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## THE IMPACT OF THE BASEL III AGREEMENT ON THE BANKING SYSTEMS

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***Abstract:** In the light of the current financial crisis, some deficiencies of the financial supervision system were highlighted. The former Basel II Agreement needed to be reformulated to achieve more stability of the banking systems. The new Basel III launched tight regulation regarding both banking solvency and liquidity and the leverage ratio. These regulations imply more costs for banks. Many bankers didn't agree because of the decrease of the profitability of banks. Still, even the current crisis wasn't surpassed yet, the financial authorities have already claimed another improved agreement Basel IV.*

**Key words:** prudential supervision, banking system, Basel III.

**JEL Classification Codes:** E44, E58, G21, G28.

### 1. INTRODUCTION

The Committee on the Banking Supervision of the Bank for International Settlements has developed in December 2010, the Basel III international framework for measurement, standardization and monitoring of the liquidity risk.

Basel III represents a review of the regulatory and supervision framework of the banking industry in the future, with the purpose of strengthening the stability of the financial system.

The motivation for introducing Basel III accord is based on the following considerations:

- The negative effects of the banking crises. The economic literature shows that the result of the banking crises is consistent to the loss of the economic production which is equal to about 60 % of GDP, during the period prior to the economic crisis.
- The frequency of the banking crises. Since 1985, there have been 30 banking crises in the member states of the Basel Committee.
- The benefits of the Basel III accord are superior to the costs of implementation, because a stable banking system is the foundation of the sustainable development which has long-term benefits.

According to the promoters of the new agreement, Basel III attempts to combine the micro and macro-prudential supervision, establishing both a risk management framework at the individual bank level (taken from Basel I and Basel II) and a systemic risk management framework, at the whole banking system level (Bajenaru A., 2013).

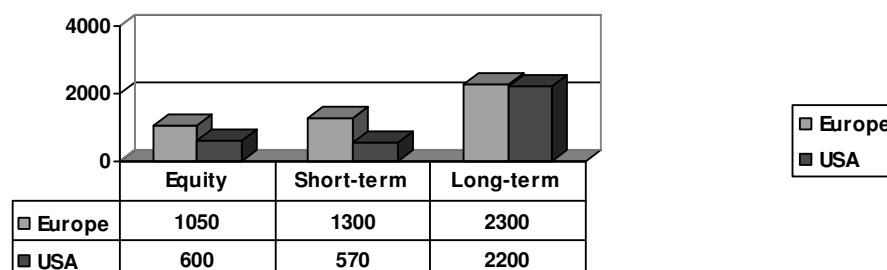
The purpose of Basel III Agreement represents more than a regulation for the financial institutions. It represents the strengthening of the stability of the banking system by correcting the deficiencies outlined by the current crisis.

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## 2. THE IMPACT OF THE BASEL III ACCORD ON THE EUROPEAN BANKING SYSTEM

The impact of the new rules is a significant one, because in the absence of any mitigating actions, both Europe and the United States are likely to face a capital shortfall of 1.050 billion euros, respectively of 600 billion euros. The scarcity of both capital and liquidity for both Europe and the United States will be quite serious the expecting long-term financing should partially dampen the liquidity deficit (Figure 1).

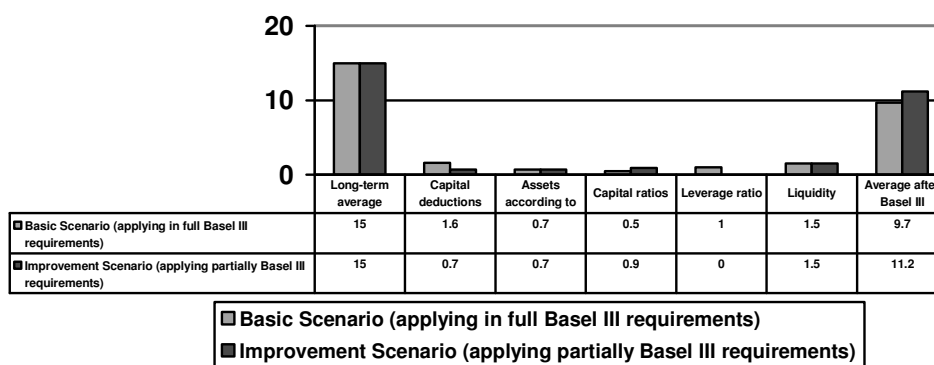


**Figure 1: Equity and Liquidity deficit in Europe and USA (forecasts for 2019)**

Source: Härle et al. “Basel III and European banking: Its impact, how banks might respond, and the challenges of implementation”, 2010, p.4-6.

Considering that all the measures provided by the Basel III agreement will be implemented until the year 2019 and prior to any mitigation actions, the ROE indicator before the tax of the European banks would decrease by 3.7 to 4.3 percentage points from the 15 % level, recorded before the crisis period (Härle et al., 2010).

Analyzing the various transitional periods, it is considered that the decline of ROE will reach 1.6 points. The ROE decline comes after the new requirements which desire to improve the quality of the capital base, to introduce the leverage effect and the minimum liquidity standards at the global level. The task of the credit institutions is very difficult because banks face a significant challenge in order to achieve the technical compliance of the new standards, while the main goal is to obtain successful results (Figure 2).



**Figure 2: Return on equity – impact on the European Banks**

Source: Härle et al. “Basel III and European banking: Its impact, how banks might respond, and the challenges of implementation”, 2010, p.4-6.

Basel III was developed to restrict both the frequency and intensity of the financial crises. Studies show that the agreement will reduce the significant economic costs of the crises. The impact of Basel III on the most important retail banking business segments, corporate and investment banking is different. The retail banking and corporate activities are affected by those provisions of Basel III which are detrimental to the entire bank, especially the higher capital and liquidity requirements. Some retail establishments will also be affected by the measures which aim at the quality of the capital base (silent deduction participations in Germany). In the case of the retail products, the effects of Basel III are less relevant, but the new requirements will affect a lot of the standard banking products dedicated to the corporate industry, by increasing the financing costs. Of the three segments, the investment banking and, in particular, the capital markets undergo most changes under the impact of new capital ratios.

At a first analysis, the impact of Basel III on the banks in the United States seems to be similar, although slightly improved. This is due to the smaller size of the U.S. banking sector, in terms of asset value compared to Europe.

Regarding the capital, the deduction of the mortgage rights has a greater role in the U.S. than the one in Europe, while the minority interests are less important. Taking into account the fact that a lot of American banks have not yet implemented Basel II, the capital ratios of these institutions may be more harmed by the simultaneous transition to Basel II and, respectively to Basel III.

### **3. THE IMPLICATIONS OF BASEL III ON THE BANKING SYSTEM IN ROMANIA**

The impact of the introduction of new capital requirements of Basel III on the Romanian banking system is considered to be insignificant. In mid-2011, at the level of the Romanian banking system, Tier 1 own equity represents 80 % of total equity and the hybrid capital instruments are inexistent. This structure of equity helps to alleviate the potential impact of the implementation of the Basel III capital requirements. Currently the banks in the Republic of Moldova comply with Basel I. There are no regulations on the implementation of Basel III (Nucu A., 2011).

The aggregate leverage effect represents the value of 6%. So the impact of introducing the new requirements will insignificantly affect the Romanian banking system. Furthermore, the analysis of equity (total and Tier 1) shows that the banks in the system comply with the new system standards of Basel III regarding the capital adequacy. The value of total equity was of 14.2 % of the total risk-weighted assets and the value of the weight system at Tier 1 total risk-weighted assets represented 13.6 % at the end of June 2011 (Table 1).

For reasons of financial stability, the central bank decided that the liquidity supervision of the branches should be assigned to the authority in the host Member State and the liquidity standards should be applied at the individual level, although they are met at the consolidated level. The credit institutions will react differently to the new standards, according to the transition period necessary to meet the requirements. For a shorter transition period, banks may choose to restrict the supply of the credit in order to increase the level of capital, changing the structure of the assets. The gradual implementation of the new standards can improve the impact, banks can therefore adapt by capitalizing their profits by issuing shares or by changing the structure of liabilities.

**Table 1. Evolution of the equity and the solvency ratios for the Romanian banking system (2008-2012)**

	dec. 2008	dec. 2009	dec. 2010	dec. 2011	mid. 2012
Percentage of the total equity:	100.0	100.0	100.0	100.0	100.0
<i>Equity 1, of which:</i>	77.3	78.6	80.8	80.7	83.2
Share capital	44.5	47.2	54.4	57.9	67.7
Capital primes	4.1	4.6	6.6	5.5	5.8
Legal reserves	34.1	32.2	30.1	28.6	48.9
Current profit	-	3.7	2.4	2.2	0.2
Current loss	-1.3	-4.4	-6.5	-6.5	-3.3
<i>Equity 2, of which:</i>	22.7	21.4	19.2	19.3	6.8
Reevaluation reserves	8.1	6.0	5.5	5.2	2.2
Subordinated borrowings (net)	15.8	16.9	15.3	14.7	16.9
Subordinated borrowings (gross)	17.8	19.9	19.8	19.4	22.0
Solvency ratio (>8%)	13.8	14.7	15	14.9	14.7
Ratio of equity 1 according to the credit risk	11.8	13.4	14.2	14.3	16.4
Ratio of equity 1	-	-	12.1	12.0	13.7

Source: National Bank of Romania, "Report on the Financial Stability", 2012.

