33.5
United Kingdom	36.7	37.5	34.9	25.6	26.4	25.1	18.9	17.5	16.8	44.0	44.7	38.9
Norway	42.6	43.0	41.4	38.3	37.1	37.6	31.2	29.4	28.9	41.1	43.6	37.8
Iceland	37.1	36.7	33.7	:	:	:	27.1	26.2	24.3	:	:	:

^a Implicit tax rates (ITR) express aggregate tax revenues as a percentage of the potential tax base for each field (see footnote 7).

** EU27 and EA17 overall tax ratios are calculated as GDP-weighted average of the Member States. For ITRs the aggregates are calculated as arithmetic averages of the Member States and adjusted for missing data. For the ITR on capital, EU27 aggregate excludes Bulgaria and Romania.

: Data not available

Source: European Commission, 2011.

Let us explore the experience of some EU members with the flat tax and its implementation effect on revenue collection. Table 4 presents the tax on personal income (PIT) and corporate income tax (CIT) in the EU members and then, we will focus on the experience of CEE countries, new EU member states.

Table no. 4
Top statutory income tax rates, %

	Tax on personal income				Tax on corporate income			
	2000	2010	2011	Difference 2000-2011	2000	2010	2011	Difference 2000-2011
EU27*	44.7	37.6	37.1	-7.6	31.9	23.3	23.2	-8.7
EA17*	47.1	41.4	41.8	-5.3	34.4	25.6	25.5	-8.9
Belgium	60.8	53.7	53.7	-8.9	40.2	34.0	34.0	-8.2
Bulgaria	40.0	10.0	10.0	-30.0	32.5	10.0	10.0	-22.5
Czech Republic	32.0	15.0	15.0	-17.0	31.0	19.0	19.0	-12.0
Denmark	59.7	51.5	51.5	-8.2	32.0	25.0	25.0	-7.0
Germany	53.8	47.5	47.5	-8.3	51.6	29.8	29.8	-21.8
Estonia	26.0	21.0	21.0	-5.0	26.0	21.0	21.0	-5.0
Ireland	44.0	41.0	41.0	-3.0	24.0	12.5	12.5	-11.5
Greece	45.0	45.0	45.0	0.0	40.0	24.0	23.0	-17.0
Spain	48.0	43.0	45.0	-3.0	35.0	30.0	30.0	-5.0
France	59.0	45.8	46.7	-12.3	37.8	34.4	34.4	-3.4
Italy	45.9	45.2	45.6	-0.3	41.3	31.4	31.4	-9.9
Cyprus	40.0	30.0	30.0	-10.0	29.0	10.0	10.0	-19.0
Latvia	25.0	26.0	25.0	0.0	25.0	15.0	15.0	-10.0
Lithuania	33.0	15.0	15.0	-18.0	24.0	15.0	15.0	-9.0
Luxembourg	47.2	39.0	42.1	-5.0	37.5	28.8	28.8	-8.7
Hungary	44.0	40.6	20.3	-23.7	19.6	20.6	20.6	1.0
Malta	35.0	35.0	35.0	0.0	35.0	35.0	35.0	0.0
Netherlands	60.0	52.0	52.0	-8.0	35.0	25.5	25.0	-10.0
Austria	50.0	50.0	50.0	0.0	34.0	25.0	25.0	-9.0
Poland	40.0	32.0	32.0	-8.0	30.0	19.0	19.0	-11.0
Portugal	40.0	45.9	46.5	6.5	35.2	29.0	29.0	-6.2
Romania	40.0	16.0	16.0	-24.0	25.0	16.0	16.0	-9.0
Slovenia	50.0	41.0	41.0	-9.0	25.0	20.0	20.0	-5.0
Slovakia	42.0	19.0	19.0	-23.0	29.0	19.0	19.0	-10.0
Finland	54.0	49.0	49.2	-4.8	29.0	26.0	26.0	-3.0
Sweden	51.5	56.4	56.4	4.9	28.0	26.3	26.3	-1.7
United Kingdom	40.0	50.0	50.0	10.0	30.0	28.0	27.0	-3.0
Norway	47.5	40.0	40.0	-7.5	28.0	28.0	28.0	0.0
Iceland	:	46.1	46.1	:	30.0	18.0	20.0	-10.0

* Arithmetic average
: Data not available

Source: European Commission, 2011.

The tax rates applied to the PIT and CIT vary significantly in the five CEE countries. The lowest rate for the CIT in CEE region is 10 percent in Bulgaria, followed by the Latvia and Lithuania with 15 percent and, than, Romania with 16%. On the other hand are CEE countries with 19% CIT (Czech Republic, Slovakia, Poland), 20% (Slovenia), 20,6% (Hungary) and the highest CIT is in Estonia (21%). Romania, Bulgaria, Hungary, Estonia, Lithuania and the Slovak Republic have a flat rate at the same level for the PIT and the CIT and they are also the countries with the lowest PIT in CEE region. The large differences in rates in this group of countries may reflect in part the timing of the reforms. The Baltic countries applied the flat tax in a period of tight fiscal constraints in the mid-1990, and the danger of having a drop in revenues pushed the authorities toward higher rates. On the other

hand, the countries which introduced the reforms from 2004 onward, enjoyed higher rates of economic growth and better fiscal balances at the time of implementation (Lane and Varoudakis, 2007).

We will briefly describe in turn the particular aspects of each CEE country considered for flat tax regime adopted, comparing the present rates with the former progressive rate schedule. This is helpful in understanding the intended goals of policy makers. Moreover, looking at the previous tax systems helps to observe the potential gains in simplicity of a flat rate, especially with the PIT (Tache, 2008).

Estonia - It is the first post-communist country adopting a flat tax system at a rate of 26 percent, which is approximately midway between the lowest and highest pre-reform marginal rates. The initial rate has been lowered since, being settled to 21 percent in 2009. The personal allowance was increased substantially at the time of introduction of the flat tax: from EEK 2,400 to EEK 3,600, although inflation was then such that this represented only a modest increase in the allowance in real terms. The CIT, previously 35 percent, was also set at 26 percent, and then to 21% and the labor income tax has remained aligned to 35%. The best known feature of the Estonian approach to corporate taxation, however, was not part of the flat tax reform, being adopted only in 2000: since then, undistributed profits have been taxed, with distributions taxed at the regular flat rate. There appears to have been no substantial change to VAT or the excises at the time of adopting the flat tax. In 2000, the VAT was 18% until 2008, then it rise to 20%.

Lithuania - The flat tax introduced in 1994 was 33 percent – the highest of the marginal rates imposed prior to the reform. The threshold was largely increased, from LTD 35 to LTD 115 (more than doubling relative to GDP, though still reaching only a very modest 2.6 percent of per capita GDP). The CIT was maintained at 24 percent for a while. The PIT has remained unchanged since 1994, at 33% and then reduced at 15% just like the CIT. The previous general excise tax, which had operated much as a VAT, was transformed into a full VAT at the time of the flat tax implementation, with the rate remaining at 18 percent, in 2009 was increased at 19%, and then, after 2010 was settle at 21%; a new excise tax law was also introduced, and the rates of the excises on gasoline, diesel and beer were increased in late 1994/early 1995.

Latvia - Latvia introduced its flat tax in 1997 at the rate of 25 percent. The year before the reform Latvia had an unusual degressive rate structure (under which the marginal rate falls with income), with a starting marginal rate of 25 percent followed by a marginal rate of 10 percent on the highest incomes. The adoption of the flat tax in Latvia thus resulted in increased tax liability at the very highest incomes. The value of personal allowances was slightly reduced, but remained high (at around 19 percent of per capita income). CIT was 25 percent prior to reform and was maintained at this level a long time, but it decreased at 15% in 2010-2011, PIT has almost the same level (25%) as it has in 2000, and the labor income rate is now 28,9%. So, those taxes have diverged, with the CIT now set at 15 percent. Dividend and interest income were, and continue to be exempt. There seem to have been no important changes to the VAT or excises like in Estonia – during 2000-2008 it was 18%, then rise to 21% and in 2011 it is 22%.

Slovak Republic - The major tax reform of 2004 adopted a single common rate of 19 percent for the PIT, CIT and VAT. This replaced a PIT schedule of five non-zero marginal rates ranging from 10 to 38 percent (with five other rates applying to specific types of income). The personal allowance was more than doubled, from SK 38,760 to SK 80,832,

while the spouse allowance increased almost sevenfold, from SK 12,000 to the same value as the personal allowance. Income-related tax allowances for children were replaced by fixed allowances and a refundable tax credit for those with sufficient labor market participation. The reduction of CIT, previously at 29 percent in 2000, and then at 25% in 2004, was accompanied by more rapid depreciation and more generous carry-forward provisions. The dividend tax – 15 percent final withholding, prior to reform – was abolished, along with the inheritance and gift taxes. The income tax reform included important scaling back of exemptions, under both the PIT (for example: the removal of some allowances for interest and capital income, additional private pension contributions and exemptions for soldiers and judges) and the CIT (for example: tax holidays for newly established firms, with limits also placed on the deductibility of charitable giving and tighter rules for provisioning and reserves.). The aggregate social security tax was reduced from 51 to 48.6 percent, with the revenue effect, in part, offset by increasing contribution ceilings.

Romania - The fiscal reform introduced in January 2005 is strongly associated with the flat tax in the public's mind. In fact, two major changes were operated:

- a) On the personal income tax progressivity was eliminated and a 16% flat rate replaced the previous complex system with five brackets between 18 and 40 percent.
- b) On the corporate profit, where the rate was already flat, the percentage was simply reduced from 25% to 16%.

A number of additional sources of personal revenue, which were previously taxed separately and very lightly (for example, 1% on capital market gains), were included in the taxable base. In general, the logic was to broaden the base and reduce the general rate, in order to ensure more horizontal fiscal equity. The monthly basic personal allowance was raised modestly in real terms. The CIT was also reduced from 25 to 16 percent. Dividends paid to individuals, interest income and capital gains were subject to final withholding taxes at lower than the flat rate, but since 2006 have also been subject to the flat 16 percent. The two rates of VAT (19 and 9 percent) remained unchanged until 2010 when the government increased VAT at 24%, but, later in 2005, several relatively minor exemptions (in relation to entertainment services, for example) were eliminated, and excises increased.

3. CONCLUSIONS

The following remarks can be derived from the present analysis:

1. Generalizations are difficult, given the diversity of reform design.
2. The potential gains are uncertain and depend critically on the details of the reform.
3. In general, the flat tax reforms have been associated with a reduction in revenue from the PIT.
4. Tax policy in other areas may need to be adjusted as a safeguard against some drop in revenues in the PIT and CIT. For instance, if the government intends to shift the burden from direct taxes to indirect ones, tax policy and administration for the VAT and excises should be strengthened before or in tandem with a flat income tax reform.
5. Success in improving PIT collection depends in part on complementary reforms in social insurance and contributions. High marginal rates of pay-roll taxes can be a major obstacle to improved PIT collection after the reform.

In conclusion, there is little evidence that the good economic performance of these countries after the reform until the crisis period was due to the flat tax itself: this could be attributed to wider macroeconomic recovery, FDIs inflows, better tax compliance and tax administration as a consequence of EU membership requirements.

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FACTORS AFFECTING CONSUMERS' PURCHASING BEHAVIOUR TOWARDS LOCAL FOODS IN GREECE: THE CASE OF THE PREFECTURE OF XANTHI

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Abstract: *This paper aims to identify the factors that affect consumers purchasing behaviour towards locally produced food in Greece and more precisely in the Prefecture of Xanthi. Field interviews conducted in a random selected sample consisted of 100 consumers in February of 2011. Multivariate statistical analysis performed to identify consumers behaviour toward local products. In particular, principal components analysis (PCA) was conducted in order to identify the factors that affect people in preferring locally produced food. The factors that influence people in the Prefecture of Xanthi to buy local food products are: (a) the topicality of the products, (b) quality and health issues, (c) appearance, (d) freshness and taste issues (e) curiosity and prestige. Furthermore, cluster analysis was employed to classify consumers with similar buying behaviour, and identified 2 groups of consumers: (a) those are influenced by curiosity, prestige and freshness of the product and (b) those are interested in the topicality of the product. Discriminant analysis was performed to assess how the identified factors derived from PCA could predict cluster membership. Non parametric statistical bivariate techniques were performed to profile the identified group of consumers regarding their personal characteristics and some other factors affecting their consuming behaviour.*

Keywords: Consumer behaviour, Local Food, Consumer preferences.

JEL Classification Codes: D03, Q18

1. INTRODUCTION

In this study the author tried to approach and record the attitudes of consumers in local products, if it is the fact that Greece in recent years is undergoing a difficult financial time and it has been observed a shift of consumers in local products which are superior compared to the mass products.

Booth and Shepherd (1988) argued that cultural and economical factors, consumer's personality, attitudes, values and emotions, affect consumers' decision making process regarding food selection. Many years later, Steenkamp (1996) identified that biological, psychological and socio - demographical consumer's characteristics, marketing of the product, economic and cultural environment affect consumers' purchasing decisions. Kotler (1994) identified that consumers buying behaviour is influenced by cultural, social, personal and psychological factors.

Food quality characteristics, the high importance given by consumers in diet and health issues, price, governmental actions, cultural factors, distribution channels and the dominance of the supermarket chains also affect consumers buying behaviour within E.U countries (Murray *et al.* 1996; Allen 1997; Davies *et al.* 2000; OECD 2000, Tsourgiannis 2008). Furthermore, religious prohibitions, cultural beliefs and counterculture attitudes have a significant influence on Greek consumers purchasing decisions towards food products together with the social characteristics of the consumers, included the size of the family and the role of the head of the family (Michalopoulos and Demoussis 2001; Sdrali and Apostolopoulos 2002; Lazaridis 2003).

A brief synthesis of the studies reveals that the origin label is an important source of value added to European agri-business. Indeed, some authors (Aaker, 1991) even suggest that the origin attribute confers a benefit similar to 'brand image', or may even act as a barrier to entry to potential competitors wishing to replicate the 'original' good (Thienes, 1994). Accordingly, other research suggests that consumers are often willing to pay a price premium for origin labels (Louriero and McCluskey, 2000; Fotopoulos and Krystallis, 2002). Skuras and Dimara (2005) identified three sets of elements of the regional resource base that contribute towards consumer-constructed regional images-namely, factors related to nature and the environment; factors related to history, tradition and heritage; and amenity experiential factors.

Greek economic crisis proved to be detrimental to small traders in the country, it brought along a lot of protests and civil unrest, but there is one positive effect - Greeks began to seek and prefer local over imported goods. To this conclusion came the specialized edition of Marketing Week, which analyzes the change in marketing strategies and consumer preferences after the economic collapse a year ago.

This study examines the attitudes of the consumers towards local products in the Prefecture of Xanthi (that is an elected regional division in Greece) as within this region many local products are produced. The author wanted to examine the consumers' attitudes in this region as the recent years the Greece passes throughout an economic crisis, and it is important to explore what are the impact of this crisis to the local economy and production of an elected region as the prefecture of Xanthi.

2. METHODOLOGY

2.1 The Conceptual Model

In this study, a conceptual model aims to place the key concepts in the literature review into an identifiable framework, which is illustrated in the Figure 1 below. In particular it tries to investigate the relationships between the factors that affect the consumers' attitudes towards the purchase of local products and the development of key strategic dimensions that may influence consumers' attitudes towards local products, their will to pay more for local products, their personal characteristics and the adoption of particular consumption behaviour.

2.2 Hypotheses and Operationalisation

The aims of a research should be turned into operationalised aims, which are the hypotheses to be investigated (Oppenheim 2000). Thus, when a conceptual model is operationalising the hypotheses asserts the relationships between the setting variables.

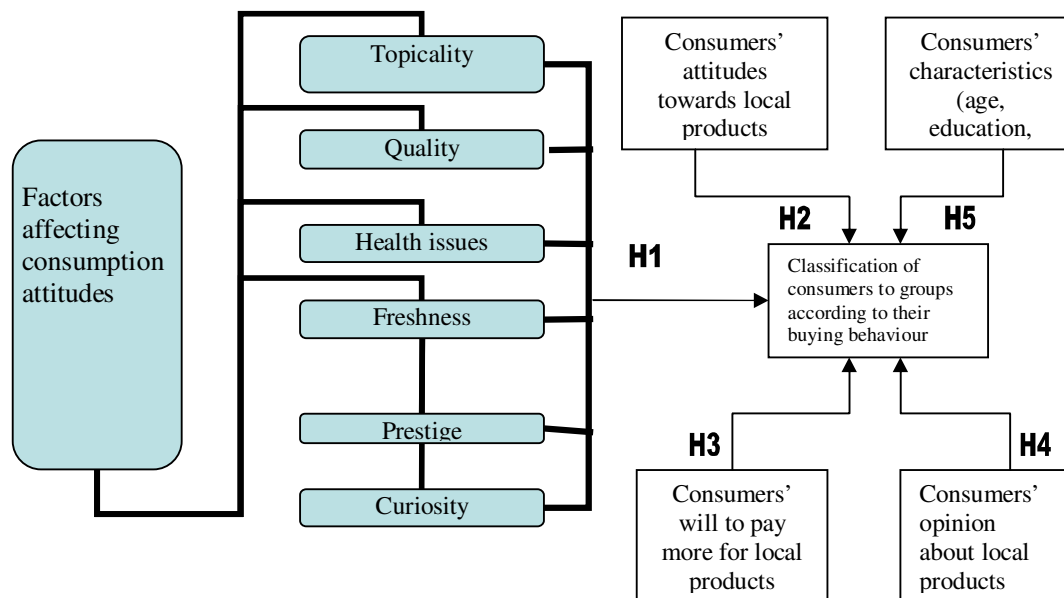


Figure.1: The Conceptual Model

In the conceptual level of this research the hypotheses that are investigated are the following:

H1: Consumers in the Prefecture of Xanthi can be classified into groups according to the factors that affect their purchasing behaviour towards local products.

H2: Consumers' attitudes towards the existence of a common label within the E.U for food products that will be local are significant related to particular purchasing behaviour.

H3: Consumers' willingness to pay more for local products are significant related to particular purchasing behaviour.

H4: Consumers' opinion about local products is significant related to particular purchasing behaviour.

H5: Consumers' personal characteristics are significant related to particular purchasing behaviour.

2.3 Survey Procedure

The researcher undertook a survey of sample of consumers to gather data necessary to identify the factors that affect consumers buying behaviour in the Prefecture of Xanthi towards local products. Hence, the researcher focuses on sample of Greek consumers, purchasers of local products.

Information were gathered through an interview survey as the consumers in the Prefecture of Xanthi are familiar with this kind of research and their educational level is

suitable for the use of this kind of survey method. Additionally, the cost of conducting large postal or telephone survey to develop a typology was considered prohibitive. Furthermore, as many consumers do not have an internet access, the electronic survey methods was not suitable for surveying a representative to a general population sample.

An effort was made to reach consumers at the same time and place where actual purchase decisions are made hoping to better elicit consumers' true preferences about the products. Data were collected in locations frequented by consumers such as supermarkets, groceries, open markets in the city of Xanthi. Interviews took place throughout the day to reduce time of shopping related bias (Chrysohoidis and Krystallis 2005). Hence, one quarter (25%) of interviews were conducted between 9:00 - 15:00 during the week (Monday-Friday), one quarter between 15:00 - 21:00 during the week and 50% during Saturday (9:00 – 19:00). All the respondents were aged above 20.

In this survey, a random selection of consumers was chosen to form the sample due to the fact that the author wished to generalise their finding beyond the sample of consumers covered by the survey. As Errington (1985) argued the only way in which this can be achieved is to ensure that the units for survey are selected at random from the larger population about which generalization are to be made. Therefore, consumers were selected randomly, with the criterion that the interviewer was to solicit every sixth customer who came into the survey area (McCluskey et. al., 2003). The sample that was selected consists of 100 consumers which would be reasonably representative of some larger population about which useful generalization could be made. The size of sample is detailed Table 1:

Table 1: Description of the sample

Prefecture	Number of consumers >20 years old (census data) ²	Sample	Proportion of the Sample to the total population
Xanthi	73,850	100	0.14%

²Compiled data from ESYE (2010)

In order to establish the representatives of the surveyed sample, demographic information from the questionnaire is compared with census information of the population of the Prefecture of Xanthi following the methodology that Errington (1985), Tsourgiannis et. al. (2006), Tsourgiannis (2008), Chen (2007), and Tsourgiannis et. al. (2008) used in their studies. The sample comprises the 0.14% of the total population and is reasonable representative of them as all the characteristics of the sample do not differ from those of the total population based on Census data.

2.4 Questionnaire Design

Factors that affect the consumers' behaviour towards local products were identified by the researchers after searching the literature. Furthermore they designed a questionnaire in order to meet the research objectives pre-tasted it in academics, food marketing experts and consumers. In the next stage the questionnaire was piloted in November 2010 to 40 consumers of the prefecture of Xanthi. The pilot survey indicated that no modification needed to the questionnaire and therefore the main survey was conducted in December of 2010 and January of 2011.

The questionnaires were designed in five parts:

Part 1 – This part consists of 3 questions regarding consumers' knowledge about local products.

Part 2 – This part consists of 24 attitudinal statements on a 3 point liker scale relating to their buying behaviour.

Part 3 - This part consists of 25 attitudinal statements on a 5 point liker scale relating to their buying behaviour and these questions covered areas such as price, quality, ingredients, taste, advertisement.

Part 4 – This part consists of 2 questions related to consumers' opinion regarding local products, consumers will regarding paying more for a local product.

Part 5 – This part consists of 7 questions regarding consumers' personal information including age, education, marital status, number of children, occupation.

2.5 Statistical Methodology

Multivariate analysis techniques were used to the 100 consumers that buying local products to reveal the key information contained in the responses, and these analyses were applied in three stages. First, principal component analysis (PCA) was used to identify the variables that accounted for the maximum amount of variance within the data in terms of the smallest number of uncorrelated variables (components)¹.

In this study, PCA reduced the 17 keys attitude variables, which relate to various aspects of consumers behaviour towards local products, to a smaller set of underlying factors (or consumption dimensions)². Factor analysis enables scores to be calculated for each underlying factor, and these are substituted for the original variables. These factors score were then subjected to cluster analysis to group consumers with similar patterns of scores into similar clusters based on their buying behaviour^{3,4}.

Statistical tests based on the outcomes of the multivariate statistical techniques presented above (factor, cluster and discriminated analysis) are used to test five hypotheses presented in previous section.

3. RESULTS

Description of the consumers' buying behaviour towards local products

Principal components and factors analyses (through a varimax rotation) were conducted, and the latent root criterion (eigenvalue = 1), the scree plot test and the percentage of variance

¹ The anti-image correlation matrix was used as well as Bartlett's test of sphericity and measure of sampling adequacy (MSA) in order to check the appropriateness of the data for the subsequent factor analysis. The variables that had a high proportion of large absolute values of anti-image correlations as well as MSA less than 0.5 were removed before analysis.

² An orthogonal rotation (varimax method) was conducted and the standard criteria of eigenvalue =1, scree test and percentage of variance were used in order to determine the factors in the first rotation (Hair et. al. 1998). Different trial rotations followed where factor interpretability was compared.

³ In this study, both hierarchical and non-hierarchical methods were used according to the recommendations of Hair et. al.(1998) and Punj and Stewart (1983) in order to develop a typology of the consumers' buying behaviour.

⁴ A non-parametric Kruskal-Wallis one way ANOVA was conducted to validate the cluster solutions by examining if variables not used in cluster analysis differ significantly among the identified clusters.

were used to determine the number of factors. The latent root criterion (eigenvalue = 1) and the scree plot test (figure 3) suggested that there were 5 factors in the first rotation.⁵ Moreover, factor analysis identified five factors which explained the 66.729% of the total variance (Table 2)

Table 2: Results of principal Components Analysis of Consumption Preference Variables

Component	Eigenvalues	% of Variance	% Cumulative Variance
1	5,484	32,258	32,258
2	1,964	11,551	43,809
3	1,557	9,158	52,967
4	1,257	7,394	60,361
5	1,083	6,368	66,729
6	0,798	4,697	71,426
7	0,793	4,665	76,091
8	0,681	4,008	80,099
9	0,638	3,754	83,853
10	0,566	3,331	87,184
11	0,467	2,750	89,934
12	0,426	2,509	92,442
13	0,344	2,023	94,466
14	0,320	1,882	96,347
15	0,226	1,331	97,678
16	0,208	1,221	98,899
17	0,187	1,101	100,00

⁵ Several different trial rotations were conducted to compare factor interpretability as suggested by Tabachnick and Fidell 1989, Child 1990, Malhorta 1996, Hair et. Al. 1998.

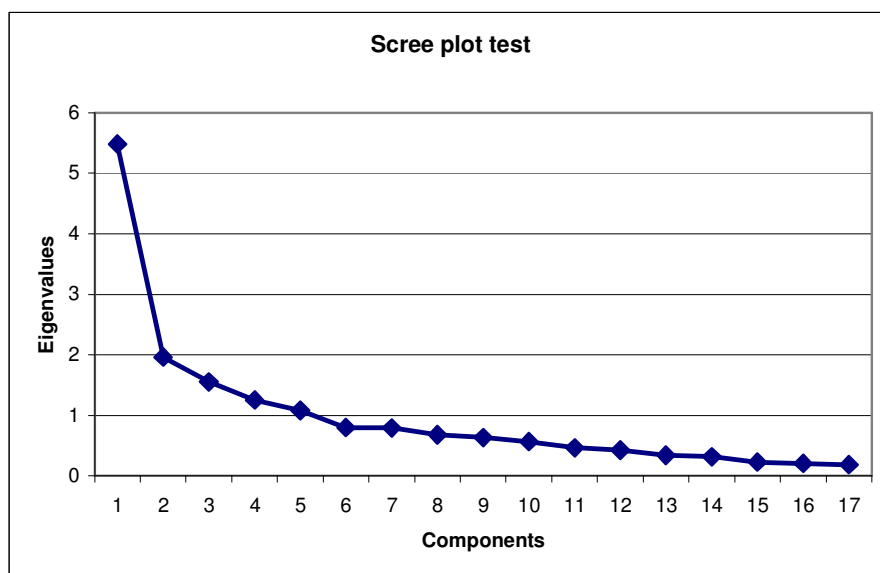


Figure 3: Scree Plot Test

The factor loading scores of the seventeen variables onto the five factors are presented in Table 3. The cut-off point for interpretation of loading scores was 0,459 according to Hair et. al.(1998) and Tabachnick and Fidell (1989) suggestions.

Table 3: Key Consumption Dimensions Derived from Principal Component Analysis

KEY CONSUMPTION DIMENSIONS	Factor Loading
Topicality	
Production methods	0.824
Appearance of special label	0.725
Products without chemical adds	0.677
The help to the local economy	0.650
Price	0.575
High value	0.562
Quality and health issues	
Quality	0.832
Health Protection	0.703
Environmental Protection	0.680
Nutrition Value	0.459
Appearance	
Appearance	0.877
Attractiveness of product's packing	0.834

Freshness and taste issues	
Freshness of the product	0.723
Taste of the product	0.612
Interest about the products being clean	0.570
Curiosity and Prestige	
Curiosity	0.862
Prestige	0.859

In the next stage, hierarchical and non-hierarchical clustering methods were used to develop a typology of the buying behavior of the consumers in the prefecture of Xanthi (Harrigan 1985, Helsen and Green 1991, Hair et al. 1998 and Siardos 1999). Cluster analysis differs from factor analysis in that the former groups objects, whereas the latter is concerned with grouping variables. Factor scores are standardized (mean = 0, standard deviation = 1). Cluster analysis was conducted on the 100 observations, as there were no outliers.

It identified two groups of consumers that were named according to their behavior patterns towards local products (Table 4). These are: (a) **Consumers influenced by curiosity, prestige, and freshness of the product** and (b) **Consumers interested in the topicality of the product**.

Table 4: Characteristics of the two Consumers' Groups

Key Consumption Dimension	Consumers' Groups		P
	Consumers influenced by curiosity, prestige, and freshness	Consumers interested in the topicality of the product	
Production methods and price issues	-0,37390	0,30592	0,001
Quality and health issues	0,9587	0,7844	0,389
Appearance	-0,5350	0,4378	0,631
Freshness and taste issues	0,26276	-0,21499	0,017
Curiosity and prestige issues	0,83110	-0,67999	0,001
Number of consumers (n=100)	45	55	

In particular, the consumers who are influenced by curiosity, prestige, and freshness comprise 45% of the sample. They scored highly on marketing issues as well as on freshness and curiosity dimensions. These consumers are influenced in their buying decisions by the attractiveness of the packing of the product, the appearance of the product generally. On the other hand, they are not interested in production methods, the price of the product, neither in the protection of the environment nor in the nutrition value of the product.

By contrast, the consumers who are interested in product's certification and environment protection were preferred by 55% of the sample. These consumers are interested to buy local products. Moreover they pay attention to the ingredients of the product as well as to its price. Furthermore, the environmental consequences of the product as well as the nutrition value of the product are also factors that affect consumers buying behavior. The certification of the product regarding its origin has a positive impact on these consumers purchase decisions. Besides, they scored negatively on the marketing issues, the prestige and the attractiveness of the packing of the product.

Therefore, the hypothesis **H1**: Consumers in the Prefecture of Xanthi can be classified into groups according to the factors that affect their purchase behavior towards local food may be accepted.

Consumers' attitudes and opinion regarding local products

Bivariate statistical analysis was performed in order to identify consumers' attitudes towards local products. In particular the one sample chi-square analysis employed to identify consumers' attitudes towards the behavior about the local product and the willingness to pay more for buying local products. Furthermore, the non parametric Friedman one way ANOVA test was used to examine consumers' opinion about the local products.

The one way chi-squared analysis identified that both groups have similar attitudes towards local products. Most of the consumers of both groups are familiar with the term local products, prefer the special stores with local food and the open markets as a marketing outlet and usually buy local olive oil, fruits, vegetables and dairy products. Furthermore, the consumers that are interested in the topicality of the product seem to use the supermarkets as a marketing channel but contrary to the consumers who are influenced by curiosity, prestige and freshness they do not buy local wine.

Table 5: Consumers attitudes regarding local products

Consumers' Attitudes		Consumers influenced by curiosity, prestige, and freshness		Consumers interested in the topicality of the product	
		X ²	% consumers	X ²	% consumers
Know the meaning of local products	Yes	X ² =91,444 df=3 P=0,000	45	X ² =51,073 Df=1 P=0,000	55
	No		0		0
Buying them from supermarkets	Often	X ² =4,133 df=2 P=0,127	20	X ² =10,945 Df=2 P=0,004	19
	Not often		9		8
	Rare		16		18
	Total				55
Buying them from special stores	Often	X ² =29,733 df=2 P=0,000	4	X ² =49,891 Df=2 P=0,000	5
	Not often		9		7
	Rare		32		43
	Total		45		55
Buying them from open markets	Often	X ² =22,533 Df=2 P=0,000	30	X ² =35,055 Df=2 P=0,000	39
	Not often		7		7
	Rare		8		9
	Total		45		55

Buying local oil	Often Not often Rare Total	$X^2 = 19,600$ Df=2 P=0,000	29 8 8 45	$X^2 = 2,436$ Df=2 P=0,296	22 13 20 55
Buying local wine	Often Not often Rare Total	$X^2 = 8,933$ Df2 P=0,011	22 6 17 45	$X^2 = 3,636$ Df=2 P=0,162	15 15 25 55
Buying local fruits	Often Not often Rare Total	$X^2 = 25,600$ Df=2 P=0,000	31 7 7 45	$X^2 = 7,018$ Df=2 P=0,030	26 10 19 55
Buying local vegetables	Often Not often Rare Total	$X^2 = 28,933$ Df=2 P=0,000	32 6 7 45	$X^2 = 22,291$ Df=2 P=0,000	34 6 15 55
Buying local milk,cheese,etc.	Often Not often Rare Total	$X^2 = 55,356$ Df=3 P=0,000	32 2 11 45	$X^2 = 16,291$ Df=2 P=0,000	29 5 21 55

Hence the hypothesis **H2**: Consumers' attitudes towards the existence of a common label within the E.U for food products that will be local are significant related to particular purchase behaviour.

On the other hand, no significant difference was found between the adoption of the particular buying behaviour by the consumers and their willingness to pay more to buy local products. Therefore the hypothesis **H3**: Consumers' willingness to pay more for local products are significant related to particular purchase behaviour may not be accepted.

The Friedman one-way non-parametric test was employed to identify the opinion of each consumer group regarding the local products. As figure 3 illustrates, both consumers groups have similar opinion about the local products. They mainly believe that they help the local economy, are better and healthier. Furthermore, they consider more expensive, with better quality and nutrition value. The also believe that local products have no negative environmental impact and are more tasteful.

Thus hypothesis, **H4**: Consumers' opinion about local products is significant related to particular purchase behaviour may be accepted.

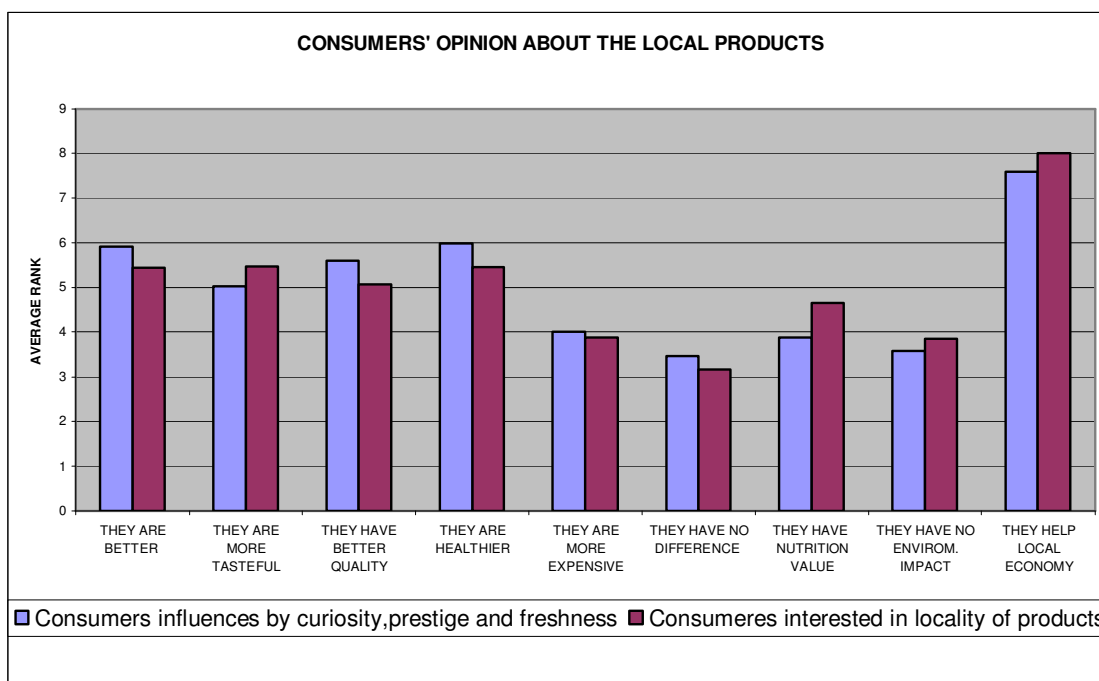


Figure 3: Consumers' opinion about local products

Profiling each consumer group according to consumers' characteristics.

A one-sample chi-square test was performed for each consumer group in order to develop the profile of the consumers who have a particular buying behaviour towards local products regarding their personal characteristics.

The profiles of the two consumers group regarding their personal characteristics are illustrated in table 6.

As table 6 illustrated the two consumers groups have similar profiles. More particularly, most of them are married with one or two children. In the first group they are retired but in the second group they work as private employees. Regarding their education, the consumers' of both of groups they hold a TEI/University Degree.

Table 6: Profile of each consumer group regarding consumers' personal characteristics

Consumers' Attitudes		Consumers influences by curiosity, prestige and freshness of the product		Consumers interested in the locality of the product	
		X ²	%consumers	X ²	%consumers
Education	Primary school	X ² = 34,00 Df = 4 P= 0,000	11.11%	X ² = 28,727 df=4 P=0,000	14.54%
	Secondary school		6.66%		7.27%
	High school		26.67%		29.09%
	TEI/University		51.11%		43.63%
	Postgraduate degree		4.44%		5.45%

Marital Status	Single	$X^2 = 31,600$ Df=2 P= 0,00	24.4%	$X^2 = 3,073$ df= 1 P= 0,080	38.18%
	Married		75.56%		61.82%
Number of children	None	$X^2 = 38,111$ df=3 P=0.000	31.12%	$X^2 = 21,855$ df= 2 P=0,000	47.27%
	1-2 children		60%		49.09%
	3+ children		8.88%		3.63%
Occupation	Private employee	$X^2 = 20,200$ df= 5 P=0,001	11.11%	$X^2 = 13,618$ df = 5 P = 0,018	27.27%
	Public servant		22.22%		20%
	Free licence		15.56%		12.72%
	Retiree		37.78%		23.63%
	Students		11.11%		14.54%
	Other		2.22%		1.82%

Therefore the hypothesis **H6**: Consumers' personal characteristics are significant related to a particular purchase behaviour maybe accepted.

4. DISCUSSION-CONCLUSION

This study indicated that there was a significant association between the adoption of buying behaviour and the factors that influence them to choose local products.

This study indicates that the two identified consumers' groups which prefer to buy local products have similar attitudes and opinion about them. Moreover these two consumers' groups have similar profiles regarding their personal characteristics with the consumers that prefer to buy local products. The main difference between the consumers that prefer the local products and those that buy local products from curiosity and because of the attractiveness of the packing of product is that the latter are private employees while the first groups is parted from retirees. The existence of family maybe a factor, that influences the consumers in the prefecture of Xanthi who are interested in local products.

Besides, this study identified the factors including topicality of products, taste, production methods, environmental impact, quality, price, health safety, attractiveness of packing, curiosity and prestige support the results of the other studies identified in the literature review.

The local producers in the prefecture of Xanthi should focus on the adoption of local product in order to add value to their products and differentiate them from the products produced in other areas or imported from other countries and launched in very low prices by supermarkets and other retailers. Furthermore, they should structure their marketing and promotion mix and focus on the factors and consumers characteristics presented above.

Whilst the paper offers some interesting insights into the questions posited in the methodology section, there are possible directions for further research. Firstly, this study only fielded opinions from consumers in the Prefecture of Xanthi which makes it difficult to generalise our findings.

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THE EU V. BALKAN AND EASTERN EUROPEAN COUNTRIES: UNWELCOME NEIGHBOURS OR POTENTIAL MEMBERS?

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Abstract: Since the dissolution of the Soviet Union and Yugoslavia, as well as the collapse of the communist regimes in the wider Eastern European and former USSR area, almost all of the respective states, looked upon the European Union as the only way of survival of their economies and their fragile democratic systems. The EU responded in different ways which can be categorized as follows:

- a. It incorporated the majority of the Eastern European States, through the enlargement process (Poland, Czech Republic, Slovakia, Hungary, Slovenia, Bulgaria, Romania) and has entered into accession negotiations with others (Croatia, Turkey).
- b. It initiated bilateral relations with the Russian Federation as an important partner.
- c. It developed the ENP and more recently the EaP to institutionalize a process of enhanced economic and political cooperation with the respective states aiming at bringing them closer to the EU, while preparing some of them for future membership, but also offering an alternative solution to certain states that the EU is not willing to offer full membership (Belarus, Moldova, Ukraine, Armenia, Georgia, Azerbaijan).
- d. It formulated the Stabilization and Association Process (SAP) specifically designed to meet the needs of the Western Balkan states and gradually incorporate them.

The paper explores the institutional and political framework of the abovementioned developments, the potential outcome for the Balkan and eastern European states and the problematic aspects for the EU and the other parties involved.

Keywords: European Union, Enlargement, Enp, Eap, Sap, Western Balkans.

JEL Classification Codes: K33, F53, F59

INTRODUCTION

Since Turkey submitted an application to join the European Union and it subsequently entered into accession negotiations with the EU, there is an ongoing discussion on whether Turkey is a European country, where Europe ends, where the geographical and historical borders of Europe lie.

However, before any of these questions needs to be answered, there is a number of States that no one disputes their European identity, both geographically and historically, that remained outside the consecutive enlargement processes and, most of them, strive to become the future EU members.

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The article will analyze the European Aspirations of these States *vis-à-vis* the EU itself, the respective attitude of the EU and whether the processes followed by the EU present a genuine interest to incorporate some of these states or they merely constitute the maximum amount of cooperation the EU is willing to grant them.

1. THE HISTORICAL BACKGROUND

There can be no doubt that the most dramatic geopolitical events that marked the recent European History were the collapse of the Soviet Union and the communist regimes on one hand and the dissolution of the former Yugoslavia on the other hand, which resulted in a drastic change of the geographic landscape of the larger European Area with the creation of 15 new States in the former Soviet territory, 6 new States in the former Yugoslavia and several secessionist movements in some of the newly created states.²

During the same period, the leaders of the European Economic Community (EEC) decided to undertake a very ambitious step towards the European Integration: To transform their economic cooperation into a predominantly political one, through the creation of the European Union, which materialized in 1992 by the signature of the Treaty of Maastricht and the subsequent Treaties that developed the institutional and operational framework of the EU.

Almost all of these new States sought closer relations with the EU and eventually most of them expressed their will to join the EU, viewing it as their only option in economic – mainly – and political terms. The outcome of this process, since the EU-15 decided to remain open to new memberships, culminated in the biggest enlargement in the history of the European integration with the accession of 10 new members in 2004³ and an additional 2 members in 2007.⁴

Nevertheless, a significant number of States were left outside this process. In terms of their individual or shared characteristics, these states can be placed into 3 main categories:

- **Western Balkans** (Croatia, Montenegro, Bosnia & Herzegovina, Serbia, FYROM, Albania).
- **Eastern Europe (former USSR)** (Belarus, Ukraine, Moldova).
- **Caucasus** (Georgia, Armenia, Azerbaijan).

While this categorization can be helpful in analyzing the general features of these groupings, the level and instruments of cooperation with the EU varies significantly.

For example, Croatia is a candidate and has already entered into accession negotiations with the EU since 2007, while Montenegro and Serbia are still waiting to acquire the status of a candidate state. Belarus never expressed its interest to become an EU member, while, on the other hand, Ukraine, which has also never applied for membership, waves a huge EU flag outside its Ministry of Foreign Affairs!!

² While the origins and development of such initiatives is not identical and, thus, they should not be equated with each-other, the various secessionist movements can be located in the following areas: Nagorno Karabakh (Azerbaijan), Abkhazia & South Ossetia (Georgia), Transdnistria (Moldova), Chechnya (Russian Federation), Kosovo (Serbia). Additionally, other similar activities developed elsewhere, without however having serious implications on the territorial integrity of the respective States (eg. Tetovo in FYROM, Krajna & Eastern Slavonia in Croatia, Crimea in Ukraine, Adjara in Georgia, Gagauzia in Moldova).

³ **Estonia, Lithuania & Latvia** from the former USSR, **Slovenia** from the former Yugoslavia, **Poland, Hungary, Czech Republic & Slovakia** from the former communist eastern Europe, **Cyprus** and **Malta**.

⁴ **Bulgaria** and **Romania** constituted the “Balkan” enlargement. The political decision for their accession was taken together with the other 10 states, but their actual entrance in the EU was postponed for 2007 or 2008 due to the deficiencies in coping with the accession criteria.

2. EU POLICIES TOWARDS POTENTIAL CANDIDATES

2.1 *The Copenhagen criteria*

In response to the general trend of everybody joining the EU, even before its official creation in 1992, the EU leaders responded by establishing, in 1993, a set of general criteria, applicable for every potential candidate, the so-called *Copenhagen criteria*⁵ that would also serve as indicators for the progress of each candidate state. The criteria included economic, legislative and political factors.

At the **economic** level, candidate states are required to have “... *a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union*”.

At the **legislative** sphere, while it is not mentioned *per se* in the criteria, candidates must adhere to the volume of the EU legislation, more commonly known as the “*acquis communautaire*”. The candidates are under an obligation to align their legislation with the EU before becoming eligible for membership. In the context of the 2004 / 2007 enlargement the *acquis* was divided into 31 negotiating chapters, while for the negotiations involving Croatia, Iceland and Turkey there are 35 chapters to be concluded.

However, the most important category of the Copenhagen criteria are the **political** ones which require candidate states to achieve “*stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities*”. The importance of these criteria is that they are purely political in nature and, as such, the measurement of their fulfillment is subjective, dependent on the various political considerations of the EU and its members. Moreover, the subjective character of these criteria allows for a “flexible” application, without the EU being obliged to uphold certain standards. This became evident in the case of Turkey, which was allowed to start accession negotiations (in 2005), without having fulfilled the political criteria.

2.2 *The policies*

a) Stabilization and Association Process

The SAP was specifically designed to cover the needs of the Western Balkan States and drive them closer to the EU. It was initiated in 1999 through a German proposal for a Stability Pact for the states of the Western Balkans. The proposal was endorsed by the European Council and included a commitment – on behalf of the EU – that all of these states would be allowed to accede to the EU.⁶ The European Council of Thessaloniki (2003) reaffirmed this commitment,⁷ emphasizing that “*The European Council ... reiterated its determination to fully and effectively support the European perspective of the Western Balkan countries, which will become an integral part of the EU, once they meet the established criteria*”.⁸

⁵ Conclusions of the Presidency - Copenhagen, June 21-22 1993, EU Doc. SN/180/1/93 Rev. 1, p. 13, § 7 (iii).

⁶ “*Common Position of 17 May 1999 concerning the launching of the Stability Pact of the EU on south-eastern Europe*”, 1999/345/CFSP, OJ L 133, 28.5.1999.

⁷ Presidency Conclusions – Thessaloniki, June 19-20 2003, EU Doc. 11638/03, pp. 12-13. See also the EU-Western Balkans Summit Declaration made by the EU Heads of States (EU Doc. 10229/03 (Presse 163), also available at http://ec.europa.eu/enlargement/enlargement_process/accesion_process/how_does_a_country_join_the_eu/sap/thessaloniki_summit_en.htm.

⁸ *Ibid.* p. 12 (par. 40). The criteria mentioned in the text refer to the Copenhagen criteria.

Unlike any other form of regional cooperation, the SAP has a well defined purpose which is to assist the recipient states in order to facilitate their accession process towards the EU. To this end, it is characteristic that while FYROM, and Croatia have already acquired the status of candidate states, their progress is still being evaluated through the commitments contained in the individual SAAs.⁹

The areas of cooperation and funding covered by the SAP include the following:

- Trade concessions (autonomous trade measures).¹⁰
- Economic and financial assistance.
- Assistance for reconstruction, development and stabilisation (CARDS)¹¹ which was replaced by the Instrument for pre-Accession Assistance (IPA) in 2007.¹²
- Stabilisation and Association Agreements a far-reaching contractual relationship with the EU, entailing mutual rights and obligations. The SAAs incorporate most of the above mentioned measures, including the EU demands, as a “package deal”.¹³

Today, all of the Western Balkan states have concluded SAAs with the EU, however, not all of them are operational, since they have to be ratified by the member states before they enter into force.¹⁴

2.3 European Neighbourhood Policy (ENP)

2.3.1 Nature of the ENP

The nature of the ENP is much broader than the SAP both in scope and in the geographical distribution of the recipient countries. It covers a wide area ranging from the North African States, most of the Middle East, the Eastern European countries and the Caucasus, involving 15 states and the occupied Palestinian Territories.¹⁵ For the purposes of

⁹ See “*Western Balkans: Enhancing the European Perspective*” Communication from the Commission to the EP and the Council, EU Doc. COM (2008) 127 final/5.3.2008, esp. pp. 4-5.

¹⁰ Trade concessions are explained by the EU Commission as “*uniform system of trade preferences for the countries of the Western Balkans*” providing duty-free access to the EU’s market of virtually all goods, including (since 2001) agricultural products. See “*The Stabilisation and Association process for South East Europe Second Annual Report - Annex 1*”, Report from the Commission, EU Doc. COM (2003) 139 final/26.3.2003, esp. pp. 1-3.

¹¹ Community Assistance for Reconstruction, Development and Stabilisation, adopted by Council Regulation (EC) 2666/2000 of 5.12.2000 (OJ L 306, 7.12.2000, pp. 1-6.).

¹² In 2007 it was decided by the EU to replace the then existing funding schemes for the Western Balkans by a single instrument, the IPA which was established by Council Regulation (EC) 1085/2006 of 17.6.2006 (OJ L 210, 31.7.2006, pp. 82-91). The implementing rules for the IPA are laid down in Commission Regulation (EC) 718/2007 of 12.6.2007 (OJ L 170 of 29.6.2007, p.1), which was amended in its current form by Commission Regulation (EU) 80/2010 of 28.1.2010 (OJ L 25 of 29.1.2010, pp. 1-9).

¹³ For the nature and practical function of the SAAs see, *inter alia*, Cremona M.: State Aid Control: Substance and Procedure in the Europe Agreements and the Stabilisation and Association Agreements, 9 *European Law Journal* 265 (2003), pp. 266-271.

¹⁴ The SAAs with FYROM, Croatia, Albania and Montenegro have already entered into force, while the SAAs with Bosnia & Herzegovina and Serbia are still in the process of ratification. For an overview of this process see the EU website on enlargement (http://ec.europa.eu/enlargement/potential-candidates/index_en.htm).

¹⁵ http://ec.europa.eu/world/enp/policy_en.htm.

this presentation, the ENP will be analyzed only with regard to the Eastern European and the Caucasus countries.

The ENP itself does not have a centralized or regional dimension but is based on bilateral agreements between the EU and each recipient state, which take the form of bilateral Action Plans.¹⁶ According to one author, the ENP “... lies at the crossroads of the foreign, security, development, enlargement and trade policies of the EU”.¹⁷

It is true that the motives of the EU in launching and promoting the ENP cannot be summarized in a single title, as they affect many policy areas. The general purpose of surrounding the EU with friendly neighbours and avoiding new dividing lines,¹⁸ as set out during the initiation of the ENP, while sounding very noble and idealistic, has very little to do with the actual function of the ENP, which has been specialized to include security concerns,¹⁹ political reforms and human rights,²⁰ as well as various trade and related issues. It also touches upon enlargement for certain states that could have a prospect of acceding to the EU (eg. Ukraine).

For many, the ENP represents an alternative to full EU membership for states that were left out of the enlargement process, although it cannot be proclaimed as an ENP aim by the EU itself.²¹ Chris Patten, former external relations Commissioner was very blunt in expressing this view by stating that “over the past decade, the Union’s most successful foreign policy instrument has undeniably been the promise of EU membership. This is not sustainable. For the coming decade, we need to find new ways to export the stability, security and prosperity we have created within the enlarged Union”.²²

¹⁶ Until now, 12 such Action plans have been concluded. The countries that have not yet agreed action plans with the EU are Belarus, Algeria, Syria and Libya.