There are a number of measures that the credit institutions could adopt so that the impact to the alignment to the new standards to be insignificant:

- 1) **adjusting the business model.** Banks will reassess the profitability indicators within a higher regulatory environment. Furthermore, the evaluation of some business segments will be based on the "affordability" criteria, taking into account the scarcity of the funding and capital in the future. The credit institutions shall adjust their products and services so that they continue to meet the needs of the customers, while optimizing the capital and bank liquidity.



The adjustment of a range of products can be produced as it follows:

- banks may turn their attention towards the products that meet the customer needs, but, which at the same time, involve lower capital requirements;
- the launching of some product package that combine the stages of financing and savings, banks could raise funds in the form of deposits from the households or small and medium enterprises;
- Banks may increase the share of loans granted in the short term in order to reduce the financing costs (for example, the orientation towards the revolving loans to the expense of the mortgage loans).

2) **the restructuring of the banking balance sheets.** The Basel III accord relies on the integrated management of the assets, capital and financing, as the credit institutions cannot optimize the assets and liabilities in an independent way.

The new rules on the quality of the capital are different from those of Basel II and give banks little opportunities to try different strategies, as they are forced to infer (Caracota R., 2012):

- the capital belonging to the insurance subsidiaries which overcome the 10 percent threshold, thus diminishing their possibility to reuse much of this capital in the activity of the consolidated entity;
- the value of any type of defined benefit of the pension fund assets; the investments in the unconsolidated financial institutions above the threshold of 10 percent.
- Banks provide a number of measures in order to mitigate the impact that the implementation of Basel III would have. Therefore, banks:
- can optimize the scope of consolidated capital through the purchase of minority shareholdings or by restricting the excess of the capital of bank branches;
- can optimize their holdings in the financial institutions by placing unconsolidated investments below the thresholds defined by the regulatory authority for the capital deductions;
- can reassess the pension contracts and requires an accurate value of assets that can be withdrawn from the fund and thus becoming eligible for validation in the regulatory capital.

Besides the effort to align the balance to the new capital requirements, banks must continually invest in their management capacity. Banks face a number of significant challenges: a clearly defined timeline, important results after implementing a major complexity of the measures and interdependence.

The challenge comes from three areas: design, data quality and complexity of the reporting activity:

► *The complexity of the design.* The exceptional standards of Basel III are based on the shortcomings of the previous agreement. The complexity results mainly from the key elements of "the newly established" regulation (introducing the anti-cycle capital buffer and also the fixed capital conservation) and the additional requirements of Basel II, represented by:

- Establishing an integrated view of the credit risk and for the transaction portfolio. In the case of Basel II the regulatory capital for credit risk was treated only in the banking portfolio;
- the development of the methodologies used for calculating the VAR value and the elementary risk rate. In the previous treaty, they were not provided;

- increasing the tax for the securitization of the banking portfolio which are mentioned by the Basel II accord and the transaction portfolio.
- ▶ *The data quality and the complexity of reporting activity.* High quality data is essential to the effective functioning of the processes related to the bank risk;
- ▶ *The operational complexity.* The efficiency of the bank corporate governance is represented by the first step towards the successful implementation of Basel III. Also, internal auditors play a very important role, because they must critically analyze all the operations and therefore, recommend the improvements of the internal control framework.

According to the latest press release of the Basel Committee-January 2013, gold could benefit from a favorable treatment from the point of view of its liquidity by including metal among the assets with high liquidity, with an adjustment of 50 %. This decision would give rise to a competition between gold, cash and government securities, banks being able to decide what to possess. If banks can choose most of the investments imposed by the liquidity requirements could seriously turn to gold (BIS Standards, 2013).

Moreover, some of the most significant provisions of the Basel III accord are related to the degree of capital adequacy, " as it is recommended" on this occasion that banks should triple their current capital from 2.00 % currently to 7.00% until 2019. According to the estimates made by Basel, the fulfillment of this requirement would lead to an increase of capital by 370 billion euros.

Despite the fact that Basel III measures enter into force only in 2019, the central banks are already active buyers of gold. One example could be Turkey, which purchased 123 tons of gold for its reserves in the last year and a half. And Mexico has bought more than 100 tons since February 2011 until today. The German Central Bank has repatriated gold from the U.S. and France, and Venezuela has decided to repatriate 211 tons of gold from Switzerland, Great Britain and Canada. However, Cyprus will sell gold because it possesses large reserves (Dedu and Nitescu, 2012).

#### **4. CONCLUSIONS**

Even though the deadline for implementing Basel III is still far away, that is 2019, it already can be noticed the need for a new agreement "Basel 4", according to KPMG, it is estimated that the largest banks in the United Kingdom will have to have a capital with 50 billion pounds higher than the one they currently possess. The regulators around the world- and the banks themselves- have quickly followed the implementation of Basel 3 as a safeguard against another financial crisis, increasing the level of capital that banks must hold. But there are strong signals that lead us to the next iteration within the capital standards or "Basel 4". This fact is demonstrated by:

- The successful implementation of Basel III requirements in some countries, including Great Britain and the United States;
- Some countries go beyond Basel III, requiring banks to hold capital reserves in order to absorb the impact derived from the stress tests, above and below the minimum of the capital requirements imposed by Basel III and to keep a minimum rate of debt beyond 3%;
- Concerns among the market analysts regarding the shaping of the domestic bank and the accuracy of the risk-weighted assets;

- A lot of works dating from the last two months conceived by the Basel Committee, which go beyond Basel III;
- For euro banking areas, the European Central Bank's future actions regarding the supervision, regulation and macro-prudential authority.

These developments are likely to lead to three changes that could form the basis of future Basel 4.

First of all, we are dealing with limited advantages for banks when it comes to the use of internal models in order to calculate the capital requirements. This could take the form of some limits on the extent to which risk weights based on internal models might deviate from the risk weights under the standardized approach or to reduce the complexity of the internal models of the banks.

Secondly, banks are required to increase the minimum level of the leverage effect (over 3 %).

Thirdly, banks have become a subject more openly debated. To the extent that banks are allowed to use complex models this fact would require banks to explain and justify why their risk weights based on internal models differ from the standardized risk weights.

Some commentators require a higher minimum level of the leverage effect, arguing it as follows (KPMG, 2013):

1. In a world characterized not only by risk but also by uncertainty, it would be better for the policymakers to follow a simple rule rather than trying to match the complexity of the world. Indeed, the attempt to fight against the rules which are increasingly complex, can be disastrous if the complex rules are based on the estimated relationships that break down;
2. Simple rules (such as the leverage effect or market capitalization) would detect the banks which are prone to falling into the trap of the current financial crisis;
3. The minimum level of 3% of the leverage effect established by the Basel III Accord might be too low. Some regulators, academics and commentators require a minimum level much higher, somewhere around the level of 6-8%. It was even proposed a level of 15 % for the largest U.S. banks.

Basel IV is characterized by the following:

- An increase in the minimum level of the leverage effect which is set out in Pillar I;
- 4. Stricter limits on the benefits of the banks to use the internal models for the calculation of the minimum capital requirements;
- 5. A tougher approach regarding the stress tests;
- 6. Greater openness of the banks.

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## ECONOMIC PROMOTION OF A SMALL COUNTRY – THE CASE OF SLOVENIA

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***Abstract:** This paper examines the economic promotion of a small country in the case of Slovenia, which is facing certain economic and social problems. One reason for this is the current financial and economic crisis, which is continuing to affect the country's economy. Economic promotion is therefore very important for Slovenia and its economic performance in both the short and long run.*

***Key words:** economic diplomacy, economic promotion, financial and economic crisis, foreign investment, foreign trade, migration, tourism, Slovenia.*

**JEL Classification Codes: F13, F21, F23, F43, F50.**

### 1. INTRODUCTION

Diplomacy is the activity of managing relationships between countries (see, e.g., Freeman, 1997; Berridge & James, 2001; Rana, 2002; Jönsson & Hall, 2005; Barston, 2006; Bolewski, 2007; Jazbec, 2009; Berridge, 2010; Pigman, 2010; Siracusa, 2010; Hamilton & Langhorne, 2011; Bjola & Kornprobst, 2013; Cooper, Heine & Thakur, 2013). There are several types of diplomacy, some of which are more important than others. One is economic diplomacy, which is the activity of managing economic relationships between countries (see, e.g., Bergeijk, 2009; Veenstra, Yakop & Bergeijk, 2010; Bayne & Woolcock, 2011a; Bayne & Woolcock, 2011b; Bergeijk, Okano-Heijmans & Melissen, 2011; Larson, 2011; Verhagen & Bleker, 2011; Romih, 2013a; Romih, 2013b; Woolcock & Bayne, 2013). Economic diplomacy is becoming increasingly important for Slovenia (Jaklič, 2010; Samec & Romih, 2010; Žbogar, 2010; Gasparič, 2011; Sovič, 2012; Erjavec, 2013, 2014). There are several reasons for this. One is the current financial and economic crisis, which is continuing to affect the country's economy. Slovenia is thus facing certain economic and social problems. Foremost among these is increased unemployment. Additional measures are therefore needed to promote employment and the social inclusion of unemployed people. These measures are also needed to prevent the migration of people from Slovenia to other countries, mainly in Europe and North America. In 2012, 14,378 people emigrated from Slovenia, which is an increase of 19.6 per cent over the previous year; nearly three quarters of emigrants were aged 25–64 (Statistical Office of the Republic of Slovenia, 2013). Among these, 59.9 per cent were employed prior to emigration; 91.5 per cent of them emigrated to a European country – mainly Austria, Germany, Croatia and Bosnia and Herzegovina.

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## 2. ECONOMIC PROMOTION

Economic promotion is the activity of promoting an economy. This is very important for Slovenia (Romih & Logožar, 2011a, p. 135; A. Cantarutti, personal communication, 7 January 2014) and other countries (regardless of their size) for several reasons. One is the contribution that a country's economic promotion makes to the country's economic performance in terms of achieving certain economic goals, such as reducing unemployment (especially among young people), which is a major challenge for Slovenia and certain other countries (see, e.g., International Labour Organization, 2014). Economic promotion is thus a matter of national interest. This is particularly the case with Slovenia, whose economy has been in recession for some time. One of the reasons for this was a failure to address the financial and economic crisis. However, the situation has now improved.

Economic promotion is one of the main tasks of economic diplomacy (Pigman, 2010, p. 69; Rana & Chatterjee, 2011, pp. 6–9). Such promotion can assist in the achievement of goals such as the increase of exports. Economic diplomacy is, therefore, becoming increasingly important for countries whose economic growth is driven by exports, as is the case with Slovenia. Increasing exports is therefore very important in improving economic performance. Other measures are also needed, such as the promotion of cooperation between companies (especially small and medium-sized ones) in entering foreign markets (Cantarutti, 2012).

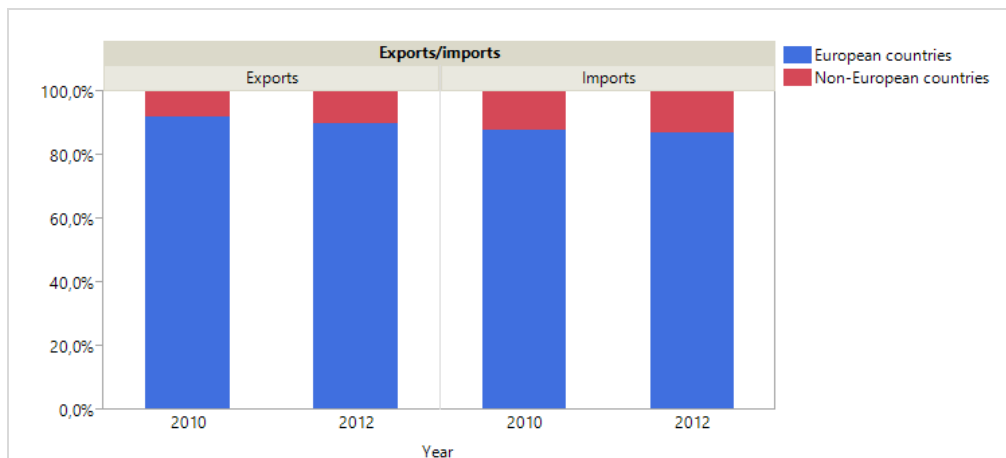
There are several types of economic promotion, such as trade and investment promotion (see, e.g., United Nations, 2009; Naray, 2011; Mills, 2013). Trade and investment promotion is essential for a country to accelerate its foreign trade and investment. This is one of the reasons why trade and investment promotion is becoming increasingly important for countries affected by the current financial and economic crisis.

## 3. TRADE PROMOTION

Foreign trade is the activity of trading goods and services with other countries. It is very important for Slovenia, contributing to its economic growth and development, i.e., the main goals of its economic policies (Romih, 2013b, p. 95; Cantarutti, 2014). Trade promotion, which is the activity of promoting foreign trade, is essential to achieving these goals; this is one of the reasons trade promotion has become one of the main tasks of Slovenia's diplomatic and consular representatives, especially in non-European countries.

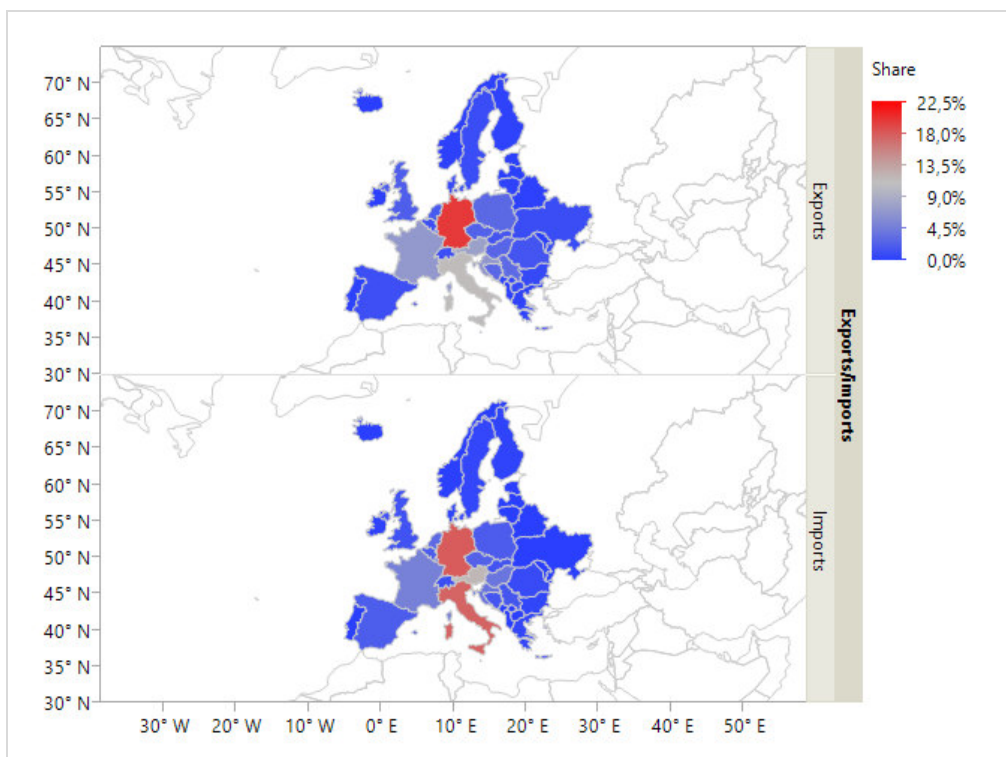
Slovenia is heavily dependent on trade with other European countries (see Figure 1), especially Austria, Italy and Germany (see Figure 2). Foreign trade diversification is thus essential to accelerate Slovenia's foreign trade. It is also essential to accelerate Slovenia's economic growth and development in order to restore economic stability (which, in addition to political stability, is essential for peace and prosperity). Removing trade barriers is crucial for achieving these goals. However, policies directed to these goals are fairly inconsistent, making them ineffective and inefficient, leaving Slovenia less competitive in comparison to some other countries. Estonia, for example, ranks 32nd out of 148 countries according to the Global Competitiveness Index 2013–2014, which is 30 rankings higher than Slovenia (Schwab, 2013, p. 15). This requires immediate action at all levels of governance (Romih, 2013c). In order to become more competitive, Slovenia needs to carry out economic reforms, which should be consistent in order to be effective and efficient (Romih & Samec, 2010; Romih, 2013a, p. 101). This is integral to increasing public confidence in these reforms (especially during the current financial and economic crisis) and to creating an environment conducive to the economic reforms that are necessary if the country is to adapt to changing economic conditions, both at home and abroad.

Furthermore, it is vital to accelerate Slovenia’s foreign trade in order to improve labour market conditions and stop the ‘brain drain’ to more competitive countries (e.g., Austria, Germany and Switzerland). This is another reason for Slovenia to accelerate its trade promotion.