¹⁷ Lippert B.: The EU Neighbourhood Policy – Profile, Potential, Perspective, *Intereconomics*, July/August 2007, pp. 180-190, at 180.

¹⁸ These aims are set by Benita Ferrero-Waldner back in 2007, Commissioner for the ENP (2004-to date), in a characteristic article written in 2007 where she highlighted that “... the idea was to deepen our relations with our neighbours and in so doing to encourage them to strengthen their own political and economic reforms. The EU’s neighbours are particularly important to the EU: by bolstering their stability, prosperity and security, we also bolster ours” (Ferrero-Waldner B.: ‘The European Neighbourhood Policy’, *Baltic Rim Economies*, Vol. 6/2007, p. 148 (http://www.tse.fi/FI/yksikot/erillislaitokset/pei/Documents/bre/expert_article148_62007.pdf)).

¹⁹ See Dov Lynch: ‘The security dimension of the European neighbourhood’, 40 *The International Spectator* 33 (2005), pp. 33-43.

²⁰ See Kelley J.: New Wine in Old Wineskins: Promoting Political Reforms through the New European Neighbourhood Policy, 44 *Journal of Common Market Studies* 29 (2006), pp. 29-55, esp. at. 40-41.

²¹ Dannreuther R.: ‘Developing the Alternative to Enlargement: The European Neighbourhood Policy’, 11 *European Foreign Affairs Review* 183 (2006), pp.183-201, at 188-190. See also a similar approach from the viewpoint of social science in Lavenex S.: ‘A governance perspective on the European neighbourhood policy: integration beyond conditionality?’, 15 *Journal of European Public Policy* 938 (2008), pp. 938-955. The article argues that ENP states could be allowed to participate in selected sectors of EU decision making processes, dependent on their own institutional capacity to cope with this challenge, as an alternative to full membership.

²² Quoted in Commission Communication: “Wider Europe–Neighbourhood: Proposed New Framework for Relations with the EU’s Eastern and Southern Neighbours”, EU Doc. IP/03/358, 11 March 2003, p. 1 (<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/03/358&format=HTML&aged=0&lg=lt&guiLanguage=en>).

2.3.2. Practical function of the ENP

The ENP is not a centralized process but takes the form of individual Action Plans which are mutually agreed between the EU and the respective states.

The Action Plans use the stick and carrot method, by giving significant incentives to the recipient state, in exchange for cooperation in various fields including security, political cooperation in combating large scale criminal activities that target the EU (eg. human trafficking, drugs, counterfeit) and, more importantly, political reforms and improvement of human rights.

Among the incentives provided – on a case-by-case basis – we could highlight the following:

- Participation in parts of the internal market and the opportunity to take part in key EU policies and programmes.
- Upgraded political cooperation.
- Reduction of trade barriers and closer economic relations in general.
- Significant financial support.
- Participation in scientific, cultural & educational EU programmes (eg. ERASMUS Mundus).
- Support for legislative / administrative reforms to meet EU standards.

Due to the case-by-case approach of the Action Plans, the above vary significantly from country to country, reflecting the different needs of the recipient on one hand and the varying levels of democracy, human rights and administrative convergence on the other hand, which require a different package of demands on behalf of the EU.

2.4 Regional Policies

The predominantly individualistic approach of the ENP Action Plans is supplemented by 3 regional policies, which were developed in parallel with the ENP concept, probably addressing problematic issues that were identified during the initial application of the ENP: The *Eastern Partnership* (2009), the *Union for the Mediterranean* (2008) and the *Black Sea Synergy* (2008).²³

2.4.1 Eastern Partnership

This initiative was undertaken by the EU in 2009, after a joint Polish / Swedish proposal,²⁴ in response to the complaints by several Eastern European countries that the enhanced cooperation which was established with the Mediterranean countries in the framework of the Union for the Mediterranean, placed those countries in a more favourable position vis-à-vis the Eastern states.²⁵ The Partners are Belarus, Moldova, Ukraine, Georgia, Armenia, and Azerbaijan.

²³ The presentation will refrain from analyzing the Union for the Mediterranean, as this initiative falls outside its geographical scope.

²⁴ For the launch of this initiative and the underlying reasons see Łapczyński M.: ‘The European Union’s Eastern Partnership: Challenges and Perspectives’, 3 *Caucasian Review of International Affairs* 142 (2009), pp. 142-155, esp. at 145-146.

²⁵ See Schäffer S. & Tolksdorf D.: ‘The Eastern Partnership – ENP plus for Europe’s eastern Neighbors’, *C.A.Perspectives*, Vol. 4, 2009, pp. 1-4, p.1, where the authors argue that the Eastern Partnership was created to “... counterbalance the Union of the Mediterranean”.

According to the EU, this initiative aims at “*upgrading the level of engagement of the EU with the six partner countries in the East*”,²⁶ building on and being complementary to existing bilateral instruments (ENP).²⁷

For the implementation of the EaP the EU has allocated 600 million € for the period until 2013, a proportion of which is already being used in the framework of the ENP, and about 350 million € will be exclusively granted for the application of the EaP. The whole process will be administered through the ENPI, which is already in use as the single framework for the implementation of bilateral programmes under the ENP.

As to the specific aims of the EaP, these are not very clear, especially when compared to the already existing ENP. Several academics have doubted the very essence of this initiative²⁸ since it overlaps with the ENP to a large extent and the notion of “partnership”, since it is formed under the conditionality principle, thus leaving very little space for joint decision-making for the weaker part (the Eastern Countries).²⁹

The actual “new” or “revised” elements that the EaP adds to the ENP is the multilateral dimension in the form of regular meetings and joint summits between EU representatives and the Eastern neighbours at the levels of heads of states, foreign ministers, senior officials and experts. This multilateral cooperation is intended to support individual partner states’ efforts by providing a forum where they can share experience and information on the reforms pursued.³⁰ It also offers a new legal basis for cooperation in the form of association agreements, which are supposed to take the cooperation a step further than the ENP Action plans.³¹

Moreover, particular emphasis is given to the establishment of deep and comprehensive free trade areas (DCFTA), the development of cooperation in the field of energy security and the efforts towards the full liberalization of the visa regimes, which however is put strictly on a case-by-case basis, while the documents do not provide for an EU obligation to this effect. Additionally,

As far as the EU demands are concerned, the Eastern Partners are required show progress in implementing such values as democracy, rule of law, upholding human rights and the implementation of the principles of market economy, sustainable development and good governance, as agreed in the Joint Declaration of the Prague Summit.

Since the EaP is in the very first stages of implementation, it would be premature to assess its impact, although some initial signs from partner countries do not seem to be very

²⁶ European Commission, European External Action Service: *Vademecum on Financing in the Frame of the Eastern Partnership*, 24/09/2010, p. 3. (http://eeas.europa.eu/eastern/docs/eap_vademecum_en.pdf).

²⁷ See Council of the EU: *Joint Declaration of the Prague Eastern Partnership Summit*, EU Doc. 8435/09 (Presse 78), 7.5.2009, p. 5.

²⁸ Van Vooren B.: “The EU as an International Actor and Progressive experimentation in its neighbourhood” in Koutrakos P. (ed.): *European Foreign Policy: Legal and Political Perspectives*, (Edward Elgar Publishing, Cheltenham, 2011) p. 156.

²⁹ See Korosteleva E.: ‘The limits of EU governance: Belarus’s response to the European Neighbourhood Policy’, 15 *Contemporary Politics* 229 (2009), pp. 229-245, at. 242-243.

³⁰ Cichocki M.: “*European Neighbourhood Policy or Neighbourhood Policies?*” in Henderson K. & Weaver C. (eds.): *The Black Sea Region and EU Policy: the Challenge of Divergent Agendas*, (Ashgate Publishing, Farnham, 2010), p. 18

³¹ See Vojna B. & Gniazdowski M.(eds.): *Eastern Partnership: The Opening Report* (Polish Institute of International Affairs, Warsaw, 2009), p. 6.

positive.³² Additionally, Belarus is in essence left out of this process since it is offered merely conditional participation on the technical and expert levels only, because of its undemocratic regime and its unwillingness to promote democratic changes.³³

Moreover, there should be a balance between the political considerations of individual EU member states or the EU itself towards the various partners. Thus, while the EU is – correctly- exerting political pressure on Belarus by marginalizing it in the course of this process, it is blind on the Azeri regime, which is no better than its Belarussian counterpart in terms of political freedoms, democracy or human rights, or even the Georgian regime, which has gradually become highly undemocratic.

It is submitted that, if the EaP is to have any meaningful content it should:

- (a) make a real difference or improvement from the current ENP scheme of cooperation,
- (b) become a truly multilateral form of cooperation and not a forum for the official expression of EU orders, which might be plausible to the smaller states but not to the bigger partners (Ukraine) and
- (c) offer incentives that actually appeal to the partner countries (eg. commitments on visa facilitation or even abolition regimes, in conjunction with common border monitoring, multilateral free trade agreements with concrete measures and deliverables).

3. THE BLACK SEA SYNERGY

The Black Sea Synergy is a form of cooperation distinct from any other described above, as it originated from an initiative of the BSEC countries. In a joint statement in 2005,³⁴ the Foreign Ministers of the BSEC envisaged closer cooperation between the EU and the BSEC.³⁵ After the necessary negotiating steps were taken,³⁶ the Black Sea Synergy was proclaimed in a joint Statement by the Foreign Ministers of the EU and the wider Black Sea Area in Kiev, on 14.2.2008.³⁷

³² Since the initial stages of the EaP, Ukraine voiced its disappointment on the proposed EU-Ukraine agreement and displays, since, a constant fear that this initiative would become an alternative to full EU membership to which Ukraine is committed. (See *Eastern Partnership: The Opening Report*, *ibid.*, pp. 67-70, esp. p. 69). See also Giusti S. & Penkova T.: “EU Policy towards Ukraine and Belarus: Diverging Paths?” in Bindi F. (ed.): *The foreign policy of the European Union: assessing Europe's role in the world*, (The Brookings Institution, Washington DC, 2010), pp. 136-137.

³³ Popielawska J.: “Eastern Partnership: The Polish Perspective” in Arvanitopoulos C. & Botsiou K.E. (eds.): *The Constantinos Karamanlis Institute for Democracy Yearbook 2010* (Springer Verlag, Berlin Heidelberg, 2010) p. 47.

³⁴ The Komotini Statement of the Council of Ministers of Foreign Affairs of the BSEC, Komotini, Greece, 23.4.2005. (<http://www.bsec-organization.org/documents/declaration/ministerial/Reports/AnnexVI-KomotiniStatement%20Council%20final.pdf>).

³⁵ The BSEC had set building an EU-BSEC economic area as a policy priority since 1999, but no major steps were taken until 2005. See Carr F. & Flenley P.: “Region Building in the Wider Black Sea Area” in Volten P. & Tashev V. (eds.): *Establishing Security and Stability in the Wider Black Sea Area: International Politics and the New and Emerging Democracies* (IOS Press, Amsterdam, 2006), p. 43.

³⁶ In April 2007 the Commission endorsed the idea and issued a communication to the Council and the European Parliament entitled “Black Sea Synergy – A New regional Cooperation Initiative” (EU Doc. COM (2007) 160 final / 11.4.2007). After the initiation of the BSS, the Commission issued a new Communication marking one year from the launch of the initiative which, together with the latter document, constitute the institutional framework for the BSS (Communication to the Council and the European Parliament: *Report on the first Year of Implementation of the Black Sea Synergy*, EU Doc. COM (2008) 391 final / 19.6.2008).

³⁷ Text: http://eeas.europa.eu/blacksea/doc/joint_statement_blacksea_en.pdf.

While the initiative came from within the BSEC organization and the participants were the BSEC countries, the Black Sea Synergy is not a bilateral cooperation scheme between two organizations, namely the EU and the BSEC, but rather refers to the wider Black Sea area as a whole, probably to have a broader scope and a more flexible decision making process involving directly the partners and not their organizations, which would require additional bureaucracy. Another, less idealistic explanation, is that the EU Commission did not want to grant the BSEC a preferential status as they considered that Russia was able to dominate and control the organization through the BSEC institutional consensus.³⁸

The purpose of the BSS is the development of cooperation *within* the Black Sea Region and also *between* the region as a whole and the European Union. Additionally, the participating states decided to promote region-wide activities.

The areas of cooperation do not depart significantly from the other initiatives. Emphasis is placed on environmental issues, energy, transport, education and research networks. The cooperation interacts with already existing projects in the respective areas (eg. TRACECA, INOGATE, Black Sea Commission).

Funding is not guaranteed in absolute terms as in the case of the EaP, but EU contribution will be available under the various ENPI programmes, as well as through the regional activities of the EBRD and EIB.

3.1 BSS vs. EaP?

The EaP was launched almost in parallel with the BSS. On the positive side, it could be said that there is a firm commitment on behalf of the EU towards its eastern partners. However, we have at hand two initiatives with overlapping agendas and policy priorities.

If the EU wishes to consider the EaP as a parallel process to the BSS, it should be made clear to which extent the two policies interact or complement each-other.³⁹ Otherwise, the two initiatives are doomed to fade or one will eventually prevail over the other, accompanied with the relevant implications on the side of the “looser”. Moreover, by not clarifying the scope, extent and complementarity of the two programmes, the EU seems to have acted without a specific plan or strategy, which is a common feature of its overall CFSP, but in this case the EU itself could be the victim by losing its credibility in the eyes of its partners.

The EU, on its part, is trying to clarify the content of the two initiatives by its understanding that the BSEC aims to solve problems which require region-wide efforts, having the Black Sea as the focal point, whereas the Eastern Partnership will pursue alignment of partner countries with the EU and thus have Brussels as the centre of gravity.

The near future will show the level of success for the two processes, nevertheless, without steady and straight forward aims, which are attractive to the potential partners, it is doubtful whether many of the target states will be willing to grant the EU the status of a “colonial power” over their political, economic and human rights standards, especially when the most powerful policy instrument the EU has applied so far – the potential of accession – is

³⁸ Emerson M. *et al.*: *Synergies vs. Spheres of Influence in the Pan-European Space* (Centre for European Policy Studies, Brussels, 2009), p. 20.

³⁹ See Tsantoulis Y.: *Black Sea Synergy and Eastern Partnership: Different Centres of Gravity, Complementarity or Confusing Signals?*, ICBSS, Policy Brief, No.12, February 2009, p. 5.

already missing in most of the cases. As it was pointed out by Karen Smith “A clearer incentive structure, attached to clearer and well-ordered priorities, would give the EU better tools for fostering fundamental reform in the Neighbours”.⁴⁰

4. THE EU - RUSSIA RELATIONS

A separate, and probably the most important chapter in the relationship between the EU and its Eastern neighbours, refers to its relations with the Russian Federation. Neighbouring a superpower – or former superpower – cannot be easy, especially when the EU has aspirations of playing a similar role in the global arena and Russia strives to restore its former position.

Nevertheless, the two parties are indispensable to each-other, at least economically. Trade and energy relations form a cornerstone in the EU – RF relationship, with the EU being by far the largest export market for Russia, while RF is the 3rd biggest EU’s trade partner. In particular, Russian oil and – mainly – gas supplies to the EU amount to a large percentage of Russia’s exports in Europe, whilst more than 50% of the supplied gas is Russian and more than 80% of the gas supplied flows through Russian pipelines.⁴¹

4.1. The institutional framework

The institutional relationship between RF and EU started in 1994 with the conclusion of a comprehensive Partnership Agreement between the RF and the EU and the RF and the individual member states, which entered into force in 1997.⁴² Among the many sectors of cooperation established by the Partnership Agreement, particular reference should be made to the following:

- Economic cooperation, aiming at the expansion of their respective economies, covering *inter alia* (Art. 56):
 - development of their respective industries and transport,
 - exploration of new sources of supply and of new markets,
 - encouragement of technological and scientific progress,
 - encouragement of a stable social and human resources development and of local employment development,
 - promotion of the regional cooperation with the aim of its harmonious and sustainable development.
- Energy (Art. 65), which includes:
 - improvement of the quality and security of energy supply, in an economic and environmentally sound manner,
 - formulation of energy policy,
 - improvement in management and regulation of the energy sector in line with a market economy,
 - the introduction of a range of institutional, legal, fiscal and other conditions necessary to encourage increased energy trade and investment,

⁴⁰ Smith K.: “The Outsiders: The European Neighbourhood Policy”, 81 *International Affairs* 757 (2005), pp. 757-773, p. 773.

⁴¹ The interdependence of the two parties in their energy relations was highlighted in the context of the 4th Permanent Partnership Council on Energy by the participating officials at the ministerial level (EU Doc. IP/09/688, Brussels, 30.4.2009)

⁴² Text: OJ L 327, 28/11/1997, pp. 3-69.

- modernization of energy infrastructure including interconnection of gas supply and electricity networks,
- the environmental impact of energy production, supply and consumption, in order to prevent or minimize the environmental damage resulting from these activities,
- Customs (Art. 78), according to which the overall aim will be “... *to achieve compatibility of the customs systems of the Parties*” (Art. 78 § 1), with particular emphasis given to (Art. 78 § 2):
 - the exchange of information,
 - the improvement of working methods,
 - the harmonization and simplification of customs procedures regarding the goods traded between the Parties,
 - the interconnection between the transit systems of the Community and Russia,
 - the support in the introduction and management of modern customs information systems, including computer-based systems on the customs check points,
 - mutual assistance and joint actions with respect to 'dual-use' goods and goods subject to non-tariff limitations.

At the *St. Petersburg Summit in May 2003*, the EU and Russia agreed to reinforce their cooperation by creating **four ‘common spaces’** in the framework of the Partnership and Cooperation Agreement and on the basis of common values and shared interests. These common spaces are the following:

1. ***The Common Economic Space***, covering economic issues and the environment;
2. ***The Common Space of Freedom, Security and Justice***;
3. ***The Common Space of External Security***, including crisis management and non-proliferation;
4. ***The Common Space of Research and Education, including Cultural Aspects***.

The *Moscow Summit in May 2005* adopted Road Maps to act as the short and medium term instruments for the implementation of the four Common Spaces. According to the EU Commission: “*these build on the on-going cooperation as described above, set out further specific objectives, and specify the actions necessary to make the common spaces a reality. They thereby determine the agenda for cooperation between the EU and Russia for the medium-term*”.⁴³

The above could be the description of the perfect relationship between two neighbours, however the reality is slightly different. As far as the partnership is concerned, it expired in 2007 and since then the EU and RF are negotiating the conclusion of a new Partnership, without succeeding until now.

The much advertised “common spaces” do not seem to provide a real policy instrument as their implementation until now is far from being satisfactory.⁴⁴

4.2. Problems between RF and EU / EU members

The EU- RF relationship is influenced by issues of a predominantly bilateral nature between the RF and certain EU countries. While the general relations with the ‘old’ EU members can be characterized as constructive – at least – this is not always the case with

⁴³ EU Commission: *The European Union and Russia: Close Neighbours, Global Players, Strategic Partners* (Office for Official Publications of the European Communities, Luxembourg, 2007), p. 6.

⁴⁴ See the Progress Report of the EU Commission on the implementation of the ‘common spaces’ of 2010 (published on March 2011). http://www.eeas.europa.eu/russia/docs/commonsaces_prog_report_2010_en.pdf.

some of the ‘new’ members. Certain states, namely Poland and Lithuania⁴⁵ and, more recently, Estonia, display an open animosity towards Russia, which is evident in practically every level of EU policy making, but has also been evident in some bilateral issues that arose with Russia, the most important of which were the Russian import ban on Polish agricultural products (2005-2008)⁴⁶ and the Estonian Monument Crisis (2007).⁴⁷

More generally, certain authors have attributed the initiation of the EaP as an effort of the ‘new’ Europe, together with some Scandinavians, to push for a new policy that goes contrary to the French-German policies towards Russia. The following passage is characteristic of this trend: “*Russia and its Western “protectors” are already sounding alarms that the new Ostpolitik of the Scandinavians and the “New Europeans” undermines the Russo-centric” policies of France and Germany. They are right to sound the alarm. The new policy does threaten their cozy arrangement. Sooner or later, “old Europe” will have to come up with a policy that accounts for Russia’s true national interests, rather than the corporate interests of the thin stratum of the ruling elite in Moscow*”.⁴⁸

⁴⁵ A policy paper on the EU – Russia relations characterizes Poland and Lithuania as “... ‘*New Cold Warriors*’ who have an overtly hostile relationship with Moscow and are willing to use the veto to block EU negotiations with Russia”. (Leonard M. & Popescu N.: *A Power Audit of EU – Russia Relations*, (European Council on Foreign Relations, London, 2007), p. 2. It now seems that Estonia is a full member of this club.

⁴⁶ In 2005 the Russian Federal Service for Veterinary and Phytosanitary Surveillance banned a wide range of meat imports from Poland, which was supplemented by a ban on plant products. Initially Poland sought to resolve the issue on a bilateral level, but later on it elevated it as an EU issue and, in the course of this dispute it blocked a preliminary stage on Russia’s accession to the OECD. Moreover, in the EU – RF Summit of 2006, Poland rejected all all proposals and insisted on the ability to interrupt the EU-Russia negotiations anytime. Eventually, through the efforts of the German and Portuguese Presidencies, the problem was rapidly solved in early 2008 after the negotiation of an EU–Russia memorandum on the safety of plant products for human consumption. Despite some Russian concerns that even the EU officials considered legitimate, the rapid lift of the sanctions indicates that the problem was more of a political nature, having to do with the overall Polish foreign policy as a key US ally in the area (Roth M.: *Bilateral Disputes between EU Member States and Russia*, CEPS Working Document No. 319/August 2009, pp. 8-12).

⁴⁷ A far more important dispute, also having very serious historical implications, was the Estonian monument crisis, which broke in 2007, when the Estonian government decided to relocate the Monument to the Liberators of Tallinn (Bronze Soldier), which was erected in 1947. For many in Estonia the monument was perceived as a symbol of Soviet repression, but for many red army veterans as a war sacrifice monument. The decision of the Estonian government and the subsequent legislation that was passed in the parliament to enable the relocation of the monument sparked fierce reactions in Moscow where Russian politicians spoke about a blasphemous act and glorification of fascism, including the week long blockade of the Estonian embassy in Moscow by protesters and the extensive cyber-attack on Estonian government websites. Eventually, the Estonian government requested the intervention of the EU, with the German Presidency undertaking efforts to restore bilateral talks between Estonian and Russian officials to resolve the issue. The EU took part in the crisis only with regard to the siege of the Estonian embassy by adopting a CFSP statement issued on 2 May 2007 “strongly urged” Russia to comply with its obligations under the Vienna Convention on Diplomatic Relations, emphasizing however that “Given the emotionally charged atmosphere surrounding the Soviet war graves in Estonia, it would be advisable to have a dispassionate dialogue on the matter” (http://www.eu2007.de/en/News/CFSP_Statements/May/0502BoEstland.html). In this case, the EU clearly displayed its solidarity to Estonia, but only with regard to the siege of the embassy, without taking parts on the substance of the issue. (Roth, *ibid.* pp. 13-15).

⁴⁸ Shevtsova L.: *Lonely Porwer: Why Russia has failed to become the West and the West is weary of Russia* (Carnegie Endowment for international Peace, Washington DC, 2010), p. 239.

Others point at the trend of Moscow to destroy any multilateral initiative in the region and, thus, suggesting its exclusion from the EaP or other similar initiatives!!!⁴⁹

The 2008 conflict in Georgia also complicated the relation between EU and RF, but it was probably fortunate for the EU that the Presidency was held by France at the time, and, through the own political agenda of its President, Sarkozy, the EU managed to appear as a credible third party which pushed for an agreement⁵⁰ and today, almost 3 years later, that incident hasn't seriously harmed the EU – RF relations.

Another, more delicate matter that also touches upon the core of EU external security policy is the issue of Kalinigrad, the Russian exclave that has access to the Baltic, but not to Russia or Belarus, since it borders Lithuania and Poland. On the other hand, the Schengen treaty provides for very strict rules of monitoring of the external frontiers of the EU, including the visa regime. Therefore, for the first time, Russian citizens would be required to issue visas in order to travel to Russia.⁵¹

Russia has repeatedly made it clear that free access of the residents of Kalinigrad to Russia is a top priority in its future relationship with the EU. After a series of negotiations the parties concluded in 2002 a Joint Statement on the use of FTD (Facilitated Travel Document) and FTRD (Facilitated Rail Travel Document),⁵² however it is clear that this temporary solution is hardly satisfactory for Russia, since the issue reappears from time to time with Russia demanding the abolition of any form of visa on a permanent basis.⁵³

5. BEYOND ENLARGEMENT

After this concise analysis of the relations between the EU and its Balkan & Eastern neighbourhood the question, the main question arising is what happens next or in more blunt terms, how will the EU react to deal with poor, unstable and problematic neighbours that keep knocking on its door? Since the cases are different there is not a single response to be given.

As far as Russia is concerned, it never expressed its desire to ever become an EU member. Understandably so, because it would almost be the same, as if the US applied for EU membership. Therefore the EU needs to formulate a sincere and comprehensive cooperation with Russia as it can only be mutually profitable for both.

⁴⁹ Popielawska in Arvanitopoulos & Botsiou, *supra* n. 32, p. 52 where she claims that “*While opening the EaP to Russia would be utterly disastrous for the initiative – given its rather shameful role in any joint international endeavour, especially in this particular region – inviting Turkey would be beneficial. Considering its political weight and its role in the region in all kinds of issues that the EaP will sooner or later have to face, such as energy or the ‘frozen conflicts’, the importance of having Turkey on board, with its much more constructive attitude (in comparison to Russia) should not be underestimated by EaP supporters*”. Thus, the author suggests the exclusion of the most important EU partner at the expense of a country which flagrantly disregards international law (Cyprus) threatens its neighbours (Greece, Syria) and has failed to conform even to its fundamental obligations *vis-à-vis* the EU in its accession negotiations until now.