**Figure 1: Slovenia’s exports and imports of goods by country groups, 2010 and 2012**

Source of data: Statistical Office of the Republic of Slovenia (2013, 398–402).



**Figure 2: Slovenia’s exports and imports of goods by European countries, 2012**

Source of data: Statistical Office of the Republic of Slovenia (2013, 398–402).

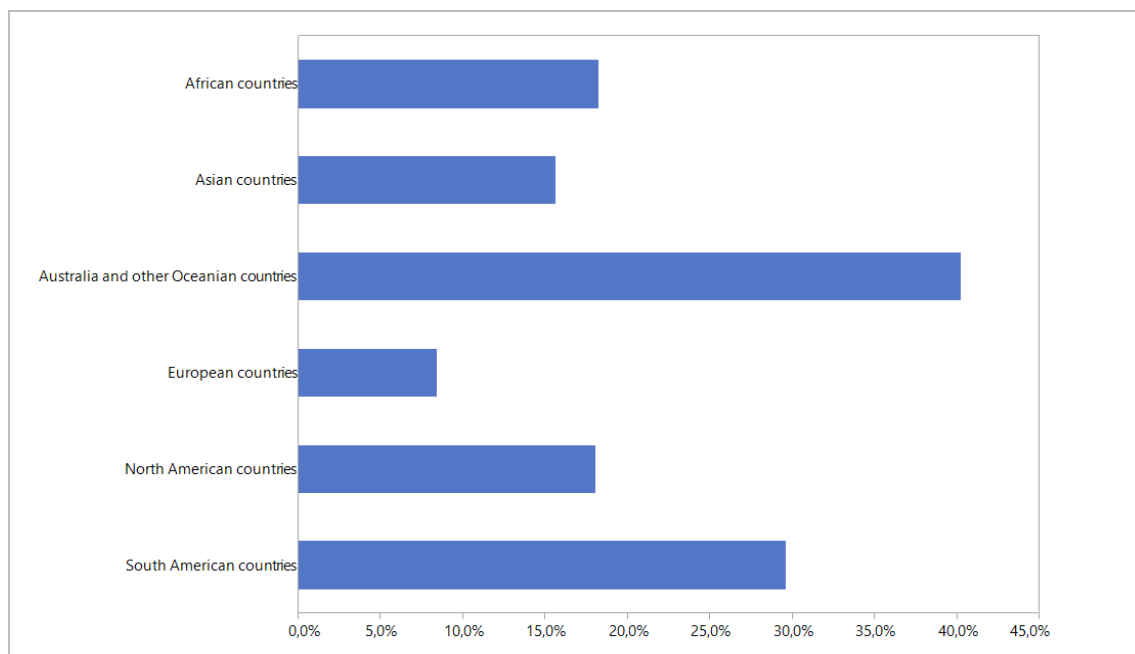
Foreign trade is crucial for a large number of Slovenian companies (regardless of their size) (Romih & Logožar, 2011a, pp. 113–114). Removing trade barriers is therefore crucial for these companies’ continued survival, especially in the times to come. Economic

diplomacy, which can help in entering foreign markets (Gasparič, 2011; Romih & Logožar, 2011b; Sovič, 2012; Erjavec, 2013), is becoming increasingly important for Slovenia, whose economy is heavily dependent on other economies that are more powerful, making it more difficult for Slovenia to enforce its economic interests abroad. Making alliances is therefore very important (Romih, 2013c), although these can be a double-edged sword, especially when used as a device to ‘beggar thy neighbour’.

In 2012, Slovenia’s exports of goods to European countries amounted to 18.9 billion euros (Statistical Office of the Republic of Slovenia, 2013, p. 398), which is a decrease of 0.7 per cent from the previous year. In the same year, Slovenia’s exports of goods to non-European countries amounted to 2.2 billion euros, an increase of 9.5 per cent from the previous year. Major importers of goods from Slovenia among non-European countries were Algeria, Turkey and the United States of America.

Also in 2012, Slovenia’s imports of goods from European countries amounted to 19.1 billion euros (ibid. p. 398), which is a decrease of 2.5 per cent from the previous year, while its imports of goods from non-European countries amounted to 3 billion euros, an increase of 0.7 per cent from the previous year. China, the Republic of Korea and the United States of America were the major exporters of goods to Slovenia among non-European countries.

The average annual growth rate of Slovenia’s exports of goods to European countries over the period from 2009 to 2012 was 8.4 per cent (see Figure 3, which shows the average annual growth rate of Slovenia’s exports of goods over the period from 2009 to 2012 by country group).



**Figure 3: The average annual growth rate of Slovenia’s exports of goods over the period from 2009 to 2012 by country group**

*Source of data: Statistical Office of the Republic of Slovenia (2013, 398–402).*

Figure 3 shows that non-European countries are becoming increasingly important export markets for Slovenian goods.



#### **4. INVESTMENT PROMOTION**

Investment promotion, which is the activity of promoting foreign investment, is a type of economic promotion. It is very important for a country for several reasons. One is the impact of foreign investment on a country's economic growth and development. For Slovenia, foreign investment is particularly important because the country lacks domestic investment (Romih, 2013a). This is to some extent a result of the current financial and economic crisis, which is continuing to have a negative impact on Slovenia's investment climate. There are also some other investment barriers in Slovenia, for example economic nationalism, which does not benefit Slovenia's economy (S. Dajčman, personal communication, 29 March 2014).

In 2012, the stock of inward foreign direct investment in Slovenia amounted to 15.5 billion US dollars at current prices and current exchange rates (United Nations Conference on Trade and Development, 2014), which is an increase of 4.4 per cent from the previous year. In the same year, the stock of outward foreign direct investment in Slovenia amounted to 7.8 billion US dollars at current prices and current exchange rates (*ibid.*), a decrease of 0.1 per cent from the previous year.

#### **5. TOURISM PROMOTION**

Tourism promotion is also very important for a country. There are several reasons for this, for example the impact of tourism on a country's foreign trade and investment (see, e.g., Pigman, 2010, p. 93). For Slovenia, tourism is particularly important because it is one of those economic activities which are least affected by the current financial and economic crisis. In 2012, 2.2 million arrivals of foreign tourists were registered in tourist accommodation in Slovenia (Statistical Office of the Republic of Slovenia, 2013, p. 423), which is an increase of 5.8 per cent from the previous year. In the same year, 5.8 million overnight stays were registered in tourist accommodation in Slovenia (*ibid.* p. 423), an increase of 5.7 per cent from the previous year. Most foreign tourists in Slovenia were from Austria, Italy and Germany.

#### **6. CONCLUSION**

Economic promotion is more important than ever. There are several reasons for this. One is its impact on a country's economic performance. This is particularly the case with Slovenia, whose economy is still affected by the current financial and economic crisis. Additional measures are therefore needed, such as:

- further coordination of Slovenia's economic and other policies in order to increase their effectiveness and efficiency,
- further modernization of Slovenia's economic and other policies in order to adapt to changing economic and other conditions both at home and abroad,
- further implementation of economic and other reforms in order to improve Slovenia's financial and economic environment,
- further implementation of other measures in order to accelerate Slovenia's economic growth and development,
- further development of Slovenia's economic relationships with other countries (mainly outside Europe) in order to improve Slovenia's economic and social situation,
- further development of Slovenia's economic diplomacy in order to improve the enforcement of Slovenia's economic interests abroad, and
- further improvement of Slovenia's economic promotion.

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## PROSPECTS OF DESIGNING FLEXIBLE BUSINESS MODEL IN TURBULENT TIMES

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**Abstract:** *The present study aims to analyze the current global context to capture the characteristics of the new type of volatile and turbulent business environment in which companies must operate nowadays and to bring some propositions in order to guide managers in designing or redesigning business models to achieve flexibility. The central message of this paper, that is a point of view one, is that, nowadays but also in the future, business models that are based on strategic, organizational and operational flexibility and on reaction speed will be those who will provide the greatest capacity to respond to change. Even if the international theory provides a multiple perspective analysis of business model concept, still how it can be achieved such flexibility remains an open issue in the academic debate, but also in the practice of companies. Thus, the paper contains some propositions in order to guide managers in the process of designing or redesigning the business model.*

**Key words:** business model, strategic flexibility, turbulent times, operate, propositions

**JEL Classification Codes:** D72, M21

### 1. INTRODUCTION

Since 2007, global economy has entered a period of profound restructuring, the world facing one of the worst economic crisis in its history. It's amazing how fast the financial crisis that started in the U.S. turned into an economic global one. The rapid expansion of the economic crisis worldwide confirms the acceleration of the globalization process and the interdependencies existing at present between national economies. The current economic crisis is considered as an unprecedented event for the world, its unique character being supported by several aspects, including its severity and global nature. Looking at the present global economic turmoil, the transformation mechanism of the financial crisis in an economic one, spread worldwide, is based on the fact that a certain type of crisis generated the emergence of another type of crisis, the key driver to this emergence being the emotion. The core mechanism of this phenomenon is considered the “economy of fear”. Due to the exposure to the uncertainty and economic shocks, the emotional response of consumers to the effects of the financial crisis determined the decrease of their confidence in brands, companies, sectors of activity, and in the anti-crisis measures taken by governments. In other words, the negative emotional response determined the appearance of confidence crisis which is associated to the alteration of consumption and spending allocation, people considering savings as a proper reaction to the uncertainty of their existence. Fear of the future,

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unfavorable changes in price elasticity, hard value and cost benefits gain in importance, compressed time preference, financing becomes more important and safety a higher priority. Consumers choose saving their money instead of spending it (Simon, 2009). The fall in consumer spending leads to a decrease in aggregate demand and therefore into a lower economic growth. This had as consequence markets contractions and their structure alterations, generating the classical overproduction crisis, but also the prolongue of the economic crisis. Thus, the new market situation is characterized as the “age of thrift” which has radically changed customer purchase behaviour, and provides an environment dominated by public skepticism and lack of trust in business and in marketing offers (Piercy et al, 2010). Thus, nowadays companies must adapt to an environment characterized by volatility, discontinuities and change. Change has become so rapid that companies have lost the market visibility in a large extent. To operate in such a dynamic environment, companies must be flexible in terms of strategic, organizational and operational point of view. Therefore, by redesigning business models, their flexibility represents currently a major concern of managers. Looking to the future, obviously, new business models must be designed on principles that ensure a high level of flexibility and high speed of response, which are essential conditions to quickly respond to changes. The responsiveness to change and speed of response will be provided by business model orientation from outside to inside.

In this global tumultuous context, companies should learn the lesson of survival and to find their own way in the crisis. The question that generated this study is: in terms of volatility, turbulence and change, how companies can build their survival and which are the key factors of business model that can provide the necessary dynamism to operating in turbulent conditions?

### **Turbulent times and uncertainty**

Since 2008, the global economy has entered a period of profound restructuring, the world facing one of the worst economic crisis in its history. It's amazing how fast it extended the financial crisis that started in the U.S. and has turned into a global economic crisis. The transformation of the financial crisis in a severe economic crisis and its rapid expansion worldwide confirms the acceleration of globalization process and the interdependencies existing at present between national economies. As Seymon Brown said, the phenomenon of global interdependence affects not only the relations between states, but also the relations between the activity sectors through rapid spread of economic and social effects. Since 1978, Modelski advocated for global management of problems and relations and for management of global interdependencies. The same thing is highlighted by Puscas (2010), which relates the contemporary globalization as “networks of interdependence” and by Reuveny (2008) that defines contemporary globalization as a process of increasing the connection and interdependence in all important areas of human activity, globally.

An interesting aspect of the current economic crisis is that a certain type of crisis generated another type of crisis. In the conference “Crisis of Confidence, The Recession and Economy of Fear” organized by University of Pennsylvania’s Department of Psychiatry and the Psychanalytic Center, in 2009, it was concluded: “The emotion not only led America into the present economic crisis, but it could also keep it there”. Thus, the negative emotional response of consumers at the global level, due to the exposure of the uncertainty generated by the financial crisis, led to lower levels of trust in brands, companies, sectors of activity, in the anti-crisis measures taken by governments, in the political class that led to the crisis of confidence. This is supported by the evolution of Consumer Confidence Index (CCI) which,

according to Nielsen Global Confidence Index Report 2008, CCI has experienced significant decreases in all national markets in which it was measured, in some national markets reaching an absolute record of decrease. In the first half of 2009, CCI continued to decline in 48 of the 50 monitored countries. In this context, consumers have adopted various crisis management strategies, which were mainly based on reactive actions to reduce consumption in order to survive, but also to save in response to uncertainty etc. Thus, the financial crisis doubled by the crisis of confidence led to lower consumption, leading to contracting markets, namely the appearance of classic overproduction crisis. At the same time, unemployment, inflation, reduction or freezing incomes, low purchasing power, subtracting savings / investments had both important social and economic consequences on people: impaired quality of life, of health status of the population and the financial family situation, social relations damage and “capital loss” as a result of exposure to unemployment and the decrease of incomes.

Regarding the outlook for 2013 and 2014, the forecasts remain reserved. According to World Economic Situation and Prospects 2012, Global economic outlook, United Nations, New York (<http://www.un.org>), the global economy is on the brink of another recession. Although in this report are expected slight increases in the year 2012, it is stated that these increases are not sufficient to deal with the crisis of jobs in developed economies and will lead to lower incomes in emerging economies. According to Global Economic Prospects ([www.worldbank.org](http://www.worldbank.org)), the evolutions in the first four months of 2012 have been generally positive. However, the World Bank warns that countries must be prepared to respond to a further decrease that could occur. Also, according to the World Economic Outlook (WEO), coping with High Debt and Sluggish Growth (2012) made by the International Monetary Fund ([www.imf.org](http://www.imf.org)), it is not clear if the global economy is hit by another wave of turbulence due to a slow rebuilding of the economic crisis, or if the turbulence is a long-term component. Considering all these developments and global unease, it is clear that at present, we live in a transitional period characterized by uncertainty to a new era defined by drastic changes which can not be seen with greater clarity now. As Kitching (2009) highlights, current economic crisis can be considered as a “structural brake” in the global economy and the result of this could be a new economic order. The change has become so rapid that the need for a different way of doing business will mark the whole global business environment. This environment will be characterized by new innovations and by a consumer whose preferences will evolve in a rapid rhythm (Kotelnikov, 2009).

## 2. STUDY OBJECTIVES AND METHODS

This study is a descriptive one and is based on extensive analysis of international academic literature on the economic crisis and the various available reports which present viewpoints on developments in the current economic crisis and the strategies adopted by companies to face a turbulent business environment. A detailed analysis of the business models literature was conducted in order to determine its conceptual nature. Last but not least, this study is based on results of own empirical research conducted in 2010, which aimed to identify the consumer behaviour in the context of uncertainty caused by the economic crisis and companies response in turmoil periods.

These reviews took into account the following objectives: (1) shaping a global context of economic crisis and identify its peculiarities, (2) identify economic and social consequences of the economic crisis, (3) determining the characteristics of turbulent environment associated with the economic crisis in which firms must operate, (4) establishing the conceptual nature of the business model, namely of the flexible business model, (5) the

proposal of some principles that lead to increased flexibility in the business model, aspects considered key for successfully surviving and recovering from the economic crisis.

Starting from the premise that strategic, organizational and operational flexibility, the speed of response and direction from outside to inside are the key factors that ensure the growth of capacity of an organization to operate in an environment marked by volatility and disruption, we proposed a number of issues that managers should consider in order to design / redesign flexible business models. Thereby, the first part of the paper presents a detailed analysis focusing on the economic crisis with emphasis on its effects and on a number of issues concerning the characteristics of the business environment in which firms operate and will operate in the future. The second part of the paper contains a detailed analysis of the specialized literature on the conceptual nature of the business model, and the third section contains proposals on principles which should underlie the design / redesign a flexible business model.

### **3. WHAT IS A BUSINESS MODEL? THE CONCEPTUAL AND EMPIRICAL BACKGROUND**

The concept of business model has become very widely used both in the academic environment and in companies practice, although its use is not always clear. Regarded generally as a logical approach by which the organization thinks, designs its business, to be competitive on the market in the way that produces and distributes value, the business model is a very actual concept, a fashionable one, concept that was and is discussed and analyzed from multiple perspectives: management, marketing, information systems, e-business.

The first use of the term can be found in the work of Bellman, Clark & al (1957), respectively of Jones (1960). However, the concept of business model is becoming increasingly important in academic debates and firms practice in the late 1990's (Osterwalder et al, 2005). In a relatively short period of time, different researchers contributed to the definition and expansion of conceptual nature of the business model. For example, there were authors who defined business model as an approach that the organization covers to maintain itself on the market (Timmers 1998, Magretta 2002); others have identified elements that make up a business model (Chesbrough and Rosenbloom 2000, Hamel 2000, Amit & Zott 2001, 2008, 2010), as others have adopted a rigorous approach modelling (Gordijn 2002, Osterwalder 2004, 2005, 2010).