⁵⁰ See Whitman R.G. & Wolff S.: ‘The EU as a conflict manager? The case of Georgia and its implications’, 86 *International Relations* 87 (2010), pp. 87-107, esp. at 98-100.

⁵¹ Potemkina O.: “A ‘friendly Schengen Border’ and Illegal Migration: The Case of the EU and its Direct Neighbourhood” in DeBardeleben J. (ed.): *Soft or Hard Borders? Managing the Divide in an Enlarged Europe* (Ashgate Publishing, 2005), p. 175.

⁵² Text: http://ec.europa.eu/comm/external_relations/russia/summit_11_02/js_kalin.htm.

⁵³ See *inter alia* White S. & Light M.: “The Russian Elite Perspective on European Relations” in Gower J. & Timmins G. (eds.): *Russia and Europe in the 21st Century, An Uneasy Relationship* (Anthem Press, 2009), pp. 48-49.

With regard to the Western Balkans, the EU has promised them accession, thus, sometime it has to deliver. However, this is not automatic or self evident in this particularly volatile region which, so far sparked the 1st World War and became the Theater for the bloodiest conflict in Europe since WW II. When Croatia started its accession negotiations (2007), the more optimistic view foresaw accession by 2011 at the most. It seems it will take much longer...

Serbia also presents a very difficult puzzle for the EU, especially with regard to the Kosovo issue. As any legal solution to the problem is very far away, since it is doubtful whether Serbia will ever accept the independence of Kosovo, Serbia could become a candidate country and potentially a full member, a territory of which is already recognized as independent by 22 EU members.

Bosnia & Herzegovina is practically an EU 'colony' since it applies the ultimate political and military control, however, even the enforcement of the SAA proved to be very difficult. Moreover, it is an artificially created state and its preservation as such solely depends on the will of the –so called – international community and at this stage the EU, to uphold it, since the constituent entities, more explicitly the Serbs but also the Croats have repeatedly expressed their will to break away.

FYROM has the bilateral problem with Greece, concerning its name and the historical usurpation of the ancient Macedonian history and, given the unwillingness of its leadership to compromise with Greece, its path towards the EU also seems doomed.

Albania has a fragile political system and its economic data bring it decades behind any acceptable EU standards.

In the face of the above, does the EU have the capacity to inherit and solve these issues? The answer is that it has to, not for moral reasons, but to ensure its own security and prosperity by incorporating a European area that if left aside it could become a magnet for all forms of organized crime. Can the EU perform this task? Very doubtful, especially if we look upon the initial responses to the Yugoslav crisis which, instead of uniting the EU states in a common foreign policy to resolve the issue, they reacted by "Balkanizing" their own foreign policies (mainly Germany and France).

With regard to the rest of the Eastern partners, the ENP and the EaP do not seem to have a clear vision as to the specific targets and deliverables. Specifically in the case of Ukraine, the approach until now proved to be very unsatisfactory for the Ukrainian leadership, which has a very clear policy towards EU accession. While the current EU policies tend to invite Ukraine "with us" it is clear that Ukraine wants to become "one of us". Therefore, also because of its size and economic importance, any alternative to full membership is doomed to fail in the long term.

Probably the rest of the Eastern partners cannot demand membership or it is unrealistic for some of them (eg. Azerbaijan) but even if they are to be satisfied with a kind of "special relationship" this has to be clear and attractive. The unwillingness or even the incompetence of the EU to display such clarity in its intentions will undoubtedly have negative impact in its relations with those states, as well as its credibility as a world player.

IMPROVEMENT AXONS FOR ARDAS CULTURAL FESTIVAL IN EVROS, GREECE, BASED ON ATTENDEES PERCEPTIONS

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Abstract: Festivals provide not only the hosting community but the wider destination area as well, with many benefits. In consequence they have gained increasing attention in the prism of tourism growth. The most popular festival in Evros prefecture in the Thrace region (Northern Greece) is Ardas festival which takes place annually near the banks of the Ardas River and is known as “Festival Arda: youth gathering”. In the highly competitive tourism market, festival organizers need to keep their customers satisfied in order to maintain and increase their market share. To accomplish this task, festival organizers must understand the visitors’ behaviour and intentions and formulate their strategy accordingly. In this context, this study aims to examine the current status of Ardas Festival based on attendees perceptions and, secondly to propose a segmentation of the attendees market, based on their overall visiting experience as well as the degree of their satisfaction.

A quantitative research study was conducted on the premises of Ardas festival. The questionnaire developed specifically for this purpose. It includes the following areas of improvement which were generated based on a prior qualitative study. The quantitative research obtained a sample of 410 visitors attending the festival. Statistical analysis included classical descriptive analysis, cluster analysis, and cross-tabulation tests. Results showed that all statements were considered important for attendees of the festival ($MS > 3.51$), with cleanness being the most important ($MS = 4.53$) and the increase of the number of Balkan countries bands the least ($MS = 3.62$). Three clusters ($n_1 = 116$; $n_2 = 146$; $n_3 = 140$) were produced based on the points of development as well as visitors’ satisfaction and impression. Results also showed that clusters were statistically significantly different regarding gender, marital status, education, occupation, and net individual monthly income. Results of the research can be a valuable input for the Ardas festival organizers. The findings can contribute to the success of the festival by satisfying the visitors and consequently increasing retention rate and loyalty.

Keywords: Festival, tourism, destination marketing, improvement axons, consumer’s behaviour, marketing, Greece

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1. INTRODUCTION

Festivals are important elements of the destination's attractions and above all in the rural and unknown tourist areas. Up to date literature accredits that festivals are a worldwide tourism phenomenon and uprising tourism businesses (Lee et al., 2004) which play a considerable role in communities' lives. Festival tourism in its different aspects (music, food, wine, etc festivals) is emerging worldwide since it brings various benefits to the attendees as well as to the hosting communities and the wider hosting area. For both cases there are an abundant number of studies that document very well these benefits.

Results from motivational studies for festival visitation suggest that festivals benefit attendees by providing them unique experiences (Wamwara-Mbugua & Cornwell, 2009); socialization (Li et al., 2009; Yolal et al., 2009; Zyl & Botha, 2004), feeling free, escape, excitement and novelty (Li et al., 2009; Yolal et al., 2009), cultural exploration (McDowall, 2010; Wamwara-Mbugua & Cornwell, 2009), and family togetherness (Foster a& Robinson, 2010; Li et al., 2009; Yolal et al., 2009; Park et al., 2008). Moreover, attendees benefit by relaxing (Kruger et al., 2010; Backman et al., 1995), coming close to nature (Luo & Deng, 2008); and feeling better (Packer & Ballantyne, 2010, Lee et al., 2010). Lastly, attending festivals raise the emotions of nostalgia and patriotism (Li et al., 2009).

On the other hand, the hosting community and the wider area also benefit from festivals. Festivals are means for tourism development and through it, money flows towards the hosting community and local society. Significant benefits include economic ones (e.g. Kim et al., 2010; Gibson et al., 2010; Liang et al., 2008; Jackson et al., 2005) and benefits on employment (Jackson, 2008; Dwyer et al., 2005). They boost cultural tourism (McKercher et al., 2006); and conserve culture and tradition (Xie *et al.*, 2004; Bescoulidis et al., 2002). Moreover, they develop recreational and pleasure opportunities (Gursoy et al., 2004), promote community/ social cohesion (Yolal et al., 2009; Rao, 2001) and enhance local community's image (Yuan & Chong, 2007; Gurson et al., 2004). Also festivals build community's pride (Dweyer et al., 2005; Mill & Morrison, 2002) and lastly they promote political support (Karlsen & Stenbacka Nordström, 2009; Arcodia & Whitford, 2007; Mossberg & Getz, 2006).

For the abovementioned multidimensional benefits that festivals have, communities hold a high interest in actively developing festivals and promoting them to local and non local potential tourists. Boosted competition among festivals led local organizers to perceive the necessity to take into account attendees needs in order to maintain or increase their market share, and continuously develop loyal customers. In this context it is crucial and of main interest, festival organizers to cognize the weaknesses of the festival event and to proceed quickly to the required actions for correction.

There is rich literature review regarding festivals. Previous research on festivals has focused on different aspects of festival tourism, such as motivation and /or satisfaction/ benefits (e.g. Yoon et al., 2010; McDowall, 2010; Wamwara-Mbugua & Cornwell, 2009; Yolal et al., 2009), branding (e.g. Huang et al., 2010; Esu & Arrey, 2009; Mossberg & Getz, 2006); and the link between festival attributes and satisfaction and or intention to revisit/ loyalty (e.g. Kim & Severit, 2011; McDowell, 2010; Cole & Chancellor, 2009; Lee et al., 2009; Leenders 2010; Lee et al., 2007).

While all the above mentioned studies are very significant in the area of festival research, little work was found that reported weaknesses or points of improvement of an attended festival, as perceived by visitors: Kruger et al., 2010; Crotts et al., 2008 and Silva et al., 2010.

Kruger et al., (2010) investigated among others, the festival evaluation of the 2009 South Africa's Klein Karoo National Arts (sample consisted 555 usable visitors' questionnaires).

For festival evaluation, factor analysis produced 3 factors: festival management (4 variables: ABSA KKNK is well organized; information about the festival is available; layout of the festival area is good; parking is well organized) service and prices (4 items: Service/prices at restaurants are good; ticket prices are reasonable; price of accommodation is reasonable; adequate entertainment for children); and productions (3 variables: Front-of-house service at productions is effective; ticket sales are accessible; the quality of shows is excellent). *Festival management* received the highest mean value (3.93) of all the evaluation items; *Productions* had the second highest mean value of 3.90, *Service and prices* received the lowest mean value (3.53).

Kim et al. (2008) explored the operational procedures -factors that contribute in the success for the Hampyeong Butterfly Festival. They also indicated problems that the festival experienced. As success factors supporters of the festival are reported, such as the county's mayor, butterfly collectors, the local community and volunteers. Reported problems of the festival were: overlapping butterfly business plans using butterflies, poor infrastructure, lack of hotel accommodations and seasonality.

Crotts et al., (2008) explored 310 visitors of the 2006 Charleston Food and Wine Festival, liked and disliked service attributes, and identified the delighted and highly satisfied guests as measured by their overall satisfaction and intent repeat visit. The likes and dislikes were two open-ended questions were adopted from Pritchard & Havitz (2005, 2006 in Crotz et al., 2008). They found that visitors' dislikes were: Lack of seating, too crowded, price/expensive/hidden charges, difficulty purchasing tickets on the website, not enough food samples, bathroom availability, chef demos too pricey/hard to hear/learn, lack of signage, and parking limitations.

Silva et al., (2010) measured visitor satisfaction with different primal features of the 2008 and 2009 American Folk Festival on a sample of 478 attendees. They found that the quality of the music performances at the Festival plays the leading role in attracting the Festival onlookers; potential weaknesses reported by responding visitors, included the quality/value of food, the quality/value of arts and crafts available, and the authentic traditional arts.

Weaknesses of a festival attended by its visitors is considered a highly valued information, because it allows the festival authorities to capture the points that the festivals need to improve and the performance rated by customers

1.1. Ardas Festival-aim and objectives of the study

In Greece, the most popular festival in the prefecture of Eastern Macedonia-Thrace is the Ardas Festival "Youth Gathering, Ardas", which has a 15 year history, taking place at the banks of the Ardas River. The festival is organised by the municipality of Vissa and the local body of Kastanies in collaboration with the General Secretariat of New Generation and the prefecture of Evros. The festival is multidimensional with music concerts, parallel events and activities. For the starting years from 1995 to 1997, no published data exists as regards number of attendees. From 1998-2000, Ardas festival had more than 70000 visitors, while from 2001 the number of visitors were under 50000 showing a decline in visitation and revenues.

Also, it is noted that festivals that present the same theme (music, events and activities), with combination the natural landscape in Evros, are the following: The Festival of Youth of Municipality Tichero; the Dance Festival in Samothraki; the Thrace Ethnic Festival; and the Red River Festival (www.nomervou.gr).

Against the above framework, this study has as an aim to identify the weaknesses that visitors recognized attending Ardas festival, while the objectives of this research are to:

1. Identify the total impression that attendees hold from their visitation to Ardas festival
2. To explore attendees total satisfaction
3. To determine the visitors segments based on recognized weaknesses, impression and satisfaction.
4. To test if the derived segments differ in socioeconomic status.

This research consists of the first attempt to recognize the weaknesses of Ardas River Festival as perceived by its customers. This research is considered of great importance for Greek and local authorities as well as the bodies of tourism planning policy, since the Ardas festival is essential for the economy of the area.

The paper is structured as follows. First, the research methodology is presented and the findings displayed followed by the discussion. Continuously, the conclusions and recommendations are presented, followed by the limitations of the research which give recommendations for further research.

2. METHODOLOGY

The research was conducted by means of questionnaire in the 14th Youth Gathering, Ardas at the Ardas River Cultural Festival in the summer of 2008 (30th of July to 3rd of August). The section of the questionnaire presented in this paper was constructed based on the results of a qualitative research conducted by the researchers, during the 13th Ardas festival (25th-29th of July, 2007). The questionnaire included open questions (days of stay, times visited, age of first visit), multiple choice answers, as well as Likert (points of improvement) and Likert type scales (impression and total satisfaction from visitation). Sample consisted of 410 visitors/attendees, via mall intercept personal interview technique (Malhotra, 2007) at the festival's premises, sample size considered to be satisfactory for the purposes of the research as well as the main statistical analysis utilized (Hair et al., 1995). The data was analyzed using the SPSS ver.17 program. Analysis included descriptive statistics (frequencies and percentages and means), reliability, K-means cluster analysis and chi-square tests (cross tabulation).

3. RESULTS AND DISCUSSION

3.1 Consumers' profile

Data analysis revealed that there was an even distribution of men and women. The great majority of respondents were young people less than 35 years old (85%), and with about the half of the sample in the age class of 18-25 years old. The sample was mainly single (66%), with secondary or postsecondary education (54%). Most participants were students in higher education (55%) and employees (federal or private) and had an individual monthly income up to 1500 Euros (81%).

3.2 Visitation at the Ardas River Festival

The majority of the attendees (53%) which participated in the research mentioned that they had visited the Ardas Festival (including this festival) 2-5 times; 22% visited it 6-10 times; 9% had attended the festival more than 10 times; and lastly 16% of the sample, were first-time

visitors. Age of first time visitation at the Ardas festival was under 18 years old (22.2%); 59.3% between 18-25 years old, and 18.5% over 25 years of age. Considering the length of stay (the festival lasts 5 days), 18.5% stayed one day; 22.2% two days; 18.5% three days; 14.9% four days; and 25.9% five days. Finally, 81.5% visited the festival with their friends, 14.9% with family, and only one visited the festival alone (0.6%).

3.3 Features for improvement of the Ardas Cultural festival

Participants were given 8 statements that displayed the weaknesses and simultaneously the characteristics for improvement of Ardas Cultural Festival, as reported by visitors during the qualitative research that was previously realized. Participants were asked to provide for each statement their degree of agreement or disagreement on a five point Likert Scale (5= completely agree down to 1= completely disagree).

Primary weaknesses of the festival and *ad interim* point that should be improved by organizers is the cleanness of the area (MS=4.53), which is considered as the main weakness of the festival, followed facilities (MS=4.49) that should be improved for visitors as well as for campers. Safety of visitors and campers also arouse as a problem which the organizers should solve (MS=4.48), along with organizers and staff's attitude which should be more responsible and helpful (MS=4.45).

These findings support the findings of McDowall (2010) who found that cleanness of the facility and waste management received the lowest satisfaction rate, and were referred to most commonly as visitor's bad experience from visitors attending the Tenth-Month Merit-Making Festival. Also, Lee (2009) in her study of two strawberry festivals and one wine festival in Texas, found that cleanness and safe and well-maintained equipment and facilities are strong predictors of a visitor's emotions when attending a festival. In addition, Lee et al., (2008) in examining the links between festivalscapes emotions, satisfaction and loyalty of the Andong Mask dance festival found that the facility quality dimension (among them were the items: facilities of festival site and cleanness of festival site) had a significant negative effect on negative emotion, a positive and significant effect on satisfaction, and a significant indirect positive relationship with continuance loyalty. Moreover, Lee et al., (2007) in their study found that perceived quality attributes related to generic features (i.e., visual appearance, live entertainment, and feeling of safety) and comfort amenities (i.e., cleanliness of the portable restrooms and availability of restrooms) had strong relationships with overall quality. Lastly, Ozdemir & Culha (2009) found that the festival area factor (i.e. the facilities of festival site are sufficient, atmosphere of the festival site is good, there are several events within the festival, the festival area is clean, the festival program is well organized, resting areas are adequate) has a direct positive effect on satisfaction and loyalty.

Secondary weakness that should be improved is considered the music programs which should be enriched, prices should be kept at low levels, events and activities should be enhanced. The feature with the lowest rate was "the bands from the Balkan area should be increased", where the sample tends to neither agree/disagree towards agree (Table 1).

Regarding prices, findings are consistent to Leender's findings (2010) where analysis resulted that ticket price of the festival plays some role but is less important than festival brand components. On the other hand van Zyl (2008) found that festival brands and entertainment or festival activities were the two most important attributes for a success of an art festival, while transport and ticket price were less important. This is consistent with the Yoon et al., (2010) study, who found that the quality dimension referring to the festival program was positively and strongly related to the festival value, which consequently improved festival satisfaction

and loyalty. Also, Silva et al., (2010) found that the quality of the music performances plays the leading role in attracting the Festival onlookers.

Ardas Festival participants have multiple motives for attending the festival, and for so the organizers must develop a portfolio of different and new events and activities in order to attract different interests. This finding is of great importance, since it shows that the festival and its activities bring excitement and pleasure to visitors who revisit the destination (Kaplanidou, 2007).

Table 1. Features for improvement of Ardas Cultural Festival (%)

Statements	Completely agree	Agree	Neither agree/disagree	Disagree	Completely disagree	Mean score (St.D)
Cleanness of area and amenities should be maintained by organizers	68.6	21.11	7.4	1.0	8.3	4.53 (0.83)
Facilities for visitors and campers should be improved	60.8	29.4	7.8	2.0	0.0	4.49 (0.73)
The area where the festival is conducted should be guarded, in order for people to feel secure and safe	62.1	27.6	7.9	1.0	1.5	4.48 (0.80)
Organizer's and staff's attitude should be responsible and helpful	63.1	25.1	8.4	1.0	2.5	4.45 (0.88)
Music programs should be enriched	44.6	44.6	8.3	1.0	1.5	4.30 (0.78)
Price should be kept at low levels	45.9	39.0	8.8	5.4	1.0	4.23 (0.89)
Events and activities should be enhanced	34.8	42.6	20.6	1.5	0.5	4.10 (0.80)
The number of bands from the Balkan countries should be increased	30.2	24.4	30.7	6.3	8.3	3.62 (1.212)

3.4 Impression, satisfaction, re-visitation and recommendation of Ardas Cultural Festival

Total impression from the Ardas festival for the 42.0% of the participants was “like I expected it to be”; “better than I expected it” for 31.7%; “much better than I expected it” for the 15.1% of the sample; “worse than I expected it” for 10.2% and “much worse than I expected it” for the 1.0% of the sample (Mean Score=3.50; St.D=0.90). Referring to total satisfaction, 48.3% was satisfied; 32.2% neither satisfied/nor dissatisfied; 12.7% was very satisfied; 4.9% dissatisfied and 1.5% very dissatisfied (Mean Score=3.66; St.D=0.81). Regarding intention to revisit Ardas area in the next 5 years, 47.8% stated very likely; 32.7% likely; 4.7% neither likely/unlikely; 3.4% unlikely; 4.4% very unlikely (Mean Score=4.16; St.D=1.0). Lastly, as to if participants would recommend Ardas area to others, 51.7% stated very likely; 32.7% likely; 9.3% neither likely/unlikely; 3.9% unlikely; 2.4% very unlikely (Mean Score=4.27; St.D=0.95).

3.5 Cluster analysis – Attendees segments

Cluster analysis was utilized in order to classify participants into mutually exclusive groups with the same perceptions and behavior. Two variables were added in the cluster analysis process: total impression and total satisfaction from attending the festival. The analysis resulted in a three cluster solution. Multivariate statistic results, indicated statistical significant difference between the three clusters and the results of ANOVA tests also revealed that all variables contributed to differentiate the three cluster solution (in all cases $p=0.00$). The Final Cluster Centres (FCC) regarding each cluster, as well as the sample size is presented in table 2.

Table 2: Cluster analysis based on improvement points as perceived by visitors combined with total impression and satisfaction

Variables	1 st cluster, n=116	2 nd cluster, n=146	3 rd cluster, n=140	Statistics
Price should be kept at low levels	4.07	4.07	4.33	F=3.539 (p=0.000)
Music programs should be enriched	3.84	4.29	4.66	F=40.803 (p=0.000)
Events and activities should be enhanced	3.59	4.00	4.61	F=71.311 (p=0.000)
The area where the festival is conducted should be guarded, in order for people to feel secure and safe	3.59	4.83	4.90	F=197.302 (p=0.000)
Cleanness of area and amenities should be maintained by organizers	3.66	4.92	4.84	F=159.376 p=(0.000)
The number of bands from the Balkan countries should be increased	3.19	2.86	4.83	F=238.380 (p=0.000)
Organizer's and staffs attitude should be responsible and helpful	3.47	4.81	4.89	F=204.791 (p=0.000)
Facilities for visitors and campers should be improved	3.76	4.78	4.77	F=134.345 (p=0.000)
Total impression	3.16	3.37	3.79	F=10.380 (p=0.000)
Total satisfaction	3.47	3.60	3.89	F=9.424 (p=0.000)

The analysis produced 3 segments with a different segment profile. Chi-square tests and crosstabs revealed that clusters were statistically significantly different regarding gender ($\chi^2_2=28.169$, $p=0.000$), marital status ($\chi^2_6=17.476$, $p=0.006$), education ($\chi^2_{10}=59.792$, $p=0.000$), occupation ($\chi^2_6=20.942$, $p=0.002$), and net individual monthly income ($\chi^2_{10}=22.302$, $p=0.014$). More specifically the profile of each segment is the following:

Segment n.1: Music goers. This segment consists of 116 participants. Visitors belonging in this segment attend the festival because they can see and listen to live bands at low prices. As such, they are mainly interested that the festival's prices stay at low levels, and music programs should be enriched. They tend to be indifferent of improving the other weaknesses of the festival. They hold the lowest impression of all three groups, probably because they considered that the money that they paid did not meet their music expectations. They also tend to be neither satisfied nor unsatisfied.

This cluster consists mainly of men (67.2%), age 18-25 (53.4%) and 26-35 years old (31.0%), single 60.3% and 5.2% widowed (100% of the widowed belong in this segment) with

secondary (29.3%) and postsecondary (22.4%) education, while 5.2% that had not finished elementary school (100% of the total belong in this segment). This cluster is consisted mainly of students (55.2%) and 6.9% is dependent from others (in this cluster belongs the 80% of the total dependent sample), while net individual monthly income is up to 1000.00 Euros for the 42.8% of the cluster.

Segment n.2: *Demanding, fairly impressed, fairly satisfied.* This segment consists of 116 participants. The members of this segment consider that all except one festival attributes-service should be improved (FCC ranging from 4.00-4.92). The only statement that has low FCC is “the number of bands from the Balkan countries should be increased”, with FCC =2.86. They have the highest FCC for the items referring to cleanness and safety (FCC=4.92 and 4.83 respectively). This cluster’s total impression tends to be as expected; and tends to be overall fairly satisfied. This segment demands its value for money and is austere in its judgment.

This segment consists mainly of women (65.8%), age ranging between 18-35 years of age (86.3%). Also 40.0% of the participants with age between 36-45 years belong in this segment (12.3% of the cluster); single 71.2% with secondary education (43.8%) and a bachelor degree (34.2%). This cluster is consisted mainly of students (53.4%) and salaried (35.6%), while no dependent from other exist in this cluster, with net individual monthly income is up to 600 Euros (31.4%) and 1000.00 -1500.00 Euros for the 38.6% of the cluster.

Segment n.3: *Demanding, impressed, satisfied.* This segment consists of 140 attendees. This segment considers all given statements (attributes-services) regarding weakness and simultaneously points of the Ardas festival improvement, as significant to be improved by the festival’s organizers (FCC ranging from 4.33-4.90). The only statement that has a low FCC is “prices should be kept at low levels” implying that they are not price sensitive. This cluster stresses as most important points of improvement safety/ security and organizers and staffs attitude as to being responsible and helpful. This cluster’s total impression tends to be better than expected; and tends to be overall satisfied. While this segment is the most demanding of all, it is the one that holds the highest impression and satisfaction from all three segments. This segment is the most tolerant one as regards its value for money. It probably considers that the price that they pay is equal to the benefits that they gain.

This cluster has an equal distribution of men and women (48.6% and 51.4% respectively). Age distribution falls mainly in the 26-35 years old (45.7%), while 50% of the participants older than 46 years old fall in this segment (4.3% of the cluster). Visitors consisting of this segment are single 70.0% and 26.0% married. 38.6% of this cluster holds a bachelor and an MSc or PhD (8.6%). This segment consists of the highest educated visitors compared to the other segments, with 47.2% of the cluster holding a bachelor and an MSc or PhD degree. This cluster is consists 54.7% of students, 24.3% of salaried visitors and 19.6% of free lancers, with net individual monthly income 1000.00 -1500.00 Euros for the 34.8% and 16.0% with income 1500.00 -2500.00 Euros.