The model can be defined as a simplified representation of a reality, entity or process and the business is defined by the DEX (Explanatory Dictionary of Romanian language) as an activity carried out in an area whose purpose is to make profits and involves, in our vision, strategic, organizational, commercial and financial issues which interrelate in a system that aims to be as flexible in turbulent external environment conditions. A business model is a description of the value that a company offers to one or several segments of customers and the architecture of the firm and its network of partners for creating, marketing and delivering this value and relationship capital, in order to generate profitable and sustainable revenue streams" (Osterwalder and Pigneur, 2002). It is a conceptual tool containing a set of objects, concepts and their relationships with the objective to express the business logic of a specific firm (Osterwalder, Pigneur and Tucci, 2005). A business model is „a structural template of how a focal firm transacts with customers, partners, and vendors; that is, how it chooses to connect with factor and product markets" (Zott and Amit, 2008). A business model describes the design or architecture of the value creation, delivery and capture mechanisms employed. The



essence of a business model is that it crystallizes customer needs and ability to pay, defines the manner by which the business enterprise responds to and delivers value to customers, entices customers to pay for value, and converts those payments to profit through the proper design and operation of the various elements of the value chain” (Treece, 2010).

At the same time with the definition of the concept, researchers have focused on drawing distinctions between this and other concepts considered complementary, establishing different types of relationships between these.

Thus, international literature highlights the complementarity concept with relevant aspects of the organization, namely:

- some authors (Gordijn, Akkermans & al. 2000) have shown the distinction between the business model and the model of business processes in the sense that the concept of business model should be understood as a logical process of creating and delivering value and business process model illustrates the way in which the business operates with the help of operating processes;

- other authors have shown the difference between strategy and business model. Magretta (2002) alternatively use the term strategy and that of business model indicating that the model is regarded as a system in which components interrelate to create value, while the strategy involves the implementation of the model. Osterwalder et al (2005, p.13-14) states that the strategy involves execution, implementation, while the business model shows how a business operates as a system (business concept). According to him, it is translated into the strategy’s content that sets specific goals, processes, activities, cash flows;

- other authors (Bernus 2001, Wortmann, Hegge & al. 2001) commented the relationship between enterprise models and business model. Thus, enterprise modeling covers all the operations taking place within the organization, meaning the processes and activities and business models are focused on creating value for customers and for the organization;

- Norman (1977, 2001) uses the concept business idea which describes as consisting of three different components: valuing the needs identified in the external environment, the offer, internal factors represented by the organizational structure, resources, knowledge, capabilities, value systems. The concept is considered to be systemic in nature as the organization’s relationship with the external environment influences the offer which in turn depends on the nature of internal factors.

- the concept of business model is often associated with e-business research considered as an empirical or conceptual model, has certain components and certain structures (Timmers, 1998, Cherian, 2001, Applegate, 2001,). Hedman & Kalling (2003, p.50) believe that a business model should be understood as a system-related factors and a set of activities that lead to improved value chain by an offer that provides increased quality perceived by the customer and/or reduced costs.

- Afuah & Tucci (2003), Osterwalder & Pigneur (2004) take the view that a business model should be understood more as a holistic concept that includes a range of factors such as pricing mechanisms, relationships with customers, partners and income distribution.

Afuah & Tucci (2000) suggest that “A business model can be conceptualized as a system that is made up of components, linkages between the components, and dynamics”. The components of the business model are customer value, customer segments, scope of products and services, pricing, revenue sources, connected activities, implementation, capabilities, and sustainability.

McGrath & MacMillan (2000) include “the way an organisation organises its inputs, converts these into valuable outputs, and gets customers to pay for them in the business model

concept”. Chesbrough & Rosenbloom (2002, p.533-534) present a business model as a construct that mediates between technological inputs and economic outputs. The functions of a business model are: (1) to offer value proposition; (2) to identify market segments and the mechanism by which it can generate income; (3) to define the structure of the value chain; (4) to estimate the cost structure and profit potential; (5) to describe the organization’s position within the network including suppliers, customers, partners, competitors and (6) to formulate competitive strategy.

As it can be seen, in literature, there are many viewpoints on what the business model is and what are its components. Researchers have tried to establish a conceptual nature of the business model and the relationships between it and other concepts.

In this study we approached the business model in holistic view, taking into account a number of components that compose it: strategy - organizational architecture - operations.

#### **4. HOW TO DESIGN A FLEXIBLE BUSINESS MODEL IN TURBULENT TIMES**

Based on what Darwin said: “Not the strongest species survive, nor the most intelligent, but the most adaptable.” (acest citat trebuie sters),,the species that survived over time are neither the strongest nor the most intelligent, are those that have had the greatest capacity to adapt to change”, we consider that companies will operate successfully in a volatile business environment are those who have the greatest capacity to adapt to change, meaning that they have the ability to respond quickly and effectively in a new environment. To achieve a high level of flexibility, companies must define / redefine the business models to be oriented from the outside to the inside. What we suggest is that, currently, neglecting the market may not only jeopardize the recovery from the crisis, but the very survival. (acest paragraf ar trebui regandit ca apoi sa-l traduc)

In a turbulent business environment, two issues may inhibit the process of redesigning current business model to become flexible, namely:

##### **a) Focusing on reducing costs drastically.**

According to the results of several studies conducted in the context of the economic crisis, the restructuring was a strategy adopted by many managers in the first phase of the economic crisis (contraction phase). Restructuring generally took various forms: downsizing, restructuring, budget reduction and suspension of projects, the most common being the reduction of activities, reducing staff, reducing costs related to research and development, marketing and staff training. Reducing the different types of expenditure was dramatic, especially in the cases of the forms which are under the immediate survival stress. In this case there were, for example, the firms that are in financial imbalance with high leverage, faced with the inability to pay the important clients, being in a position to become victims of domino effect or without liquidity.

However, the drastic reduction of costs must be made based on a clear analysis of the effects generated by each cutting. For example, although the reduction in personnel costs was a necessity, it can not be neglected that the company’s distinctive competencies are built using skills and knowledge of employees. Burke & Cooper (2000) point out that although downsizing may be necessary, as well as other reductions, these measures should be accompanied by actions that lead to increased efficiency.

As we reported in an article published in 2010, cost reduction must be made taking into account a number of issues such as: to represent the result of a detailed analysis of the effects

that they will have on short and long term; (2) the analysis of the effects of cuts to be made by a interoperable team for there to be multiple vision of these consequences; (3) primarily to eliminate waste, inefficiency and redundancy; (4) do not affect the basic skills of the business model, thus ensuring the resilience of the crisis; (5) to be accompanied by other measures which take into account the return of the crisis.

**b) Inertia.**

Ashkenas (2012) points out that no business model, no matter how innovative it would be at some point, can not be successful forever, the most dangerous being the organizational inertia, meaning to get stuck in a pattern which is not successful, and although all people notice this, you still do not want to see it. . Markets, technologies, customers, competition are changing with such speed that no one can guarantee that the profit gained today may ensure success tomorrow. Also, Brad Power (2012) highlights the importance that managers need to pay to customers and to stay with “their finger on the pulse” to identify new opportunities for change in business model. Adapting to economic shocks is a skill that managers must also develop so companies may survive. Although the economic crisis, poor results should represent alarm signals to trigger the change in business model in due time, resource availability, routine management mind-set lead to keeping a firm into an inertial response model that inhibits the company's ability to identify and capitalize on opportunities that may come with risks in a volatile environment. . Contracting markets, the structure changes that occur, changing the way consumers think and behave, can represent both risks and opportunities. Inertia will not allow timely identifying and taking advantage of opportunities. As Ashkenas (2012) sustains “Kill your business model before it kills you”. Testing, incubating, and investing in alternative models reduces that possibility.

Both drastic reduction and inertia basically represent management’s focus on the interior of the business and the possible impairment of basic skills, which will reduce the ability of firms to capitalize on opportunities. Given the uncertainty that characterizes business, *the aspects that enhance the development of flexible business models* are as follows:

**Proposition 1: Orientation from outside to inside of the business model**

Whether a company is under pressure or not from immediate survival, the alteration of external environment represents the strategy, organizational structures and existing processes that shape the business model. Remodeling is needed for the organization to meet the challenges. Redesigning represents a change project – planning strategic scenarios, a flattened organizational structure, reorganizing operations and network development. To determine the intensity and direction of change in the redesign process the company will monitor three important aspects of the external environment: (1) collecting and analyzing the information on the economic situation at national and international level and analyzing the dynamics of key economic indicators whose evolution highlights the trend of economic crisis. This monitoring enables the company to closely monitoring the pulse of the economic crisis and capture in real time the signals of the deepening economic crisis or those of recovery; (2) collecting and analyzing the information about how the industry in which the company operates is restructured and develops, and on the impact of new government regulations; (3) CCI monitoring, understanding how consumer behavior changes, knowing their needs and expectations in the new context (it is about to understand and learn how to provide value for money), identifying the strategies adopted by major competitors for the crisis management, market analysis by collecting information about how legal rules affect consumers.