4. CONCLUSIONS – RECOMMENDATIONS

The current paper extends knowledge in the festival success area, by examining the features that should be improved as perceived by attendees and continuously segmenting visitors based on their perceptions of feature improvement and total impression and satisfaction. Descriptive analysis revealed that of main interest that need immediate action is the cleanness of the area, improvement of facilities and increase of guards so attendees could

feel safer. For this to be achieved some actions could be taken. First of all, in order to improve facilities, the festival organizers need to raise money which can be achieved by sponsors of the festival. Secondly, the Ardas festival area has a competitive advantage, being located in impressive natural scenery. This scenery must be cherished and must be kept clean and safe for revisitation to occur. In order to increase cleanness and safety, they could either hire staff or increase volunteers which undoubtedly should be trained.

Cluster analysis revealed three segments with different profile: the music goers who care about the music programs and ticket prices, the demanding, fairly impressed, and fairly satisfied, who care mainly for cleanness and safety, and the demanding, impressed and satisfied who care mainly for safety and staffs attitude. It is also noted that the two last segments have in common that they consider that all features except one (more Balkan bands) should be improved. Huang et al., (2010) report that community-led festivals benefit from repeat visitors, while Shone and Perry (2004 in van Zyl, 2008) state that if the motivations, expectations and needs of the contributors and visitors are not met, a festival and event will fail. Thus, the festival providers should give focus on at least this issue: they should listen to people's opinions in order to make the best of what they want. This could be done after each Ardas festival by conducting an online research.

5. LIMITATIONS –DIRECTIONS FOR FUTURE RESEARCH

This study is to our knowledge, the first one focusing on the weaknesses of a festival in Greece and used as a case study the Ardas Cultural Festival “Youth Gathering”. This study has few unavoidable limitations. First the research was exploratory and for so the findings cannot be generalized. Also, it employed a non-probability sampling method; the sample was adequate for its purposes and allowed reasonable conclusions to be drawn; however, it cannot be considered representative of all visitors. The findings are limited by the sample and measures used. Larger empirical studies using quantitative measures should be done to replicate and expand these results. Also, there might be more items referring to the weaknesses of the festival, but in this research, the statements used were derived from qualitative research. Another research could validate the results of the study.

Regardless of the current limitations, the present study brought to light some findings which may assist festival organizers and marketers in developing a more appealing and successful to visitors' festival. Furthermore, the findings of this study could be a basis for future research on the topic in Greece and internationally.

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SOFTWARE TOOL FOR A COMPARATIVE ANALYSIS OF ROMANIAN FISCALITY WITH OTHER COUNTRY IN EUROPEAN UNION

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Abstract: *The corporation activity represents a factor of major interest for the economies of all the States due to the economic and social effects that it generates. The conditions of tax nature have an influence on corporations' investment localization decisions and capital flows so that the policy of each state in the field of corporative income tax payment must constitute the object of a very careful analysis. Thus, the companies choose to carry out their activity in the countries where they can obtain the biggest net profit after carrying out their specific operations. Reducing taxation rates of the corporate incomes in various member states of the European Union, as an effect of the tax competition, represents the compliance with an international trend, being only to a small extent the result of the government will. In the European Union, Romania has one of the lowest income tax rates as compared to other member states. Starting with 2005, the income tax rate that applies to the taxable profit is of 16%.*

Analysis of economic and financial performances of subsidiaries of transnational companies active in Romania, considered as representative for their fields of activity, allowed us to formulate judgments about the prospects of investment in the Romanian economy produced by firms with trans-borders business.

An information system can have a major impact on corporate strategy and organizational success. The involvement of managers and decision makers in all aspects of information systems is a major factor for organizational success, including higher profits and lower costs. Some of the benefits business organizations seek to achieve through information systems include: better safety, competitive advantage, fewer errors, greater accuracy, higher quality products, improved communications, increased efficiency and productivity, more efficient administration, superior financial and managerial decision making.

Keywords: Tax rates, transnational companies, price indexes, information system.

JEL Classification Codes: G32, H25, C88, D80

1. TAXATION IN EUROPEAN UNION

For the European Union's states, the fiscal policy represents one of the most important tools that the governments use to influence the national economies.

The existence of different national tax systems represents, however, the source of many problems:

- Influencing (distorted) resource allocation, with negative consequences for capitalizing a real single market but also in terms of international distribution of tax revenues, which may disadvantage some Member States in relation to others;

- Weakening budgetary revenue, through income loss associated with tax competition;
- Trend of increasing inequality of tax systems, through the preferential treatment of mobile tax bases;
- Risk of double taxation.

Lately, many experts and politicians were in favor of achieving a coherent and centralized policy at the European Union level, known as „*tax harmonization*”.

This concept involves achieving an orderly and coherent tax system at EU level, although without its components (national tax systems) to be identical. In terms of tax parameters, harmonization may refer to four aspects: the type of tax, the tax rates, the taxation basis and the administration of taxes.

Our work refers only to *direct tax*¹ component, which is considered nominal tax, having an amount and payment terms specifically set, being more equitable and preferable to indirect taxes reflected on goods and services.

The *communautaire acquis* in the field of direct taxation mainly concerns income tax and tax on capital, and less tax on individuals. European Community Treaty does not expressly specify the need for direct tax alignment, and under the principle of subsidiarity, member states are free to adopt necessary regulations in the area. As far as direct taxation affect the free movement of goods, services, people and capital, Member States must ensure the functioning of a national taxation system which to respect the right of establishment of individuals or companies in accordance with Articles 94 and 308 of the Treaty .

The structure of tax revenue varies from one EU country to another. The main direct tax legislative settlements are in the area of *profit tax*. However, introducing a flat profit tax at EU level would be a controversial event and would likely face serious opposition from many Member States.

Yet, the EU Commission proposal for a single basis for taxable profit at EU level, still leaving national governments the freedom to determine its own share of profit tax, is pragmatic and reasonable. These simplify the profit taxation of companies operating in the EU, without harming competition or restrict the freedom of national governments to set tax rate they consider appropriate.

Romania joined the European Union with the lowest personal income tax (16%, while the European average was of 38.7%), but also with the lowest GDP share of budget revenues - 28.6 %, including social contributions.

Regarding profit tax, Romania ranks six, in the top of European countries with the lowest rate (16%), in the context of a European average of 23.59%, the lowest rate being registered in Bulgaria and Cyprus (10%), while in the opposite is Malta with a 35% share².

Forward is presented the percentage size of tax revenue in the GDP, at the end of 2008³:

¹ Tulai C., Serbu S. – Fiscalitatea comparată și armonizări fiscale, Editura Casa Cărții de Știință, Cluj-Napoca, 2005, p.173

² Raportul Directoratului CE pentru Taxe și Uniune Vamală, 2006

³ Comisia Europeană, Eurostat, “Taxation Trends in the European Union”, Ediția 2009

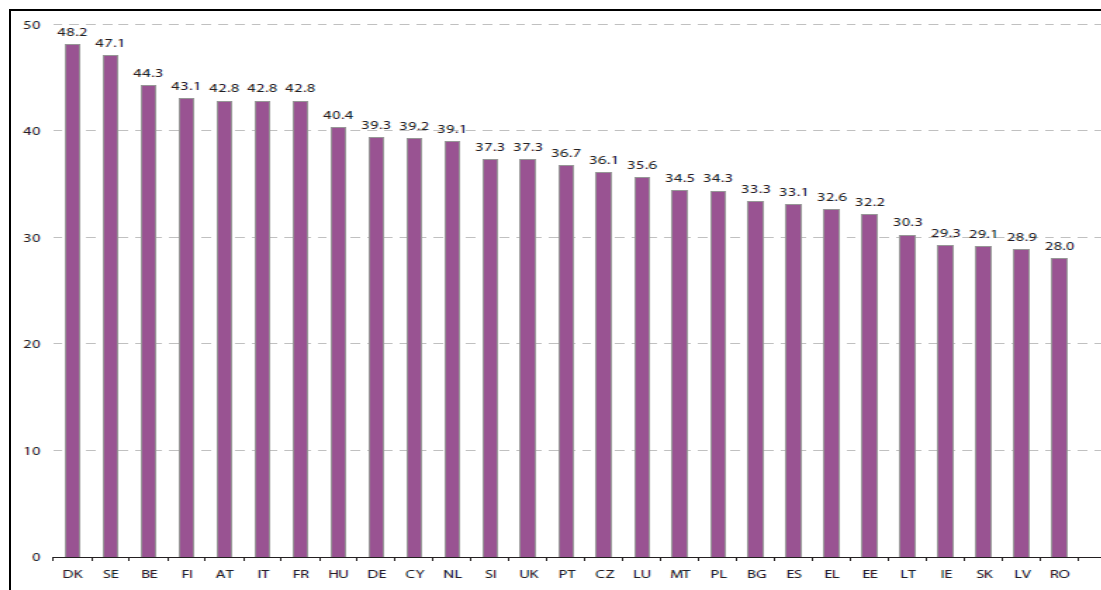


Figure no 1. The percentage size of tax revenue in the GDP, at the end of 2008, in the European Union Member States

Source: „Taxation Trends in the European Union”, European Commission, 2010

As can be seen from Figure 1, in the EU Member States there is a diverse representation of tax revenue in GDP, so in Denmark 48.7% of GDP transforms in tax revenue, while in Romania only 29.4%, our country being last in the European Union from this point of view. The result regarding the taxation perception is contrasting; therefore it is considered that in Romania the tax burden is very high.

This data shows that, although there is a common tax strategy at EU level, the way Member States choose to achieve their objectives is different, they having the right to fiscal sovereignty.

From 1995 to 2009, almost all EU Member States cut their top rate, with only three keeping it unchanged (Malta, Austria and the United Kingdom) and one (Portugal) increasing it slightly. Even taking into account the subsequent 0.4 average rate increase in 2010, all in all, the EU-27 average has gone down by 9.9 percentage points since 1995, accelerating after 2000.

The post-2000 acceleration is most noticeable in the Central and Eastern European countries, with the biggest cuts having taken place in four countries that adopted flat rate systems, Bulgaria (– 30.0 percentage points), the Czech Republic (– 17.0), Romania (– 24.0) and Slovakia (– 23.0); the acceleration was, however, visible also in the old EU Member States.

One should nevertheless note that the increase in the average in 2010 is due to sizeable hikes in a small number of countries, while the overwhelming majority of Member States, including several that have been amongst the strongest hit by the crisis, have kept their top PIT rate constant.

The fairness of the tax system has been a major concern. Several countries have introduced measures to safeguard lower incomes, usually by raising allowances or, in a few cases, by raising the top PIT rate. This seems to point towards some increase progressively in the coming years. Furthermore, as mentioned above, several countries have striven to shield from tax increases of expenditure, food or other essential products. Focussing relief on lower-

income households also has the advantage that a greater proportion of the tax break is spent immediately, supporting demand.⁴

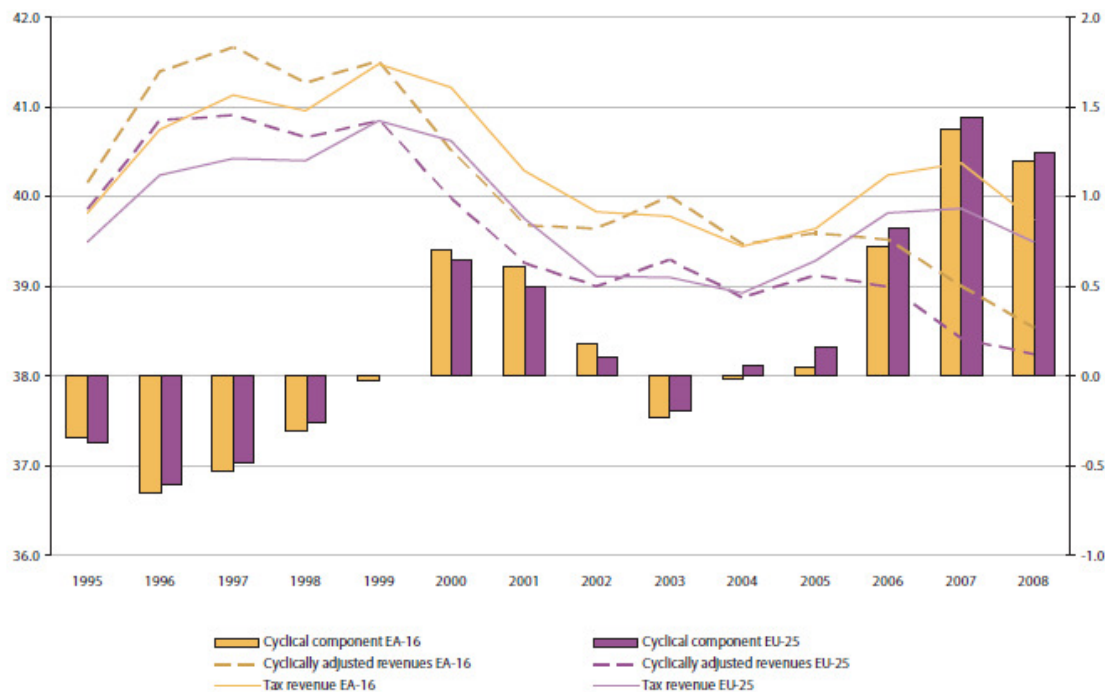


Figure no. 2 Cyclically adjusted tax revenues 1995-2008, in % of GDP

Source: „Taxation Trends in the European Union”, European Commission, 2010

Figure no 2. displays tax revenues and cyclically adjusted tax revenues (both GDP-weighted) in % of GDP for the EA-16 and EU-25 on the left hand scale of the graph. The right hand scale of the graph shows the GDP-weighted cyclical components in % of GDP for the EA-16 and the EU-25 respectively.

As displayed in the bars of the graph, the cyclical component of tax revenues was not very pronounced in the period under investigation. The cyclical component only exceeded one percent of GDP at the end of the period in 2007 and 2008, when actual GDP was considerably above its potential, translating into a high positive output gap. This generally low cyclical component just reflects the rather limited reaction of tax revenues to economic activity, as the tax revenue sensitivity is 0.42 for the Euro area and 0.39 for the EU-25 respectively. In general, the development of the cyclical component for the Euro area and the EU-25 are very similar.

The distribution of the overall tax burden by economic function has undergone some important changes since 2000, and the pattern is rather mixed across Member States.

Strikingly, on an overall EU basis, taxes on capital as a percentage of GDP have not changed since 2000. However, this is not only masking the developments in the meantime, but also the development in individual Member States. While almost all Member States (exceptions Hungary, Malta and Sweden) cut top corporate tax rates, some such as Malta and Cyprus envisaged a considerable increase in capital taxes. Compared to 2000 the contribution of labor and consumption taxes has slightly declined; labor taxes have indeed significantly

⁴ „Taxation Trends in the European Union”, European Commission, 2010

increased only in seven Member States, while in 12 others they contributed in a non-negligible way to reducing overall taxation. Despite significant changes in many Member States, consumption taxes as % of GDP are, on average, only slightly below their 2000 levels. The biggest increase in consumption taxes are envisaged in New Member States, where adjustments to EU requirements in these fields, such as minimum tax rate on energy products, still had to be made.

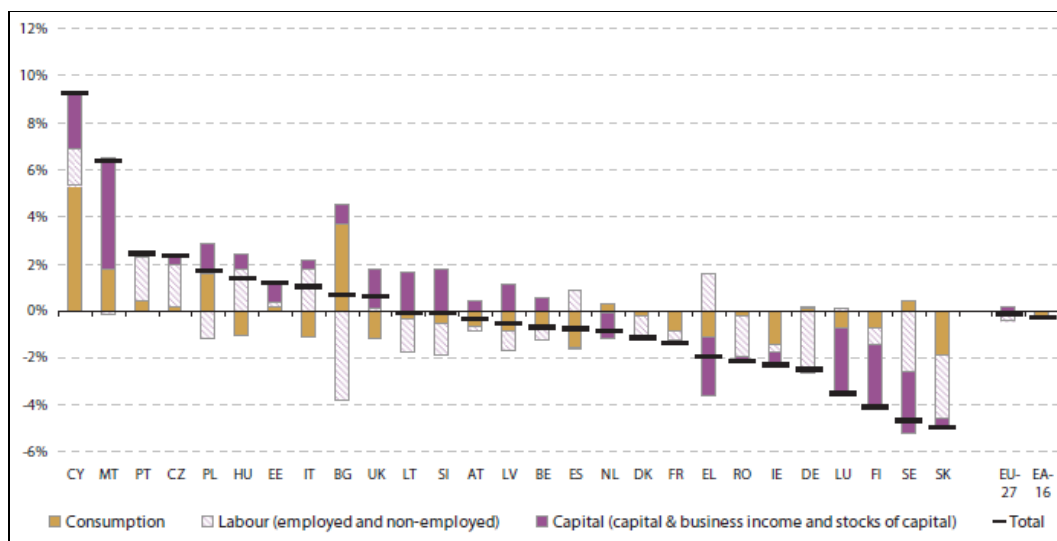


Figure no.3 Relative contribution of taxes on labour, capital and consumption to the change in the total tax-to-GDP ratio, by country 2000-2008, in % of GDP

Source: „Taxation Trends in the European Union”, European Commission, 2010

The three main implicit tax rates are here juxtaposed to highlight four main facts:

1. *implicit tax rates on labor remain well above those for capital and consumption;*
2. *after a declining trend, labor taxation stabilized from 2004 onwards;*
3. *effective taxation of capital was on the increase till 2007; this was the case despite considerable cuts in the top corporate tax rates, most likely indicating a base broadening;*
4. *since 2001 consumption taxation has been trending upwards slowly, before falling slightly in 2008.*

2. THE ANALYZE OF THE TAXATION LEVEL EVOLUTION IN ROMANIA

Fiscal policy measures promoted by the tax authorities from our country, during 2001-2008, along with other factors, among which the quality of state tax claims management and the degree of voluntary tax compliance, as well as the pressure they exercised has influenced the level and structure of tax revenue.

The overall tax-to-GDP ratio of Romania is at 28.0 % in 2008, nine percentage points lower than the EU-27 average (37.0 %). The levels of taxation in Romania is the lowest in the EU and markedly lower than in neighboring Bulgaria (33.3 %) and Hungary (40.4 %).

The tax structure of Romania stands out in several respects. Romania has the fourth highest reliance on indirect taxes in the EU after Bulgaria, Cyprus and Malta. Indirect taxes supply 42.7 % of total tax revenue compared to a 37.6 % EU-27 average, while the share of

social contributions accounts for 33.3 % (EU-27 30.2 %) and direct taxes only for 24.0 % (EU-27 32.4 %).

Because of this structure, the share of VAT on total tax (including social contributions) revenue in 2008 (28.2 %) was the third highest in the Union. The low level of direct taxes is mainly due to low personal income taxes (merely 3.4 % of GDP), amounting to around 42 % of the EU-27 average.

The share of central government revenue forms more than half of the total (62.9 %), while local government revenues are marginal, consisting of only 3.2 %. The revenue shares received by the social security funds account for 32.9 %, almost four percentage points above the EU-27 average. In per cent of GDP, however, the revenues of the social security funds are 1.5 percentage points below the EU average.

In table 1 is presented the evolution of gross domestic product and of tax revenues of Romania, as well as the level of taxation in the 2000-2009 period.

Table no.1 The taxation level evolution in Romania, during the period: 2000-2009

Year	GDP(mill. lei)	Fiscal revenues (mill. lei)	General level of taxation (%)
2000	80377,3	11439,4	14,23
2001	116768,7	13727,7	11,76
2002	151475,1	16775,3	11,07
2003	190335,4	23602,3	12,40
2004	238791,4	30252,7	12,67
2005	287186,3	34531,2	12,02
2006	342400	37900,2	11,07
2007	404700	44824,2	11,08
2008	503958,7	60475	12
2009	491273,7	14716,1	-

Source: www.insse.ro

In the considered period, the level of general taxation, calculated by taking into account all taxes, fees and contributions received by central and local public authorities, registered, except 2003, 2004, 2005, a continuing downward trend, from 14.23 % in 2000 to 10.8% in 2008. Overall, the level of general taxation in the analyzed period, decreased by 3.15 percentage points.

Given that, after 2000, gross domestic product began to grow from year to year in real terms, decreasing trend level of taxation can be assessed as a result of the general trend of fiscal relaxation manifested in recent years⁵.

⁵ It can be mentioned, regarding this fact, the reduction from January 1 2000, of the profit tax, 38% to 25% and then to 16%, starting with January 1, 2005, the reduction also from January 1, 2000 of the general VAT from 22% TO 19%, as well as the reduction of the fiscal burden exercised by the social assurance contribution, from 55%, in 2001, to 49% in 2005.

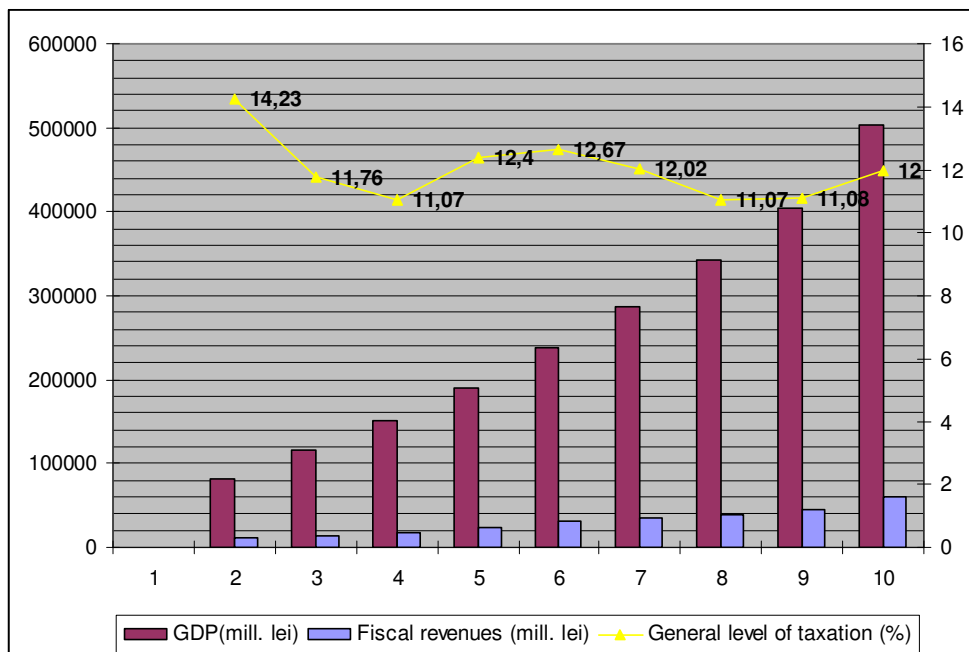


Figure no. 4 The evolution of taxation level in Romania (2000-2008)

Source: www.insse.ro

For a complete image of the way of tax burden distribution in our country are presented below the percentage of the main categories of tax revenue in total tax revenue and in the gross domestic product, during 2000-2009.

Table no. 2 The structure of Romania tax revenues (direct taxes) (2000-2009)

Year	Fiscal revenues (mill. lei)	Direct taxes (mill. lei)	Profit tax (mill. lei)	Wage tax (mill. lei)	Income tax (mill. lei)	The percentage of direct tax in tax revenues (%)
2000	11439.4	3147.2	1992.7	162.9	2437.4	27.51%
2001	13727.7	4114.6	2199.1	40	3647.9	29.97%
2002	16775.3	4185.2	2997.9	30	4132.3	24.95%
2003	23602.3	5019.3	4368.1	25	5326.9	21.27%
2004	30252.7	7585.4	6441.6	16.7	7103.7	25.07%
2005	34531.2	8962.5	6495.3	74.8	6670.3	25.95%
2006	37900.2	14122.4	7905.5	14.5	9739.3	37.26%
2007	44824.2	15491.4	10528.9	48.8	13828.8	34.56%
2008	54427.5	18563.2	13039.9	15.5	18398.3	34.10%
2009	44239.9	14716	10435.1	4.9	16866.3	33.26%

Source: www.insse.ro

Within tax revenue, indirect taxes, while declining, have a share higher than the direct ones. Given that direct taxes are characterized by high sensitivity to economic fluctuations, the increasing of indirect taxes share in total public revenues shows that when the economy does not work, because of economic and social bottlenecks, the most reliable source of

income remains tax consumption, especially since this is the only way the revenues created in the underground economy can be taxed⁶.

The distribution of tax burdens in our country is also reflected by the evolution of the proportions in which the main tax categories participates in the formation of public revenues.

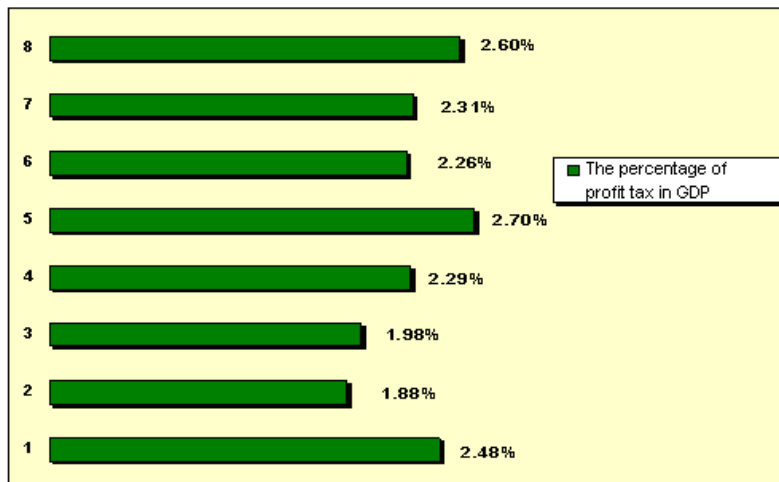


Figure no. 5 The evolution of the profit tax in Romania's GDP (2000-2007)

Source: www.insse.ro

Profit taxes represent around 2.6% of GDP. The evolution of corporate tax revenue is closely linked to regulatory changes and to the evolution of the overall economy, and can be attributed to the reduction since 2000 of the tax rate from 38% to 25% and subsequently to 16%.