**Proposition 2: More than one strategy.**

As Kitching underscores (2009), the literature highlights that in conditions of recession, business performance is variable, no specific strategy can not guarantee survival or success. Thus, strategic, organizational and operational flexibility represents an issue that can make the difference between companies that adapt and those that disappear (Kotler, 2003). In a study conducted by Pandelica & Pandelica (2011) aiming to determine the extent to which psychological factors influence consumer behavior, it has been shown that the more the uncertainty is higher, measured as perception and aversion to risk, the consumer behavior is altered. Given this aspect, planning several strategic scenarios applicable in different contexts projected of the external environment, leads to increased responsiveness of the company, in a volatile environment, by increasing the flexibility of the business model, focused on the market signals.

These scenarios will be based on different contexts of external environment evolution, considering at least two options - pessimistic and optimistic. Strategic scenarios set future directions for action, enabling the company to operate regardless of the environmental evolution. The two scenarios are related to the economic crisis curve.

Thus, the pessimistic scenario occurs if the national economy is becoming more severely affected, the signals being: the decrease in GDP, rising unemployment, decreased income, increased sense of panic, contracting markets, important mutations in the market structure by consumers' migration on the demand curve, significant changes in consumer behavior, intensifying competition. Optimistic scenario corresponds to preparing a healthy recovery from the economic crisis, when in the company occur signs of recovery, for example, the decreasing sense of panic among consumers and CCI growth, increasing consumer's desire, positive development of key economic indicators. As Quelch & Jock (2009) stress, after the crisis there are enough consumers willing to try new products.

Planning the two strategic scenarios involves, primarily a multiplication of the planning effort, given that the planners will consider not only a strategy but developing two strategies. Besides the courses of action taken for each possible evolution of the external environment, the planners will consider the establishment of the necessary resources, taking into account every possibility.

**Proposition 3: The emphasis on speed of response.**

As Kotter stresses (2012), what should make companies today is to identify the main risks and opportunities early enough, to develop strategic alternatives of creative actions to implement them quickly enough. Only a business model oriented from outside to inside will allow such a reaction speed. The company will continuously monitor the external environment, capturing the signals, following the evolution of national and international economic situation, changes in consumer behavior and actions of competitors, legal regulations. The speed of response is very important, and the company can not achieve this speed of reaction, being based on a traditional hierarchical organization. Thus, an essential condition for a company to become flexible in terms of strategy is it to go beyond hierarchical organizing and become flexible in terms of organizational and operational. Shifting from hierarchical structures to flattened structures, it reduces the time of decision and implementing the decisions, increasing the response speed. At the same time the shift from organizing around functional departments to organizing around interoperable teams oriented on tasks in the project will contribute to flexibilization in organizational structure and within the operations.

**Proposition 4: Emphasis on networks.**

As Guran stressed (2008), in current conditions where risks have multiplied significantly, an important aspect is the development of business models to capitalize the ability of innovating existing at the level of value chain system. This involves passing from an organizational perspective on strategic business units to strategic business networks by integrating partners, suppliers, customers and competitors, to strategic business systems that take the form of multiple interconnected networks based on dual communication. The value chain system management is a great challenge in the context of an environment marked by volatility and discontinuities. Outsourcing the production process for non-core components and of the research and development process make the transition from business units to multiple interconnected networks the value chain becoming longer and more complex. Creating, communicating and delivering value to customers depends on the extent to which the firm manages to attract different types of stakeholders, to integrate them in the network by signing strategic partnerships up and down of the value chain system and by moving towards collaborative strategy such as win / win.

**5. CONCLUSIONS**

The current economic crisis represents an unprecedented situation for all humanity, given that by its global character and by severity, it is significantly differentiated from the other episodes of overcome crisis. As a result of accelerated globalization and increasing interdependence between states, businesses and sectors of activity, the effects of financial crisis have spread rapidly, all national markets being affected in a certain extent. Looking forward, the forecast shows that not only the present but also the future will be marked by accelerated changes, volatility - growth and contraction will rotate at high speed. In such a tumultuous context, companies are forced to learn the lesson of survival, to be creative and innovative to adapt to change. The question that generated this study was how the companies survive and operate successfully in times of turbulence.

The central message of this paper is that both now and in the future, in order to operate in such a turbulent environment, shaped by the analysis done, the companies will have to become flexible by designing / redesigning some business models that are based on strategic, organizational and operational flexibility, the orientation from outside to inside and reaction speed. This paper proposes a number of issues that managers should take into consideration in the design / redesign business models, which from our point of view, once adopted, will lead to the success of this approach. Therefore, this study is a descriptive one, and even if its relevance must be demonstrated by empirical support, we consider it to bring valuable perspectives that could guide managers in the changing process to respond in the context of turbulent environment.

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## THE EUROPEAN INVESTMENT BANK ROLE IN FINANCING ROMANIA'S ECONOMY

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**Abstract:** *The European Investment Bank contributes to EU objectives by providing long-term funding for specific projects in compliance with the prudential banking regulations. The EIB continuously adapts its activity to recent developments in EU policies. Within the EU, the EIB Group's ambition is to contribute effectively through a selective choice of projects, to the European Union objectives and to mobilize funds from other sources for such projects. The paper aims to present EIB forms of financing Romania's economy as well as the role and the importance of EIB financing for achieving performance and for developing areas such as innovation and skills, SMEs, climate action and strategic infrastructure in Romania. For doing that we analyzed the Bank's activity in Romania in the 2009-2013 period.*

**Key words:** growth; financing; knowledge economy; development; strategy.

**JEL Codes :** O19, F53, H81

### 1. INTRODUCTION

The EIB is the long-term lending institution of the EU and is owned by EU Member States. It provides long-term financing for sound investment, contributing to economic growth, job creation, regional convergence and climate action in Europe and beyond. To maximize growth and jobs, the EIB has four priority areas: innovation and skills, SMEs, climate action and strategic infrastructure in the EU.

As the largest multilateral debtor and creditor OF volume, it provides financing and expertise for sustainable investment projects that contribute to the promotion of EU policy. More than 90% of the bank's activities focus on Europe, but also supports external policies and development policies.

The Bank ensures that its funds are employed as rationally as possible. This requires that the works, goods and services procured under its financing are of appropriate quality, and acquired at economic prices and in a timely manner. This is generally best achieved through open international competition. It is consistent with the Bank's statute and accords with the interests of promoters.

With A dual nature of European institution and bank, EIB fulfills a role of routing savings and investment in key sectors of the European economy. With a AAA rating on the international capital markets and with a subscribed capital of 100 billion euros, EIB acts as a catalyst, managing to mobilize financial complementary resources to the desired sectors, especially through local banks and strategic investors.

With more than a quarter of the total loans in 2013 - ie EUR 18.5 billion (EUR 21.9 billion including the European Investment Fund) - EIB allowed the access to finance for micro, small and medium enterprises, as well as for medium capitalization companies, which provide about

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66% of jobs in Europe. EIB program regarding employment among young people, "Skills and Jobs - investing in youth" aims the skills shortages and encourage recruitment of young people in SMEs. In 2013, the EIB has invested over 9 billion for this program, well above its target of 6 billion.

## 2. MATERIALS AND METHODS

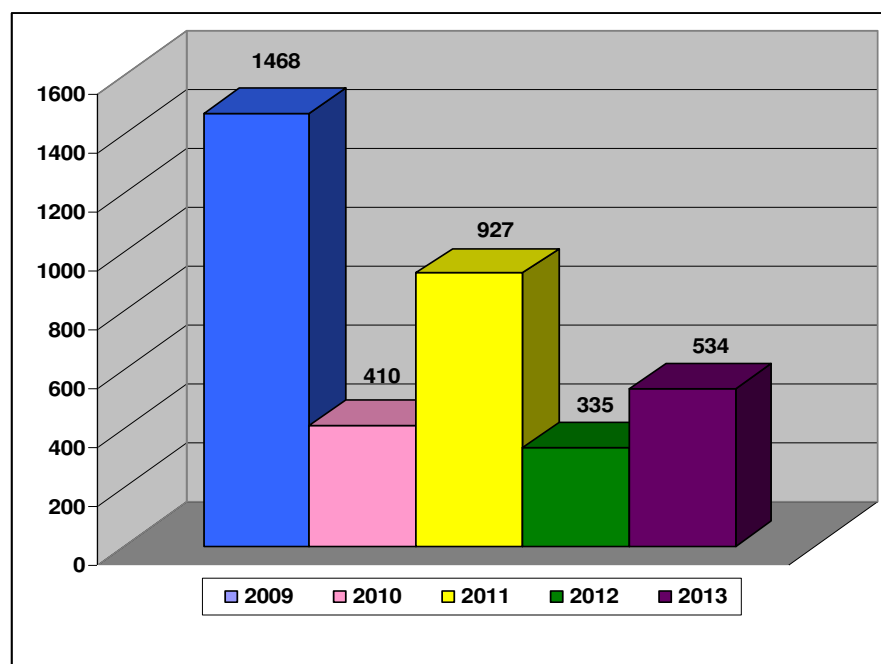
The research was accomplished from a triple perspective, in which the conceptual methodological approach is correlated to the empirical study and to a variety of references to practical actions aiming the activity of the European Investment Bank in Romania, based on the current knowledge in the field.