Amid a low corporate income tax and having the advantage of EU membership, Romania has become an important destination for foreign direct investment in recent years.

Foreign direct investment (FDI) is generally attracted by several factors such as: market size and its potential development, factor costs, especially labor cost, but also human capital (education and skills), trade openness, infrastructure reform, price liberalization, fiscal policy, institutional development, technological absorption capacity etc. The importance of one or other factor, changes in time. For instance, during the first years of transition in the Central and Eastern Europe countries, political stability and macroeconomic stabilization, including institutional development, were premises of interest for foreign investors (Masso and other, 2007).

Considering the many benefits generated by transnational companies locating in an economy is very important the attraction of FDI in all fields. In recent years, Romania has managed to attract a significant volume of FDI but which were located mainly in certain areas. Economic and financial performance analysis of subsidiaries of Orange transnational company working in EU can be particularly useful in the prediction of future locations of FDI. This analysis was made on the base of the information available at the National Trade Register Office for all subsidiaries, during the 2005-2009.

To obtain the necessarily processed information we designed an information system in the Microsoft Access environment (Barbu and Bănică, 2008), flexible and easy to use, thanks to a friendly graphical interface.

⁶ Matei, Gh, și colaboratorii, *Finanțe Publice*, Editura Universitaria, Craiova, 2007, p.73

3. THE PRESENTATION OF THE SOFTWARE TOOL AND ITS APPLICATION ON ORANGE COMPANY

The corporation activity represents a factor of major interest for the economies of all the States due to the economic and social effects that it generates: creating new places of work, increasing work productivity, increasing product competitiveness, multiplying the income sources which all lead to the increase of the budget revenues. Under the conditions of the economic globalization, multinational companies have the possibility to find the best production premises, according to the conditions that the respective markets provide. The conditions of tax nature have an influence on corporations' investment localization decisions and capital flows so that the policy of each State in the field of corporative income tax payment must constitute the object of a very careful analysis. Thus, the companies choose to carry out their activity in the countries where they can obtain the biggest net profit (after the tax payment) after carrying out their specific operations⁷.

In this context, we designed an information system that we will call hereinafter **Evaluation System of the EU Taxation over the subsidiaries of the transnational companies-SAF**, which aims at establishing the influence of the profits tax rate over the financial results of the UE subsidiaries of a multinational firm. In order to implement the software application, several subsidiaries have been chosen in member states that had (or not) registered profit over the last years.

The comparative analysis of the influence of the tax system over the companies that hold a foreign capital represents a very useful economic tool, both for the potential investors, and for the transnational companies that wish to extend their activity or to redirect themselves toward other areas or other states, more attractive, that grant bigger facilities.

Orange is the key brand of France Telecom Company, one of the leading telecommunications operators worldwide, the main telecommunication company in France, the third largest in Europe and one of the largest in the world. Currently it has about 180,000 employees, 192.7 million customers worldwide and revenues of € 53.5 billion.

Orange is the third mobile operator and second provider of broadband services in Europe, and under the brand Orange Business Services is a world leader in providing telecommunications services to multinational companies.

Orange Telecommunication GMBH Austria is an Austrian mobile network operator. It started its business in 1998 as owner of the third GSM license of the country, and the first provider operating in the GSM 1800 band. Since 2004, Orange (previously known as ONE) successfully applied for a UMTS-License and offers since 2005 also UMTS Services. ONE's logo was a blue circle. It was rebranded Orange on 22 September 2008.

Orange Business Italy SPA started its activity on June 10, 1992 as a subsidiary of Global mobile operator Orange SA, the mobile division of France Telecom.

Orange Romania is the largest GSM operator in Romania. Orange Romania is the Romanian subsidiary of the global mobile operator Orange SA, the mobile division of France Telecom, which holds 96.8% of the stake. Until November 2007, Orange has invested about 1.4 billion Euros since it's entering on the Romanian market. By April 2002, Orange operated under the Dialogue brand. In February 2006, Orange Romania had over 7 million customers, giving it a market share of 56.95%. With population coverage of 96.6%, Orange Romania

⁷ Banica, L., Pirvu, D., *Information system for determining the influence of the profit tax rate on the financial results of the foreign capital companies in Romania*, EBEEC Conference, Kavala 2010

offers each person the possibility to choose between flexible subscriptions plans that can be customized, and PrePay.

Orange is in direct competition with Vodafone for the 13.7 million mobile users in Romania. Other major competitors in the mobile market in Romania are: Cosmote Romania, Zapp Mobile (CDMA) and RCS & RDS.

To highlight the place it holds the Orange Company on the national telecommunications market, we made graphs showing the evolution of the key indicators: turnover, gross profit, net profit and number of employees (during 2005-2009) compared with the level of the same indicators to rivals.

Turnover is an indicator that measures the results at the macroeconomic level, representing the volume of revenues from its own activity in a period of time, collections made at market price.

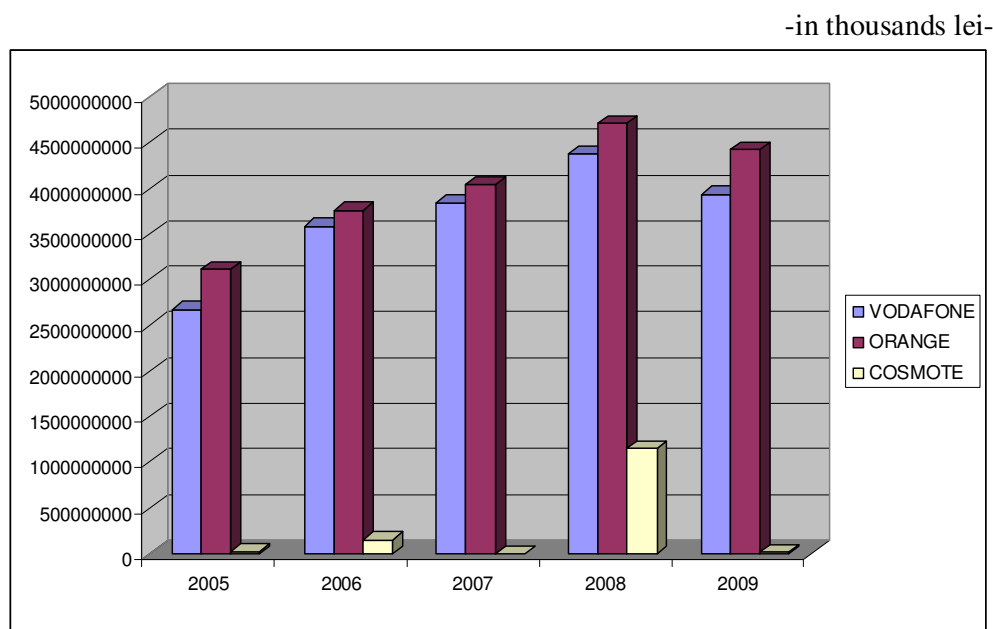


Figure no. 6 The evolution of the turnover in the period 2005 - 2009

Source: www.insse.ro

During the analyzed period the evolution of turnover followed a rising trend, the Orange company being market leader in this segment, so that if in 2005 recorded a indicator value of 3.117.581.646 thousands lei, in 2009 we can talk about a 4.425.242.036 thousands lei value, that is 1.51 times more.

Another indicator that interests in assessing a company performance is gross profit, whose evolution is shown in the following chart.

Regarding this chapter also, Orange is market leader, gross profit evolution being a cyclic one, as seen from the chart, so in 2006 it shows a growth of 1.39 times of the indicator value, compared to 2005.

In 2007 we see a slight decrease in gross profit, of 0.89 times compared to 2006, but this reduction is compensated by the increase registered in 2008, when this indicator has the maximum value of 1,893,157,378 thousands lei. In 2009 the gross profit decreased to 1.356.909.185 thousands lei.

-in thousands lei-

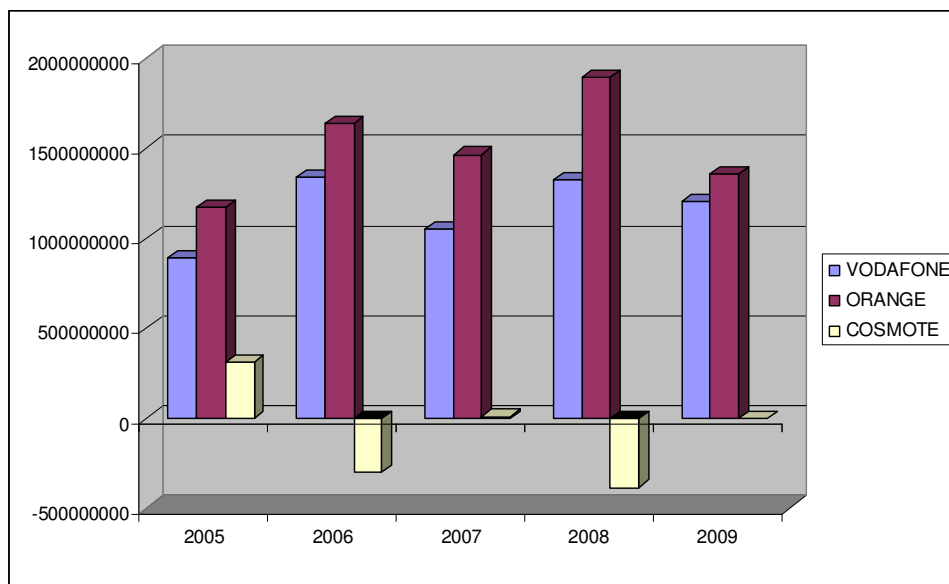


Figure no. 7 The evolution of the Gross Profit during the period 2005 – 2009

* Note: the dates from Cosmote weren't available for 2009

Source: www.insse.ro

In the considered period, net profit, calculated as the difference between gross profits earned by an economic entity and related income tax, is highlighted in Figure no.8:

-in thousands lei-

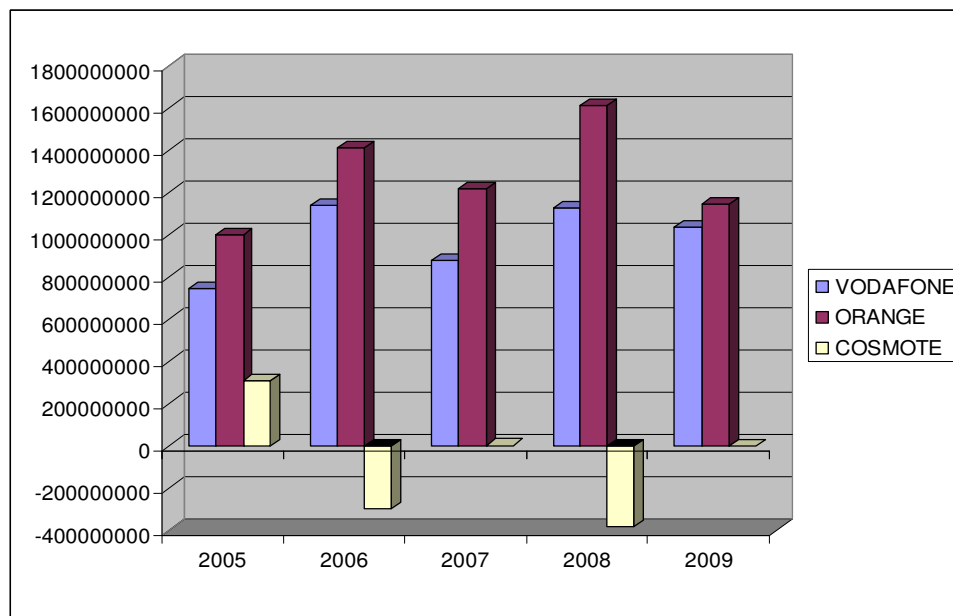


Figure no. 8 The evolution of net profit in the period: 2005 - 2009

* Note: the dates from Cosmote weren't available for 2009

Source: www.insse.ro

As is shown in the chart, Orange registered an increase of the net profit, reaching the maximum value of this indicator in 2008, 1.611.787.768 thousand lei, i.e 1.128.555.797 thousand lei, ranking first. In 2009, Orange net profit decreased to 1.146.846.734 thousand lei.

The comparative analyze use as input data the information reported by the xxx subsidiaries of Orange Corporation in the period 2005-2009. Economic and financial performances of subsidiaries of transnational company Orange were analyzed using the following indicators: the total number of employees, the average level of turnover, the average level of rates of return, the average level of net profit share in total expenditure.

The system's architecture comprises 5 **subsystems**, described briefly, as follows:

- **S1** – the subsystem **”The comparative analysis of the evolution of the Gross Profit in the subsidiaries of the Orange Corporation (in USD) “**.
- **S2** – the subsystem **“The analyze of the profits tax, according to the legislation of the analyzed countries”**.
- **S3** - the subsystem **“The comparison of the Turnover evolution for the subsidiaries involved”**.
- **S4** – the subsystem **“The comparison of the total number of Employees evolution for the subsidiaries involved”**.
- **S5** – the subsystem **„Calculation and evolution of the Return rate for the subsidiaries involved”**

This reflects the results of firm's activity, emphasizing the level of efficiency of its financial effort, named **“The evolution of return rates”**:

⇒ rate of return is calculated by comparing the values of gross profit to turnover using the following formula:

$$\text{Return Rate: } [\text{Profit before tax}] / [\text{Annual turnover}] * 100 \quad (2)$$

⇒ is made the comparative analysis based on the report and chart of the return rates evolution during 2003-2008.

S1 Subsystem – **“Comparative analysis of gross profit evolution”** indicates a general increase of the gross profit to the subsidiary from France and Romania. Probably, the statistic data that are to be published in 2010 will record a considerable decrease of the gross profit level, because of the world's economy crisis, which also affected the investments in France and Romania.

S2 subsystem - **“The profits tax analysis“**, shown in figure no. 10, reflects the indicators evolution at the Orange company's four subsidiaries, once again, France holding the leading position in this chapter.

The analyze is calculated based on Net profits and Total expenses, using the formula:

$$\text{PN_expenditure: } [\text{Net profit}] / [\text{Total expenses}] * 100$$

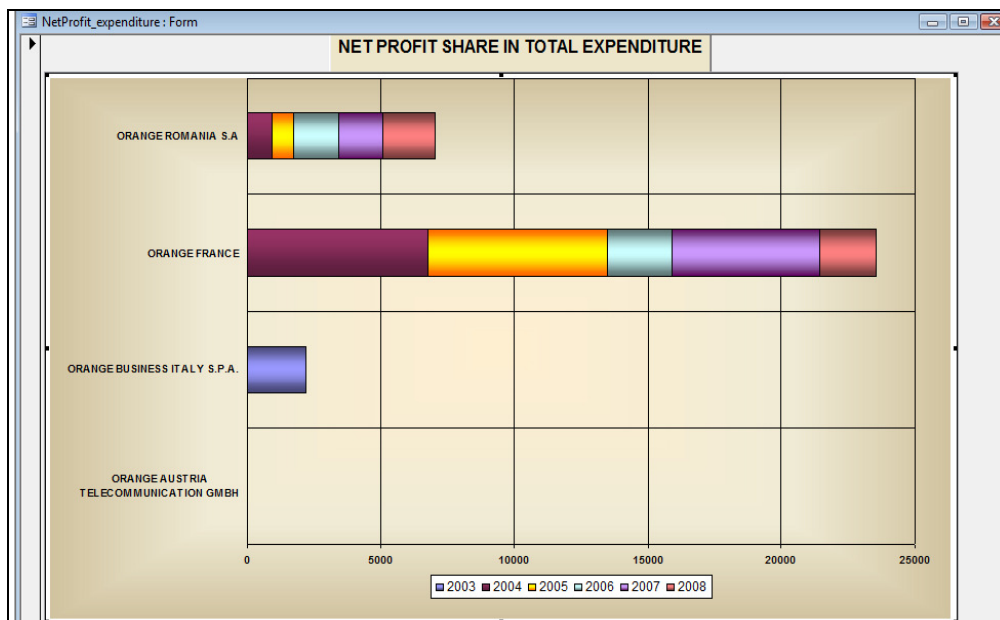


Figure no. 10 Net profit evolution reported to total expenditure

S4 subsystem - “The comparative analysis of the total number of employees evolution for the Orange subsidiaries”, highlights the need for staff to achieve the objectives, the higher value of the indicator, as shown in the form of presentation, is registered by the subsidiary of France, the opposite being the subsidiary of Italy.

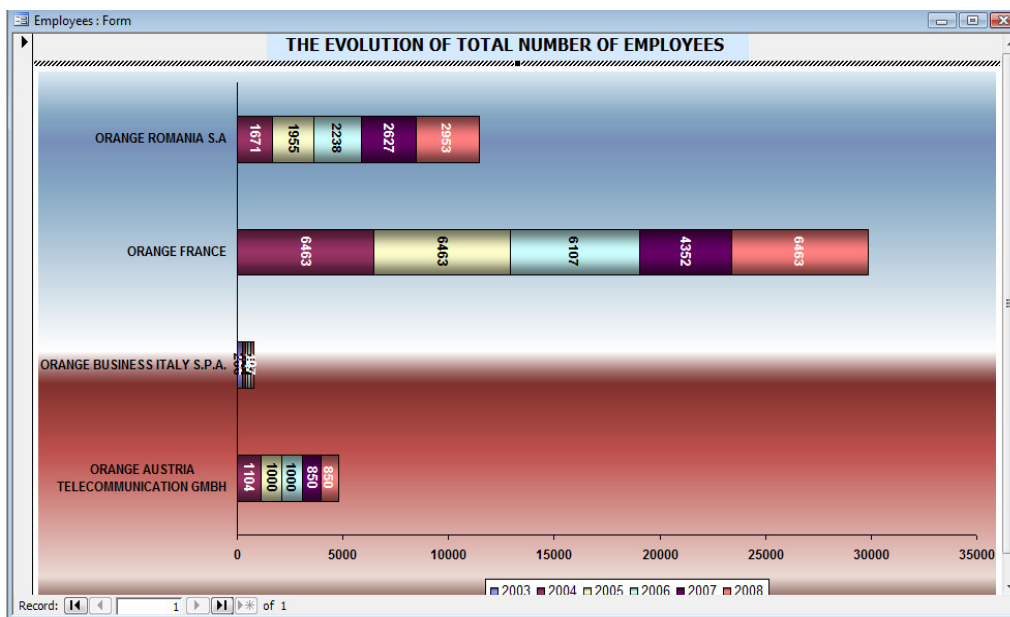


Figure no. 11 Total employee evolution

S5 subsystem - „The evolution of the Return rate” comes to show that regarding this segment, Romanian subsidiary has the highest values of the indicator, close by being the France subsidiary, being necessary to highlight that this indicator has an oscillating trend in all branches.

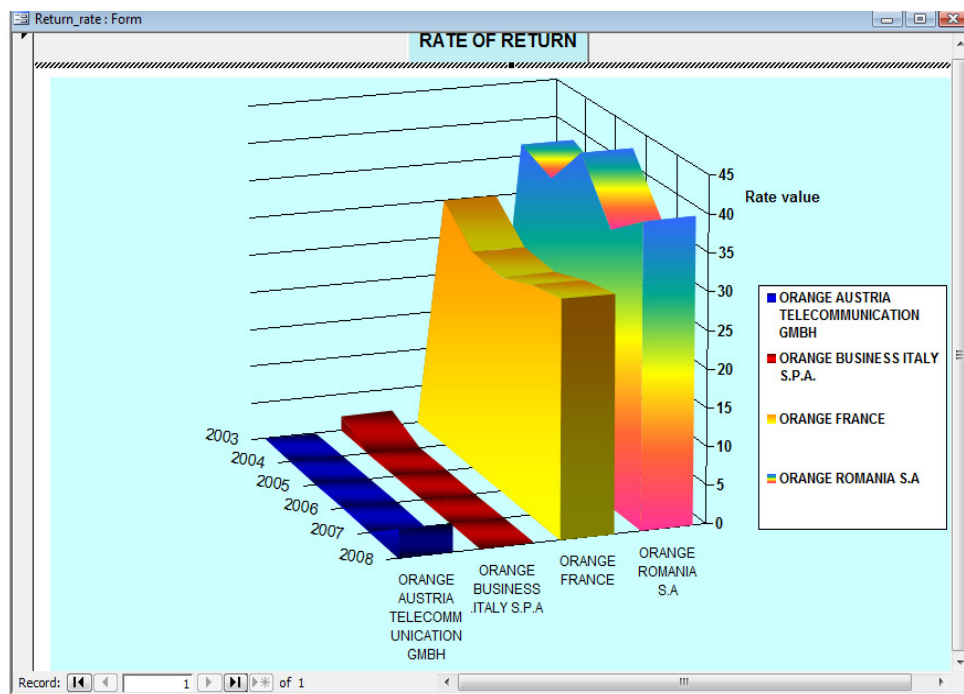


Figure no.12 Return rates evolution

The information system has been practically implemented in the Microsoft Access environment and it is easy to use, thanks to a friendly graphical interface.

4. CONCLUSIONS

Under the circumstances in which the capital flows freely and the taxation level is different depending upon each country, multinational companies can use a full range of tax optimization strategies (profits transfer in the areas having a low taxation level or set-up of financial departments in tax heavens for investments financing purposes by crediting lines within the group) which shall generate incomes losses in the countries having a high tax level and disadvantages to small and medium enterprises participating in the competition on the same market.

By comparing the different tax systems when they decide how to place their productive investments, multinational companies shall prefer countries offering the most advantageous tax conditions.

The SAF Software reconsiders the approach manner of a business in a different country, based on specific data, statistically linked and processed.

Achieving a *system of analysis and monitoring the taxation system influence upon the foreign investments* is a challenge for any transnational company.

- The created software, *Analysis system of taxation in the European Union – SAF*, is destined to both potential investors and transnational companies that want to expand their activity or to shift to other areas or states, more attractive, which grants greater facilities.

- It is an argument for managers to rely on information technology in their activity, and in the same time, a challenge to change the management style, by fundament decisions.

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FDI AND IMPACTS OF COUNTRY RISK –FACTORS AFFECTING THE INFLUX OF FDI IN EMERGING ECONOMIES

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Abstract: *The role of “Foreign Direct Investments” - (FDI)” is crucial for all the countries throughout the world but it is very important, specifically for the emerging Markets of Balkans and Black sea countries.*

FDI was an essential and critical factor of the overall economic growth for the countries of this region from the 1990s and onwards.

It is generally acceptable that the «foreign flows of capital» and the involving investment enterprises actions in foreign countries play today an essential and accelerative role in the industrial and economic growth of these states, which are also called as «Transition economies».

So, for all countries of South-Eastern Europe and Black sea, it is underlined thus the vital importance of contribution of foreign investors in the area of finance, innovation and innovative action, that are crucial for the transformation of their economies into a viable and sustainable market economy.

In these countries with economies in transition, it seems that the development rate has negative impacts due to a number of adverse factors derived from political and economic environment.

These adverse factors are namely the state bureaucracy and political and social corruption, as phenomena of structural weaknesses of the society and economy that have as an impact a hostile environment encountering innovation and competitiveness process of any economy.

Keywords: foreign capital flows, foreign direct investments, Country Risk, Political Risk, Economic Effects

JEL Classification Codes: F21, G32

1. THE INFLUX OF FOREIGN CAPITAL FLOWS

On the other side of the economy, there is a very important and crucial factor that refers to the *influx of foreign capital flows*, for the implementation and diffusion of the proper manner in order to organize the whole environment with the positive factors of growth and competitiveness in emerging economies.

This constitutes a very important factor for the configuration of those conditions and contributes to the developmental dynamics so as to withdraw the negative factors and reinforce the development of the regions of *transition countries* through transregional collaborations in a more interdependent way.

However, this transregional collaboration could be developed in the wider area of Balkans, and this fact shall lead to a continuing and constant surge of Direct Foreign Investments.

For this target we need the perpetual existence of the proper political and economic conditions of stability and growth, which may continuously prevail and apply all the actions of governments and societies.

So, the proper conditions must be created, forming the political and economic frame for the proper application of rational operation of the relevant factors of the "market economy", in the countries whose economy is under "transition", which are the countries of S./E. Europe.

Our objective is, therefore, to analyze and record a series of negative factors and conditions, institutional, structural and systematic character.

Negative factors, that are obstacles, affect the delay to establish the positive conditions for the growth of competitiveness and innovative action for the quick transformation of these countries.

These questions will be approached through the relevant and special economic and financial theory, by taking also into account the political or country risk factor and the features that affect the delay to establish the positive conditions for the growth through competitiveness and innovative action.

The analysis and the overview of impacts of political / country risk factors, that are reported after the applied policies of the governments in any country are very important, and concern the events and the way of application of the total economic policy, as it expressed in the various fields of decisions.

Such fields are for instance, the existence of "exchange controls" and restrictions in imports, as well as the application of such restrictions on money, and generally capital inflows and outflows.

At first, we have to mention and deal with the main crucial factors, that determine the positive/negative impacts on foreign investments – FDI.

Studying the **structural weaknesses** of N-E Europe countries, certain common features are detected among the different regions of these countries, and it is intended to observe and access the general environment of investments.

Those are mentioned as follows:

1. After the 1989 it is noticed the beginning of political and economic transformation of the countries and the participation and entrance of these Eastern Europe countries in NATO and E.U.; this fact improves and increases considerably the geopolitical stability in the area.
2. Also the prospect of their entrance in the European Union provided powerful motives to these countries so as to increase the "budgetary discipline" and try to put an order in their budgets and the financial situation in general.
3. Finally, beginning from "low" economic base (low level of GDP), the rates of growth of the economies were relatively higher than those of Western Europe.

Based on the combination of assessments with the prospects of growth, they create many activities to attract investments.

It is true that the gradual improvement of «corporate governance» application and *the reduction of country risk* increase the investment opportunities in every country.

During this period the countries of South -Eastern Europe presented important economic progress, as it presented in the openness to free market economies, and generally they achieved ascendant course of privatisations.

As a result, the "Foreign Direct Investments"-FDI, in these countries increased considerably from 1994 and onwards.

This was also interpreted as an increase of per capita income.

Today, we have a very low percentage of growth in the Eurozone, which does not support particularly the growth of the S/E Euro region.

It is remarkable the existence of a large number of companies that emerged from these conditions based on capable management, powerful economic elements of the new market conditions and the prospects as well as improved corporate governance.

The sectors that occasionally offer opportunities in the region are mainly those of banks, which, after the first wave of mergers and acquisitions, constitute a good reason for expecting constant profits.

In the field of telecommunications, for instance, the improvement of per capita income is interpreted as an increase of consumption volume of these services.

From the beginning of 2003 until now, these markets presented satisfactory ascendant course, mainly because the expectations of world economy growth seriously affected Stock Exchanges, which noticed impressive progress particularly in the emerging markets.

2. FACTORS THAT DISENCOURAGE THE FOREIGN INVESTMENTS

Structural weaknesses to achieve innovation and competitiveness

At first the crucial factors that determine positive or negative impacts on the implementation of the foreign direct investments (FDI), are the following:

1. The size of market,
2. The existence of important and constant consuming expenses
3. The effects of bureaucracy, the corruptness and structural weaknesses of economy that affect the innovation and competitiveness of the countries.

Other important and decisive factors about attractiveness of foreigner direct investments are as following:

1. The internal and external macroeconomic imbalances,
2. the degree of disruption of old economic system structures and old fashioned activities that create at the same time new “functions” in the economic life.
3. The weak and low "depth" capital markets and also low investment grants, and the insufficiency of capital availability in Balkan and Black Sea countries for financing investment plans.
4. The insufficient knowledge of local markets and characteristics of population and consumption patterns.
5. The insufficient and weak commercial banking system and the low possibility of financing of enterprises.
6. The relatively insufficient legal infrastructure, that is reported for the economic functions and actions, and the business status,
7. The «dangerous» illegal activities of various "interest groups" incorporated in the process of privatisation that can cause damage in a foreign enterprise or business.

A study, for instance, based on the international enterprise's actual state and experience, taken place in Latin-American countries, provides the following list of governmental operations and actions that it is possible to have negative effects on foreign investors:

1. controls of imports
2. local requirements of conformity in local regulations
3. local regulations for the CAPITAL requirements

4. requirements about regulations with regard to personnel
5. restrictions of lending
6. prohibitions of re-export of profits and rights of using patents (royalty remittance)
7. tax discriminations
8. several obstacles to materialize the investment process
9. discrimination for the allocation on the investment grants and subsidies.
10. preventive obstacles for acquisitions of fortune in the foreign country.
11. expropriation and nationalization.

These phenomena appeared in the past years before the advanced process of globalization.

It should be underlined that these interventions and restrictions are not formal discriminations in any case, but the result of deliberated discrimination.

Monetary/financial and tax problems etc. can be derived from the deficits in «balance of payments» at several periods.

The foreign investors confront the need to develop sustainable strategies that take into consideration not only the evolutionary tendencies in economy and politics, but also the possibilities of radical change and the discontinuities in the environment caused by political fluctuations and disturbances.

Traditional determinants *of F.D.I. are namely market size, firm specific costs and relative factor endowments; one should also consider the main transition-specific determinants of F.D.I, such as the internal and external macroeconomic imbalances, the centralization of economic activities prior to 1989, the inexistent capitalist class, the inadequate market knowledge of the population, the low financial depth of Balkan stock-markets, the inefficient commercial banking system, the ambiguity over private ownership, the insufficient legal infrastructure, the different pattern of trade and investment integration within the CMEA and the activities of embedded interests at the detriment of privatisation process.

(Hazakis K., Pattern of F.D.I. flows in South-east European transition Countries: A Comparative Analysis of trends and Perspectives, Editions Department of Mediterranean Studies-University of Aegean-Greece).

3. THE EFFECTS OF FDI ON ECONOMIC GROWTH OF A HOST COUNTRY

When we talk about the significance of foreign direct investments (FDI), for the transition economies of Southeastern Europe, two important effects of FDI come to our mind:

1. effect on economic growth
2. effect on export performances

The effects of FDI on economic growth of host country

Economic theory has identified a few effects of foreign direct investment (FDI) which result in an increasing growth rate of host economy:

1. FDI are forms of import of capital
2. Import of foreign capital (through FDI or any other way) enables the financing of current account deficit
3. Opening of foreign companies' affiliation contributes to the level of competition enhancement.

Foreign direct investments represent the channel of international technology transfer in the host economy:

4. There are three different ways of international technology transfer:
 - import of high-tech products

- learning through export, when domestic producers acquire new technology-based knowledge available, and
- Foreign Direct Investment

Factors of influx of FDI in Central and East Europe countries with economies in transition

- The availability of natural resources
- Development and achieved level of reforms in economy
- Privatization
- Access to the EU market

4. THE EFFECT OF FDI ON ECONOMIC GROWTH OF SOUTH EASTERN EUROPEAN TRANSITION ECONOMIES

Generally the studies examine the relationship between FDI inflows and economic growth in the countries of Southeast Europe (Romania, Bulgaria, Serbia and Montenegro, Croatia, Bosnia and Herzegovina and Albania).

Branches of transnational companies (TNC) in transition economies contribute to the production, productivity and employment increase.

The Correlation between FDI /GDP and economic growth rates is the most proper solution for all the three aforementioned approaches.

FDI/GDP ratio represents the most appropriate measure of FDI inflow's significance for the economic activity of a host country.

But, in some cases, we did not find statistical correlation between these two variables. (These are mainly derived from scientists of the former Eastern countries, as it can be seen from their research and articles, which have an ideological orientation for global growth).

The affiliations of foreign companies contribute to the production and employment increase.

But on the other hand, due to structural reform in these countries, the production and employment decreased in domestic inefficient firms.

This can neutralize or even surpass the positive effect of FDI on economic growth.

So, that's the reason why they did not find any statistical correlation between the FDI influx and the economic growth in some or many cases.

They don't believe in the positive transitionality of these economies and the positive effects of FDI, because of a nationalistic approach about development, according the "dogma of the foreign exploiter".

So, some economists or researchers suggest that FDI does not have any significant relationship with economic growth. The cause can be found in transition process itself.

Due to structural reforms in these countries, there is production and employment decrease in domestic inefficient firms. This can neutralize or even surpasses the positive effect of FDI on economic growth.

5. FACTORS OF POLITICAL RISK AFFECTING THE FOREIGN INVESTMENTS PERFORMANCE

The effects of bureaucracy, the corruptness and the structural weaknesses

An essay according Bibliographical references.

With regard to the determination of political risk, this can be caused by the attitude of the

state (government and public administration) or government owned enterprises in the market, or even by more extreme situations, such as a war and intense political agitations.

Thus the determination of political risk constitutes the changes in the "functional terms" of actions and the growth of foreign enterprises that are coming as a result of political processes and activities in a country.

More analytically, such political processes are: a war, a revolt, phenomena of political violence, or important changes in governmental policies, as well as changes that have effects on property rights, on the assets of a company, or the restricting enterprising attitude of each company.

The political risk that becomes perceptible in national and international environments can affect assets, the firm's staff and generally all their operations with a direct impact on the turnover and the profits of foreign companies in a host country.

But the risk of a country has overall significance, including a much wider spectrum of uncertainties such as:

a) Claims of payments of more generally SEVERAL economic obligations against a state/country, including the claims against the government and the companies of that country.

b) The attitude and the relevant policies of a country and its government to the foreign investments.

Thus we have:

A) Government risk or sovereignty risk, as risk of international lending.

B) Risk with regard to the direct foreigner investment.

C) Risk with regard to the investment in participial portfolios.

D) Risk concerning the international interaction of money and capital markets,

In relevant literature the risk of international lending and the relevant obligations that arise from it, is also called as government risk or sovereignty risk, as typically reported in the risk that dominates in the country so as to violate the obligations of the international payments, as a result of crisis in the system of exterior payments (eg Eaton and Gersovitz, 1981 walter 1981 Eaton et Al 1986).

These crises can emanate from:

a) bad chance, b) bad faith, c) mismanagement, or from a combination of those three factors.

Respectively, in the literature of direct foreign investments, the political risk is typically addressed as a risk of discontinuities of various policies that practises subsequent losses or damages, because of expropriations or other obstacles, which lead to perturbations of the sales and profits level¹.

In the case of "investment in participial portfolios", the country risk is defined as the medium variability in the output of companies in a given country².

Finally, concerning the international interaction of money and capital markets, the political risk is typically addressed as a risk of control enforcement in the distribution of capital and similar exchanges³.

¹ Reasons of important political shifts and realignments, Kobrin 1979

² p.h. Agmon 1973, Solnik 1973, Lessard 1976

³ eg Aliber 1973, 1978, Dooley and Isard 1980

6. CONCLUSIONS

THE TYPE OF FDI EFFECTS ON A COUNTRY

It is widely recognized, that, the Foreign Direct Investments – FDI have the following effects:

- FDI helps the process of economic rebirth of states and companies. (Djankov and Murrell, 2002);
- it facilitates the increase of GNP;
- it creates the competitive conditions in the economies of these states;
- The foreign surges of capital are bringing technical/technological and managerial-organisational knowledge;
- They impose the commercial transparency and the opening of countries of reception (Hunya, 2002: 393);
- They increase the dexterities of work;
- They upgrade the productive structure, and provide (under certain macroeconomic terms), alleviation of balance of payments (E.B.R.D, 2002).

It is known that, without serious surges of foreign capital, there would not be the probable and successful "passage" in market economies for the central and Eastern Europe countries, as well as their further developmental dynamics.

Consequently, the process of the passage was sensitive in Political and Economic circles, as well as fluctuation that considerably influenced the state of capital flows through foreign investments.

It is known that though this, capital flows enabled most of the states in the area to enjoy favourable initial economic terms of growth and facilitated their passage to open market economies.

In this process some countries were looking more attractive to foreign companies, because of their appropriate initial conditions, while other were dealing with constant obstacles because of their political and economic disadvantages.

SECTORS OF POSSIBLE POLITICAL CONFLICT

The most likely sectors and factors of conflict cover a wide spectrum of possibilities that are:

- NATIONALISM, resulting from the fact that it is considered as a "foreign exploiter" by investors.
- PHILOSOPHY AND OBJECTIVES of ECONOMIC POLICY, where the environment of investments is hostile, because it is determined by national objectives of economic political plans, as opposed to the wider private economic actions of firms for ideological orientation reasons of the country.
- CULTURAL, where the introduction of innovative ideas was disruptive for the established ideas, customs and ethics provided by the local society and its interests.
- ADMINISTRATIVE, where the company should oddly face many barriers from contradictory applied rules and regulations.
- SOVEREIGNTY, where the presence of a foreign company becomes perceptible and the rights of sovereignty of a country decrease, and thus its fortune is determined; it is considered as a leader or driver that is very likely to enforce obstacles from foreign governmental intervention, due to the interests of multinational maternal companies.

THE CONSTITUTION OF POLITICAL RISK AND THE APPLIED POLICIES OF THE GOVERNMENTS

The country risk is defined as the constitution or the peculiarity of particular national conditions, operations and practical conditions, reported in the economic and political constitution of the state (country), and from this, peculiar functionalism of some certain standards (in other countries) of attitudes and reactions.

These aspects of country risk are the following:

1. Political risk that is reported in applied policies by the government of a country and it concerns the way of event of total economic policy in various fields.

Such fields are the existing exchange controls and restrictions in the import and the strict application (of rules) on money and capital markets.

The existing restrictive measures and regulations that concern the protection of exchange available in a country and the protection of its domestic currency can be differentiated from the height of profits from enterprises activity that can be exported, as well as all kinds of investment capital introduced into the country.

2. Monetary restrictions and Credit policy

The existence of monetary restrictions, restrictive credit policy and lending policy, in connection with the structure and the level of growth of financial markets and banking system influence the convenience or the delay in money transfer.

3. Social Stability

The existence of social stability and social cohesion conditions within a country, among various social groups, combined with the quality and the degree of organisation of working unions (workforce), as well as the degree of adversity and its ruptures with the business owner sin constitute the base of working syndicalism. Generally the existence of dynamic social balance that gives possibility in the modern economic and enterprise action.

4. Economic Stability

The existence of economic stability, that is reported in the macroeconomic stability,

1. the inflation rate,
2. the exchange parities,
3. the deficits of public sector and budget,
4. the exchange rate stability, in combination with
5. the commercial balance of payments in a country,
6. the economic growth rate - GDP and
7. the quality of general economic institutions combined with
8. the enterprise climate and environment and the business dexterity can create SYNERGIES in the enterprises actions.

5. Operational planning and political risk analysis

Thus today the estimate of the degree of economic, political and financing risk is a priority in the management action of planning and forecasts of results of every multinational enterprise operating in a foreign country.

By definition, the degree of risk depends on each prevailing economic and political general climate and the above referred special factors and thus shapes the degree of investment risk.

This climate influences therefore the relation between the growth rate of an economy and the rate of foreign investments, and thus the situation or the existing conditions of South-eastern Europe and Black Sea countries.

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MARKETING APPROACH IN THE MANAGEMENT OF HIGHER EDUCATION INSTITUTIONS

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***Abstract** The purpose of this paper is to present relevant aspects of the marketing approach of the universities' activities in the current market conditions of higher education institutions. Universities are placed in the position to find solutions to the problems of stakeholder characteristics and to the competition on the educational market. Marketing approach of educational services involves the orientation to internal and external customer needs, adapting the educational and scientific research approach to create a brand image of the institution as a guarantee of its sustainability in a competitive market. The conclusion that emerges is that there is a rich specialized literature appeared especially after the '80s that presents the marketing tools that allow the construction of viable competitive strategies as components of university management performance.*

Keywords: university marketing, relational marketing, stakeholders, brand image

JEL Classification Codes: A23, I21, M31.

1. THE NEED OF MARKETING APPROACH IN THE MANAGEMENT OF HIGHER EDUCATION INSTITUTIONS

Higher education goes worldwide through a process characterized by significant changes both in educational demand and in the educational offer. Higher education institutions are put in a position to find solutions to problems arising from internal and external customer characteristics. The changes in higher education from public and private sectors were presented by authors like Kirp (2004), Maringe and Gibbs (2009), Levy (2002, 2003, 2004, 2006a, 2008), Kinser and Levy (2005).

The need for universities in the public and private sectors to address this market of higher education in terms of marketing was due to the expansion of the private sector and the emergence of performant universities, which led to increased competition in the educational market. Maringe and Gibbs (2009) found that in Europe, higher education specific to knowledge - based society has become a good and therefore it recourse to the use of marketing tools. Levy (2006) believes that competition features differ from region to region and from country to country as marketing tools implementation is different compared with the acquired market experience. Marketing application in the field of educational services is known as educational marketing, component of social marketing. On the general, the higher education market is characterized by exchanges, transactions between units providing educational services and organizations within the national economy that benefits of human resource prepared in a specific area based on a

curriculum and between schools and consumers of educational services to acquire knowledge, form their skills and abilities to fill a job. Today, this concept of change has generated a broader concept that educational institutions have begun to develop, the concept of relationship (Campbell2002). Considering the importance that goes to the educational market, is making it necessary to adopt the concept of market-oriented strategic change defined by Piercy (2002) as the organization's effort to pursue more customer requirements, to identify those factors that determine the customer neglect, to adapt the functional structure so that the employees know very well the requirements of customers that they try to satisfy at the highest level, better than the competition, creating a competitive advantage. Market orientation has been one of the most interesting research fields in the recent 20 years. The whole specialized literature has grown from two major works published in the Journal of Marketing by Narver and Slater, Kohli and Jaworski. Recently, some authors (Pandelica A. s.a, 2010) believe that marketing orientation should be developed as a business model. In higher education institutions, the ultimate goal of business should be external customer satisfaction (students, employers, society, etc.) and internal customers (teaching and non-teaching staff) as a guarantee of sustainability of a market institution constantly changing.

The approach of marketing educational services envisages the orientation to satisfying the customers' needs and using the marketing strategies to the level of university institutions which the education consumers will identify, who are interested in the educational offer for which they have capabilities and will allow adaptation to make it more attractive. The aim of higher education institutions must be the determination of needs, wishes, the education consumers' interests, the adaptation of educational and research approach to offer programmes that maintain or improve long-term satisfaction of their and the society's interests.

The process of education, the special needs of supplier services and those of the consumers should be carefully explored as fundamental elements of the education system. The supplier services is directly represented in the relationship with the students by the teachers who are responsible for the generation and transmission of knowledge. The educational process is also maintained by the necessary infrastructure, by the cultural organization, by management that does not always accept quickly a change and for this reason the expectations of educational service consumers are secondary. (Sirvanci MB 2004).

2.THE SPECIFIC ACADEMIC MARKETING

Contemporary marketing can be defined as: *„...a social and managerial process by which the groups and individuals obtain what they need and want by creating and exchanging products, services, ideas or rights with other groups or individuals.”* (Kotler,Ph., Dubois, B., 2000, p.35).

The care for customer and the guidance given by him to the service organization give shape to marketing orientation in the higher education institutions. The essential elements of marketing orientation have been outlined by Kotler, Armstrong (1998) and are the following:

- the customer segments for which the institution is able to satisfy the needs in much better conditions than the competition
- various, complex and dynamic consumer needs
- the coordinated marketing which refers to systemic treatment of activities from the institution starting from the market requirements and the need for awareness that customer satisfaction is achieved only by involving every employee

- expressed profitability for higher education institutions through their sustainability education market.

University marketing has certain specific features determined by the fact that educational services are characterized by increased intangibility customization ability, abstract character, high cost and heavy impact on consumer. The factors that influence the university activities are numerous (Marzo, Pedraja, Rivera, 2007): some can be controlled by them (the quality of education, university curricula, university management), others are part of the external factors (changes in age structure, labour market trends, educational market globalization, the emergence of more attractive education alternatives, lack of motivation for learning among young people etc).

The creation and delivery process of the educational services is based on tangible elements (buildings, equipment, staff) that consumers can partly directly contact before consumption and also intangible elements that can be evaluated only at the end of the consumption (intensity and effectiveness of student–teacher collaboration, the quality of internal communication etc.). The main functions assigned to the high education institutions are those of learning, training and shaping the personality of each student with the help of the teachers who are dedicated to their job and to the modern teaching and communicating systems. Added to this is the scientific research function with the role of generating, interpreting and applying new knowledge to technological and scientific progress. In the view of Bologna Process, the university will become an innovative creativity centre and constructive thinking able to determine the social development of human personality in the European social and cultural area, to create the preconditions necessary for the integration in labour market and the professional insertion of trained specialists.

The application of marketing in higher education institutions facilitates obtaining certain categories of benefits, respectively a better resource capacity to fulfill the mission of the institution as a result of using marketing tools, increase customer satisfaction with the impact on attracting customers for the upper stages of study and on the attraction of financial resources.

The university marketing strategy is in a relationship with the higher education institution strategy as directing the efforts and resources to accomplish the mission and the strategical goals, it facilitates making decisions on marketing mix components.

It is considered a successful strategy that approach by which are identified the target groups and their needs by using marketing research, followed by designing and implementing a balanced marketing mix. The strategies by which is analysed the achievement of competitive advantage are those that take into account variables: quality, material and human support used in teaching and research, price level and facilities in price policy.

Obtaining an attractive reaction from the target market is conditioned by building the vision on the education market from the perspective of university using the marketing mix, namely the five P (product, price, placement, promotion, personal), tactical marketing tools higher education institution can combine and control them. To create a marketing mix closer to the identified customer needs is useful to consider the marketing mix in terms of customer needs and desires, the costs incurred by the consumer (student), comfort, the purchase convenience and communication activity, meaning for the four C (Kotler, 2003).

Educational product or service is a transfer of knowledge, attitudes and behaviours from one person to another and the process by which a person is helped to acquire new capacity (1995 Alves). According to Kotler and Fox (1995), most educational services are a combination of tangible and intangible components, therefore, insusceptible to be considered pure services.

The global product offered by a higher education institution consists of basic educational services plus additional services for scientific research, professional practice training activities and social and cultural services designed to meet needs of accommodation, leisure. Educational services must be addressed on three levels: central (university mission, the main reason for a student to opting for a particular university) peripheral (services that focus around the central service value and improve the central or basic service) and additional or complementary defined by additional benefits given to the target market.

The price of educational services includes the taxes paid by the student for his education, the scholarship received from the state. Since the amounts received by higher education institutions from the state budget covers a relatively small part of operating costs, in order to ensure institutional continuity, increasingly depend more and more on school fees and, therefore, the price becomes a very important issue.

According to Kotler and Fox (1995) price should take into account costs, demand and competition. Little (1997) suggests that universities should opt for a variable pricing strategy, taking into account the demand, the domain of university training. This strategy is not agreed because there is no experience in this regard. It is important to note the fact that besides the monetary component, students also supports so-called non-monetary, psychological and effort costs (the proximity or remoteness of his residence, number of years of study). Kotler and Fox (1995) believe that in the selection phase of the university is difficult to assess the price actually paid for educational benefits since the price will be determined only after the consumption of educational services and when the graduate is looking for a job or advances in his career. According to Heller (1997), the price increase will determine the decrease of the probabilities for a student to apply to a particular university. Eiglier and Langeard (1991) believe that price is an instrument for measuring the quality of services that students will get and the only clear information item that holds before consumption. According to Eiglier and Langeard (1991) the immateriality service determines the need of a good *promotional communication* using besides traditional means also direct marketing. Kotler and Fox (1995) propose as main forms of communication used by these: the institutions, public relations, marketing communications and advertising that will strengthen the institutional image, to shape the feeling of confidence of future students and the loyalty of former students to provide information about institutional services, to complete information about the institution, to encourage the initiative of prospective students to apply for the promoted study programmes. A very important aspect related to communication about schools is the direct communication promoted by parents in the circles of friends, students, teachers, which is considered to be the most used channel of communication in connection with the university. That's why this channel of information should not be ignored, because in case the negative information is transmitted, the institution may have serious problems and this can lead to a real aversion to the institution that will be difficult to change (Edmiston-Strasser 2009).

Placement or distribution in education are important aspects that university success depends on. According to Kotler and Fox (1995) the size distribution system of educational service may include:

- location, physical environment including accessibility, ambience, facilities
- study programs and their ability to attract students
- technology, schedule.

Physical environment, ambience is considered by experts as having strategic importance because it facilitates a better interaction of the institution with the external customers, but also

with its own employees, it can serve as a differentiation element between competence and positioning among current consumers and the potential ones.

Staff educational institution is considered another strategic element because it enters in direct relationship with the external customers, it represents the institution, is a positioning and differentiation element in terms of competition. It is an essential component of quality educational service, being embodied in professionalism, courtesy, empathy with the significant role in the achievement of the organization's objectives, in the increasing of the institution's contribution to the smooth running of the entire society. The educational process should be understood as all the interactions required by the service providing, respectively the planning of conducted activities within each program of study, their properly structuring, the efficient management of services by identifying the operational procedures to apply and customizing the services.

3. CUSTOMERS OF HIGHER EDUCATION INSTITUTIONS AND RELATIONAL MARKETING

Applying the concept of marketing in the activities of the higher education institutions determines the need to define the customers and identify the needs and desires to satisfy them properly. Generally the client is the individual or legal entity that acquires a product or service from a supplier. For the university education, the client can be an individual or an organization that makes a payment directly or indirectly for an educational service (direct clients of university institutions, economic agents that benefit of qualified human resource, the society that benefits from knowledge, technological innovation for business development). From this statement, in the specialized literature it is used the concept of stakeholders or the parties interested in the services provided by the universities, which are represented by: students, their families, local communities, society as a whole, staff from institutions, authorities and public administrations, employers organizations (Rowley, 1997; Macfarlane and Lomas, 1999; Marcet, 2001; Cooper, 2002; Ernawati, 2003; Sahney, Banwet and Karunes, 2004).

The specialized literature provides generally a wide list of authors who have defined the customers of educational services (Winch, 1996; Galloway, 1998; Johnson and Golomski, 1999), and also the customers of higher educationa, especially Madu and Kuei, 1993; Conway, Mackay and Presor, 1994; Fram and Camp, 1995; Hebert, Della and Bass, 1995; Cuthbert,1996).

In the education process, students occupy several positions (Veres, Hetesi,Vilmányi, 2009):

- products of the educational process resulted from the processing as raw materials in the early stage of university training into finished products at graduation
- domestic service consumers that contribute to the delivery of basic service (library, receiving services in student dormitories)
- workers in the learning process, a role identified for the first time by Sirvanci (1996)
- domestic consumers of courses, of study materials, considered as the main role of the students (Sirvanci, 1996). Starting from these considerations, it is useful to identify students with the concept of final user of the educational services (Veress 1999; Miskolciné Mikáczó 2006).

Educational services are interesting for the direct and indirect consumers of educational services (students, parents, employers, society) because they satisfy a complex category of needs. Students are interested in obtaining a balance in terms of investment of time, energy

and effort in learning and the result at the end of the training process as specialists. Prospective employers are interested graduates to be able to solve problems commonly faced by the organization that will work in. The society has its own expectations regarding the proper functioning of the economy also in the social plan due to the effort of the graduates of higher education both during the initial training and continuous training.

In a world where information resources represent more and more the key of progress, it becomes more necessary the concern of higher education institutions as providers of services for a good relationship with the economic agents to which they have to offer viable solutions for a sustainable development, both in terms of training of specialists and in terms of scientific production.

An important role in this regard goes to the critical analysis of the relationship between graduates as consumers of the educational and university services, essentially rendered by the image of the university among the graduates, their satisfaction, the interaction between the professor and the student, respectively the graduate.

Recent studies made in the field of university marketing (María Waleska Schlesinger Díaz, 2010) have shown that the competitiveness of the university is built on the relationship graduate – university played by its image among stakeholders. The quality of student- teacher interaction is reflected in the satisfaction of the graduate and in the content of the university image perceived as concept with cognitive, affective dimensions. The favourable image of the university among the graduates help in maintaining the relations with the graduates also after graduation and it must constitute into a strategic goal of marketing and university management.

Attracting, maintaining and strengthening the relations with the customers represents relational marketing (Berry, 2003). It is very important to strengthen the relationships with the existing customers for a long term success. Graduates can become further clients as master students, PhD students and then economic agents interested in the knowledge and the innovations created by the universities and employers of graduates of higher education or master degree.

Relational marketing is more useful in the field of education services as it exist alternatives for the client in choosing a service provider. It should be understood as a philosophy, as an integrated way of thinking based on the placing on the market of a service that creates value for both client and organization. The service providing must be accompanied by an adequate promotion and a flexible organizational structure. Transforming the indifferent customers into loyal customers means the real marketing activity (Berry, 1983). In the outlining of the relational marketing strategies, Berry suggests to consider five aspects: basic service, costumizing the relationship with the client, service development, incentive price, internal marketing. Berry also believes that the most important aspect in implementing the relational marketing is the service provision that meets the need identified in terms of quality and giving confidence to the customer.

The quality of educational service is given by the degree of materialization, professionalism, honesty, trust, rigor and empathy of the service. Because the result of service consumption is the benefit that can not be known by the client before consumption, the clients will remain loyal to those suppliers that give them confidence.

Relational marketing, viewed as whole activities by which are developed and maintained long term relationships with customers and with other interested parts made the subject of the concerns of many specialists. (Berry1983,2003, Payne și Ballantyne 1991, Morgan and Hunt, 1994; Grönroos1997, 2000).

Gummerson (2002) extends this concept considering relational marketing as a total marketing based on relations, networking, interaction between customers, organization, market and society, the obtained value being created jointly by all concerned parties. Gummerson added three important theories to the classic marketing fundamentals that contribute to the shaping of relational marketing concept: total quality management, corporate network, considering the human capital as an asset creator of value. *TQM* is considered not only a revolutionary of quality management, but also a consolidation of marketing orientation to the client, to the quality perceived by the client and by his satisfaction.

The fundamental principles of quality management: orientation to the client, leadership, staff involvement, process approach, the correlation of the processes that consider the relation with the clients and with other actors from the organization arena, mutually beneficial relationships with customers are related to the marketing approach of customer relationship.

Rust, Zeithaml and Lemon (2000) and Heskett, Sasser and Schlesinger (1997) have proposed a new concept, the equity for the customer which implies satisfaction, loyalty, profitability as elements that contribute to obtain the profit chain for each service. Following the implementation of marketing practices, Kaplan and Norton (1996) describe the organization capital as also being constituted from the capital given by the customers value. To this is added the notion of intellectual capital, consisting of people holding qualities and skills. The university should build also a structural capital represented by the connections, relations between functional departments, organizational culture.

Hunt and Morgan (1994) have proposed building the relational marketing as network competition, including all marketing activities by which is established, developed and maintained the success on the market place by integrating all the value chain links (buyer, supplier, employees).

A modern relational marketing should not be restricted only to the final customer, the external customer. Berry believes that is useful also the consolidation of the relationships with the internal customers (service providers), respectively the marketing approach of this category of customers because only by attracting, retaining and motivating a quality staff it is improved the organization ability to provide quality services, an important condition in building a solid relationship with the clients. Strong relationships with employees of the organization lead to a sustainable relationships with customers.

4. BRAND IMAGE – THE CENTRAL ELEMENT OF SUCCESS FOR HIGHER EDUCATION INSTITUTIONS

In a market that has become competitive, higher education institutions must increasingly consider the problem to build a successful image both among prospective students and among employers to maintain an advantageous position on the market.

The image must be accompanied by the correct information, a good promotional communication, performant university management based on marketing principles.

So far, most universities were not concerned enough to know the size of their own images in the minds of stakeholders. It is important to build a brand image because the intangible component of the product offered by the university has a considerable weight and reduces the risks posed to the future student placed in a position to choose a higher education institution.

For the universities, the value is given by the favourable image that will benefit on the educational market. The image of the university is a strategic component as the university marketing operates especially with intangible aspects whose mental representation is

essential. University's mission, the pursued purposes, organizational structure functionality represent aspects that contribute to shaping the concept of the desired image, image that the university would like to have among the stakeholders. It is useful to determine this by positioning the university in relationship with other competing institutions.

Building a positive image is useful to start with an accurate communication, complete about the capabilities, resources and strengths of the university, which in terms of image it means the image most often transmitted or broadcast through stakeholders. Depending on the ability to understand and value system of each person belonging to the target group, it must be reached the image transmitted to the incoming image that has a strong subjective character. The most important aspect in terms of marketing approach is to study the actual image that represents the synthesis of the subjective images received at an individual level and considered at a social level.

The American Marketing Association defines a brand as a "name, term, design, symbol or any other feature that identifies a good or service as distinct from those of other sellers". It is an abstract concept associated with a company, product, service, and that is reflected in a certain manner by the clients, staff, partners, investors. This abstract concept is associated with thoughts, feelings, perceptions, images, experiences, beliefs, attitudes resulting from stakeholders experience with the brand and which is materialized in information and expectations associated with a company, product or service. A strong brand is one of the most valuable intangible goods for any company (Clark, 2002; Keller, 2008; Keller and Lehmann, 2003).

Berry (2000) introduces the term "brand equity service" which is determined by the brand's company, external communication and the service consumption experience. Since the introduction of the concept in the specialized literature in the 1980s, it appeared more points of view on the importance of brand equity as a marketing tool available for the enterprise: Aaker(1991,1996), Franzen (1999), Ambler (2000), (Keller,2003). Rust, Zeithaml and Lemon (2000) created a model for this concept of brand equity consisting of three components: customer brand perception, emotional value that is produced to the customer, customer loyalty to brand.

Vargo and Lusch (2004) refer to the brand as part of the intangible asset of the enterprise services with the value given to the customers who are considered by the two authors and also by Prahalad (2004), co-producers of value to the enterprise services.

While Prahalad (2004) and Webster (2000) consider brands to have a role just in the relationships of the company with the final customers, (Brodie, Glynn, Little, 2006) suggest that the brand should be examined as being part of the marketing system taken as a whole. Little (2004), who investigated the value creating process for the clients at an organization level suggested that the notion of customer value is closely related to the service brand and together lead to the increasing of the organization value. The service brand should be understood and approached as a relational asset. The brands are in the middle of the marketing activities as of the business strategy (Doyle, 2003), and building a brand equity is considered as one of the key success factors of the organization (Prasad și Dev, 2000). Martensen and Grønholdt, (2003b, 2004) developed a brand equity model for the customer based on the relationship client-brand treated from the rational and emotional point of view. In their opinion, brand equity is a mental brand that includes the mental associations of the consumers and clients and are influenced by six determining factors: the quality of the product, the service quality for clients, the brand differentiation, the fulfillment of promises contained by the brand, brand trust and credibility. (Martensen and Grønholdt, 2010, p.301)

Also the employees can contribute to the creating of the organization brand by the behaviour based on courtesy, responsibility, empathy, support. Such behaviour has been shown to help shaping the perception of service quality by the consumers with impact on customer loyalty.

The task of providing customers service experience in accordance with their expectations and create a desired brand image rests primarily with the employees. That's why a challenge for any organization, especially for service provider organizations would be training the employees to be able to reflect the favourable image of the organization. The employee or human resource brand was conceptualized in several ways. (Estell, 2002; Farrell, 2002; Froom, 2001; McKenzie, 2001, Mitchell, 2002).

A global model for the understanding of the human resource branding process was designed by Miles and Mangold in 2008. For its designing, they started from defining the human resource brand, the source of messages received by employees, factors that affect employees perceptions acquired positive consequences determined by the employee as a result of branding efforts.

Miles and Mangold (2008) appreciate that human resource branding can be understood as a process by which employees internalize the desired brand image and are motivated to project the image to customers and other organizational components. The internalisation of the brand image of human resource is possible when employees receive coherent and credible messages from the internal systems of organization. The internalization process allows employees to accomplish better the explicit and implicit promises necessary in the process of creating the image and brand of the organization. (Greene, Walls, Schrest, 1994).

The organization image projected by its employees and by the stakeholders represents the central element of the success of human resource brand. To build a brand of a successful human resource, it is necessary the organizations to create a favourable image of the organization in the employees minds before they interact with customers, meaning to build a strong relationship between employer and employee. Human resources branding process can be considered as a source of competitive advantage (Miles and Mangold, 2008).

CONCLUSIONS

The following remarks can be derived from the paper:

- the marketing approach is a necessity for the success of the management of higher education institutions determined by changes both in terms of the demand of global product offered by the university and the educational supply existent on the market of higher education institutions
- the university marketing strategy is in relationship with the strategy of higher education institution and forms that step by which are identified the target groups and their needs, followed by designing and implementing a balanced marketing mix
- a competitive advantage can be obtained by considering the variables: quality, material and human support used in teaching and research process, price level and facilities in price policy
- identifying direct and indirect customer needs and desires determines the need to implement all actions seen as relational marketing which develop and maintain long term relationships with customers and other interested parts as a guarantee of competitiveness of the university; there is a rich specialized literature on this subject since the early '80s
- so far, most universities were not concerned enough about knowing the dimensions of their own images in the minds of their stakeholders. It is important to build a brand

image because the intangible component of the product offered by the university has a considerable weight and reduces the risks posed to a future student placed in a position to choose higher education institution. The brand image of the university is built successfully if the university raises the questions of developing also a brand of human resource in developing and maintaining a sustainable and effective relationship with stakeholders.

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THE MANAGEMENT OF INNOVATION PROCESS FROM MARKET ORIENTATION PERSPECTIVE IN AUTOMOTIVE INDUSTRY

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Abstract: *Marketing and management researchers pointed out, beginning whit '90s, the benefits of implementation of a new business philosophy – market orientation. Even if, the concept has an interdisciplinary approach, all academics and managers started from the same point – market orientation is a business philosophy, which connects all the functional areas of the organization to environment in which operates and ensures long-term profitability. Even if, the market orientation concept was the topic for many researches, in economic literature any framework model of implementation was not developed. In the article we present a framework model, which will emphasise the steps, and changes that an organization has to do to become market orientated, beginning from the particular case of automobile industry.*

Keywords: market orientation, innovation process, implementation process, automotive industry.

JEL Classification Codes: M10, M21, M31.

1. INTRODUCTION

The automotive industry passed through important changes and evolved towards new directions. Is no doubt that automotive industry is a highly dynamic and competitive, global industry. The European automotive industry, for instance, contributes to the European economy by creating value added (7% of total manufacturing output), employment (7% of total manufacturing employment), trade (5% of total manufacturing exports), and by investing in research and development (20% of total manufacturing R&D) (EC, 2006). The changes in automotive industry are quick, and affect all the operators: suppliers, producers, retailers etc. The most important factors, which generated these changes, are: the intensification of the globalisation process, growing competition, the decrease of innovation funds, overcapacity, the evolution of the consumer needs and exigencies and the present oil crisis. Consumer expectations of vehicle quality, reliability, safety, and utility are at an all-time high. In this context the automotive companies have to cope to many challenges, thus: the relocation of the resources and capacities towards low-cost regions, prices pressures, the acceleration of the new products development whit limited resources which have to meet consumers needs, the development of new models whit alternative propulsion, like as – hydrogen, electrical energy. Even if, many managers from automotive industry who participated in the Kohn, Norrgren and Stzhre`s (2001) research stated that their companies occupied good positions they all agreed that because of the changes from the industry it is necessary that their companies to pass through some changes for responding to the new trands. All managers interwed stated

that innovation were one of the most important success factor for maintaining the competitiveness of the company. Also they appreciated that innovation is the key to the challenges in the globalisation process. An important outgrowth of the new global forces taking shape is an increased focus within the industry on research and development. All companies from automotive industry, today is communicating innovation messages:

„Innovation is our mission” – William Clay Ford, Jr. Chairman, Ford Motor Company

„Innovation drives our company and is the Key to the worldwide success of DaimlerChrysler” – DaimlerChrysler Web site

„Toyota is turning challenges into business opportunities by accelerating the pace of its innovation to achieve new growth.” – Hiroshi Okuda, Chairman, Toyota 2004, Annual Report.

In spite of this, automotive companies have to extend their thinking about innovation beyond products and services to business model innovation. As automotive companies face crises, many are beginning to look at new business models.

In this context, our paper has the purpose to build a framework of business model innovation grounded on the market orientation concept beginning from automotive industry case.

2. INNOVATION AND ITS DIRECTIONS

One of the most common misconceptions is that innovation implies only technology changing. There are several directions in innovation field which don't imply technology change: redefining current products and market segments, creating new ones, attacking the competitors etc. As Davida T., Epstein M. J., and Shelton R (2006) emphasised innovation is not just about changing technologies. They also stated that successful organizations combine technology change and business model change to create innovation. In addition, to successfully integrate a robust model of innovation into the business mentality, the leadership team must balance both the business and technology elements of innovation.

Business models is about how a company creates, communicates, and delivers superior value for the consumers. Business model innovators adapt their business to changing market dynamics. The fundamental elements of the business model are: value proposition, supply chain, and target consumers (Davida T., Epstein M. J., and Shelton R., 2006).

2.1. VALUE PROPOSITION

Value proposition is about essentially creation, communication and delivering superior value for the customers. This could be an entirely new product or service or an expanded proposition for an existing offering. In value proposition building, Marketing mission is to create or to extend new benefits for the current customers that are superior to those delivered by the competitors. This process implies many stages, thus:

- The identification of the desired value – implies the identification of the desires and demands of the consumers through gathering market information,
- The dissemination of the market information to all functional departments within the organization,
- The response of the organization – value proposition.

Value proposition is about delivering all promises made by the company to the customers. A fundamental problem for top-management is to understand the perspective of the consumer about value and to build superior value beginning from this perspective. Building value proposition is one of the most important decision for the company. It is very important that managers to motivate all the employees to participate in the value creating and delivering.

2.2. SUPPLY CHAIN

The second element to the innovative business model change is the supply chain. The management of the value chain is considered a great challenge today.

To often innovations are failed because the producers and their suppliers know too little about consumers' needs and their perception about innovations. Because of that in the automotive industry, one out of six innovations is accepted by the consumer. There are too many complicated innovations to be accepted by the consumer. Today, only a few drivers know all about the functions of the cars that they are driving. For instance, 70% of the German and American drivers know about ABS and only 40% have an idea about what is ESC. Even if more and more optional characteristics become usual equipment, optional characteristics are many times more. Today the consumer is overcome by the big number of models and characteristics. The complicated name of the innovations made it difficult for the consumer to understand what is the value of a specific offer.

Many innovations in the automotive industry are developed by the suppliers. These innovations are optional equipments for new models. That is why, it is difficult for the suppliers to estimate how customers will accept the innovations, because the innovations depend on the demand of the new model. This implies a high uncertainty and risk for the suppliers. In this context in the future, automotive companies and their suppliers have to test more carefully the success of the innovations. These have to gather the information about what innovations consumers want.

On the other hand, dealers are the first source of gathering the information about how consumers understand the benefits of innovations. A study emphasized that some dealers allocated 12 minutes to explain to each potential customer the benefits of the innovation while other dealers ignore this aspect. So in the automotive industry there is a disconnection between the importance of the innovation for producers and the time allocated for explaining the innovation offered to the consumers by the dealers.

The outsourcing of the process of production of some components and of the research-development process for some characteristics and services make the value chain longer and more complex. The creation, communication and delivery of the superior customer value highly depend on the degree in which all members of the chain system understand, support and operate according to the innovation philosophy. In order for the companies to succeed the alignment of the value chain members to the same goal – that is the creation of the superior customer value – they must conclude strategic partnerships upwards and downwards the value chain system for a better coordination of the entire chain. For the automotive industry, the pushing of the innovation process upwards the value chain increases the necessity of re-evaluating the suppliers' certification standards. In the future, the producers will wait for social responsibility from their suppliers-partners and also take into account all characteristics of local and global environment and attach a higher importance to the stockholders' demands. On the other hand, the distributors remain the first source of information for the client. The philosophy of partnerships along the value chain is vital for the success of the innovation and a great challenge in present conditions.

2.3. TARGET CONSUMER

Changes in the target consumer segments is about when the organization identifies a segment of customers to whom it does not currently direct its marketing, sales, and distribution efforts that would consider its products and services valuable.

The automotive industry is considered one of the most global and concentrated industry, being dominated by a few big companies with global presence. In spite of this, the automotive industry is more regional than global (UNIDO, 2003). So, the automotive companies have to combine in their strategies the two contradictory trends – globalization (standardization) and segmentation (adaptation). There are many differences between local markets or regions which „force” the automotive companies to take to account the adaptation of some characteristics to meet the particular demands from local markets. For instance, the level of income is a factor which modulates the demands from the local markets. The consumers from developed countries are looking for more and more sophisticated innovations while the consumers from developing countries can not pay for this type of innovations. The needs, demands and exigencies of the consumers are modulated by local specific. For instance, the consumers from different markets have different perception concerning with the benefits of innovations. That is why the Asian consumers are more interested in electronic equipment than American consumers. If to all these differences we take to account the local regulation and standards concerning with safety and recycling and taxation we have a framework of the factors which vary from one local market to another. So, the managers from automotive industry have to take to account all this factors when they develop the company` strategy. They have to find the right answer to the following question: „ How many and what characteristics will be standardized or adapted?” The right answer will help the manager to combine the need of costs reduction and the need of meeting different demands from local markets.

3. THE IMPLEMENTATION OF MARKET ORIENTATION

Successful innovation development need a system of elements that fit together: a clear innovation strategy that is connected to the company`s business model, the right team that has the culture to put the strategy to work, an organization that can effectively and efficiently steer the necessary innovation processes.

The business model is directly connected with the success of innovation. Many empirical findings of the researches on market orientation topic emphasized that there is a positive relationship between market orientation and success of innovation. These researches demonstrated that the companies which implement market orientation have high rates of success in the innovative process.

Market orientation is a business philosophy whose implementation leads to the creation of an organizational culture “outside towards inside” oriented which has as a result the connection of all functional departments to the operational environment of the organization and their alignment to the same common goal - the creation of high customer value. This orientation represents a new manner of doing business, which helps the organization to provide quick response to operational environment changes, and leads to the flexibility of organizational structure and to increase of the organization`s capacity of learning.

When market orientation is implemented, the status of marketing department may be less important, because all other functional departments are subordinated to the same common goal - the creation of high customer value. Thus, Kenna (2004) states that:” Marketing is everything and everything is marketing.” A time will come when the borders between functional departments disappear and in such a context, according to Slater, the engineers do not design the product but prepare it for production and the marketers, the sellers and the finance people make a team, which have, as final goal the increasing of high customer value. Serving the clients? It`s nobody`s task but everybody`s task.

Even if, many managers from automotive industry who participated in the Kohn, Norrgren and Stzhre`s (2001) research stated that their companies occupied good positions they all agreed that because of the changes from the industry it is necessary that their companies to pass through some changes for responding to new trends. Because of the prices pressure, many managers admitted that they have a production perspective concerning what the company and they are manage all the processes from this perspective. So, the significant change in the company is passing from the tradition method of doing business to a new logic of doing business – the implementation of market orientation.

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Within the companies, which are not market oriented, the marketing department must play the main role in making the top managers aware of the necessity of market orientation. The marketing must find the answer to the question that the management rightfully asks:” Why is it necessary that the company should be (more) market oriented especially that the implementation of this philosophy implies costs, efforts and time? On the other hand, the probability of a failure is not to be neglected because the implementation is, from our point of view, a process of change, which takes into account the both culture and the organizational behaviour and the strategies, the organizational structure, the processes and the operations. As any other change it will face resistance if the need and directions of change are not well understood and supported by all members of the organization.

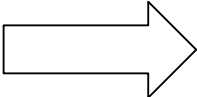
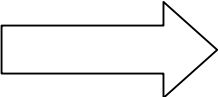
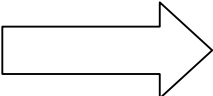
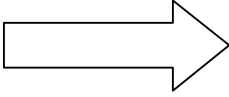
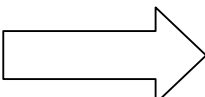
The most important changes within the organization in the transition period are emphasised in the table number 1.

Some managers can consider the opportunity of implementing market orientation only when the organization pass through a crisis period because of the evolution of some external or internal factors.

In this case, the implementation process implies sudden changes and sometimes can imply radical changes within organization. Other managers will decide to implement market orientation taking to account an realistic and desired future image of the organization. In this case, managers will adopt the „step by step” implementation, avoiding change resistances.

Even if we are talking about a radical or a „step by step” implementation, managers have to know that the implementation is a long-term process.

Table 1. The most important changes within the organization in the transition period and the success factors of implementation process

Past Product orientated organization	Success factors of market orientation implementation	Present Market orientated organization
<p>Made most of the components inside</p> <p>The improvements were made beside own products (inside perspective)</p>	<p>Management` capacity of accomplishing the change</p> 	<p>The production of many components is outsourcing. Practices the partnership with members of the value chain. It is concentrated on the core competences.</p> <p><i>The improvements are made beginning from the feedback (the needs and desires of the consumers) and taking to account the competitors` products (an outside perspective).</i></p>
<p>The organization is managed through functional departments. Traditional organizational structure.</p>	<p>The intensity of change resistances</p> 	<p>The organization is managed through task orientated interdepartmental teams. Flexible organizational structure</p>
<p>Standardize marketing - mix</p>	<p>The involvement of the employees in the changing process</p>	<p>How many and what elements will be standardized and adapted?</p>
<p>Competitive advantages were obtained through cost control</p>		<p>Sustainable competitive advantage is obtained through building, communicating and delivering superior value for the customers</p>
<p>New products were developed slowly</p>	<p>The motivation degree of the employees to accept the change</p> 	<p><i>The development cycle of new products is faster. New products represent the result of interdepartmental work. New products are the result of a good collaboration between C&D and Marketing</i></p>
<p>Innovation process is managed from a technical perspective</p>	<p>The degree of implementation of market orientation of the value chain members</p>	<p><i>The innovation process is managed from customer perspective. The outsourcing of innovation process upstream of value chain.</i></p>
<p>The decision-making process is concentrated at the top-management level</p>		<p>The decision-making process is decentralized. Project manager has increased competences in the decision-making process.</p>

Taking into account the main changes that should occur within the transition process, we think that some phases should be done within the market orientation implementation:

Diagram No 1. The phases of market orientation implementation

The analysis of the current situation of the organization and the need for change

What is the present situation of the organization?

What is the present situation of the industry in which the organization operates and which are the future trends?



Developing market - oriented vision

Where does the organization want to get in the future?

What is the position of the client within the future image of the organization?



Developing market - oriented strategy

What is the direction to be followed to achieve the future image of the organization?

What is the new position of the client?

The release of programs for the employees to become aware and motivate them to accept the new position of the client



Redefining the organizational structure

The settlement of inter-departmental task oriented teams

Blunt and flexible organizational structure

Decentralizing decision-making



Re-organization of processes and operations

Inter-departmental task oriented teams

The creation of superior value for the client



The motivation of value chain members to adopt and support market orientation

Concluding strategic partnerships with members of the value chain system

The creation, communication and delivery of the high value for the client



Upwards



Downwards

Source: Authors' point of view

4. CONCLUSIONS

The automotive industry is passing through important changes. In this context, managers from automotive industry admit that „The traditional way of doing business is not an option anymore”. Also, they accept that automotive companies have to pass through some changes to have the cappacity to cope to the enviromntal changes emphasised in this paper. So, the automotive companies have to be (more) market orientated.

Market orientation is not a new concept, it was staded begining whit `90. Even if some academics consider that market orientation is more a descussed topic then a set of managerial practices, empirical faindigs emphasise that there is a possitive relationship between market orientation and organizational performance.

The implementation of market orientation generates important changes within the organizational culture, strategy, organizatoric struncture, procesess and operations. Managers from automotive industry have to analyse the opportunity of implementation of market orientation taking to account not only the presente situation of the firm and the industry, but allso the future trends of the industry.

The paper is a point of view one and is based on the empirical findings of many researches on the market orientation concept. The limits of the paper come from the fact that we developed the methodologically framework of implementation taking to account only the case of a product orientated firm, but in the practice the car companies have already different degree of market orientation. Also, the most important changes from the transition period are only emphasised without being developed.

The paper offers to the academics further research directions and represents a guide of market orientation implementation for the managers from automotive industry and not only.

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