The results expressed in this paper were the result of a qualitative analysis of the characteristics and the evolution of the European Investment Bank activity in Romania, in the context in which EIB directs an important part of its funds to Romania.

## 3. EIB LENDING ACTIVITY IN ROMANIA IN 2009-2013 PERIOD

EIB lent EUR 335 million in 2012, increasing the volume of loan commitments to Romania to about 4.3 billion in the past five years.

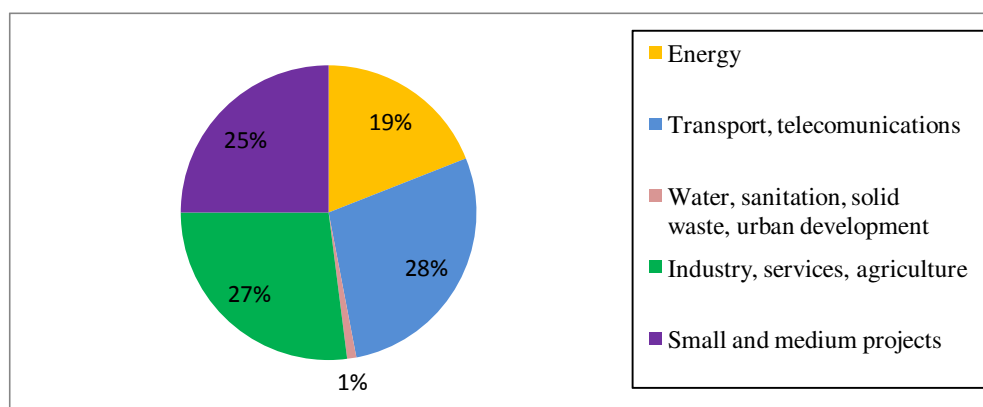
In Romania, in the period 2008-2012, the EIB grant financing of over 4.2 billion, in areas such as transport, industry, services and telecommunications, water and urban infrastructure, energy and intermediary lending, especially to SMEs, but also technical assistance for the management and implementation of projects of European funds. One of the most important agreements between our country and the EIB financing is targeting the construction and commissioning of the Bucharest Metro Line 5.



**Fig. 1 Loans in Romania in 2009-2013 period (EUR million)**

*Source: realised by the author based on the information from <http://www.eib.org/projects/regions/european-union/romania/index.htm>*

EIB loans in 2013 amounted to EUR 534 million, representing an increase of 59% compared to 2012 and leads to a total volume of EIB lending in Romania about 3.7 billion in the last five years (2009 -2013). EIB credit operations Romania are present in all major sectors of the economy, from the basic infrastructure in transport, communications, energy and environment to support small and medium enterprises through local financial institutions and developing a knowledge-based economy.



**Fig. 2 EIB loans in Romania divided by sectors in the 2009-2013 period (EUR million)**

Source: realised by the author based on the information from <http://www.eib.org/projects/regions/european-union/romania/index.htm>

### **Loans for SMEs and medium-capitalization companies**

To improve the access of small and medium enterprises (SMEs) to long-term finance, EIB closely cooperates with an extensive network of financial institutions operating in Romania. Through these intermediary banks and leasing companies, the EIB is co-financing smaller projects, especially in industry and services, including tourism, energy and energy saving, environmental protection and health sector infrastructure, education, urban redevelopment and housing social.

Most loans for SMEs are granted through credit lines. In the period 2009-2013, their situation is presented in the table below:

**Table no. 1 Credit lines granted by EIB in Romania in the period 2009-2013**

Name	Signature date	Signed Amount
<a href="#">RBI RO LOAN FOR SMES AND MIDCAPS</a>	19/12/2013	25,000,000
<a href="#">CEC BANK ROMANIA GLOBAL LOAN</a>	18/12/2013	30,000,000
<a href="#">SG BG-RO LOAN FOR SMES AND MID-CAPS</a>	24/09/2013	100,000,000
<a href="#">ING BANK ROMANIA GLOBAL LOAN</a>	19/07/2013	40,000,000
<a href="#">CEC BANK ROMANIA GLOBAL LOAN</a>	26/06/2013	15,000,000
<a href="#">UNICREDIT BG-RO SME AND MIDCAP LOAN</a>	21/12/2012	80,000,000
<a href="#">BCR SMES &amp; OTHER PRIORITIES II</a>	12/12/2012	50,000,000
<a href="#">ISP LOAN FOR SMES&amp;OTHER PRIORITIES(RO)</a>	15/10/2012	5,000,000
<a href="#">ISP LOAN FOR SMES&amp;OTHER PRIORITIES(RO)</a>	15/10/2012	15,000,000

Name	Signature date	Signed Amount
<a href="#">RBI RO LOAN FOR SMES AND MIDCAPS</a>	15/10/2012	15,000,000
<a href="#">RBI RO LOAN FOR SMES AND MIDCAPS</a>	15/10/2012	30,000,000
<a href="#">BCR SMES &amp; OTHER PRIORITIES II</a>	24/05/2012	50,000,000
<a href="#">SOGLEASE RO-BG LOAN FOR SMES &amp; MIDCAP</a>	22/12/2011	30,000,000
<a href="#">PCH LOAN FOR SME AND PRIORITY PROJECTS</a>	03/05/2011	30,000,000
<a href="#">BCR EIB LOAN FOR SMES</a>	01/04/2011	75,000,000
<a href="#">ALPHA BK RO-BG SME LOANS &amp; PRIORITY LE</a>	29/12/2009	50,000,000
<a href="#">PB RO-BG SME LOANS &amp; PRIORITY PROJECTS</a>	23/12/2009	50,000,000
<a href="#">BCR EIB LOAN FOR SMES</a>	18/12/2009	75,000,000
<a href="#">BANCPOST LOAN FOR SMES I</a>	31/08/2009	80,000,000
<a href="#">ROMANIAN LEASING LOAN FOR SMES</a>	30/06/2009	60,000,000
<a href="#">BC CARPATICA LOAN FOR SMES</a>	29/06/2009	10,000,000
<a href="#">ROMANIAN LEASING LOAN FOR SMES</a>	10/03/2009	15,000,000
<b>Total Amount</b>		<b>930,000,000</b>

Source: realized by the author using data from <http://www.eib.org/projects/loans/regions/european-union/ro.htm?start=2009&end=2013&sector=>

In 2013, the EIB has provided four loans totaling EUR 210 million to finance projects promoted by SMEs and medium capitalization companies in Romania, total EIB partner financial institutions in Romania increasing to eleven.

### **Energy: further support wind energy and energy efficiency**

In 2013, the bank granted a loan of EUR 200 million to finance the investment program of Enel Green Power Romania. The project aimed designing, construction and operation of three wind farms in Romania, with a total capacity of 258 MW: Wild 1 (70 MW) and Wild 2 (70 MW), Moldova Noua (48MW) and Corrugated (70mW). The three wind farms were equipped with 126 turbines, each with a capacity of 2.0 to 2.3 MW and the turbine hub height between 95 and 101 m. In addition, each project includes civil construction of access routes, as well as posts of transformers and high voltage connections to the network.

**Table no. 2 Projects financed by EIB in Romania in the energy area in the period 2009-2013**

Name	Signature date	Signed Amount
<a href="#">ENEL GREEN POWER ROMANIA</a>	28/11/2013	200,000,000
<a href="#">PAROENI POWER PLANT</a>	16/12/2011	32,650,000
<a href="#">FANTANELE WINDFARM</a>	17/12/2010	200,000,000
<a href="#">ROMANIAN POWER GRID NETWORK</a>	05/08/2010	32,500,000
<a href="#">ROMANIAN POWER GRID NETWORK</a>	05/08/2010	32,500,000
<a href="#">PETROM BRAZI CCGT PROJECT</a>	08/05/2009	200,000,000
<b>Total Amount</b>		<b>697,650,000</b>

Source: realized by the author using data from <http://www.eib.org/projects/loans/regions/european-union/ro.htm?start=2009&end=2013&sector=>

❖ Paroseni Power Plant

This is a contract worth 32.65 million euros and its sub-lending to SC Electrocentrale Paroşeni SA for environmental investment projects "Change current technology to collect, transport and storage of ash and slag" and "Installation of flue gas desulphurisation".

❖ Fantanele Windfarm

European Investment Bank (EIB) provided a loan of 200 million euros at the end of 2010 to fund the development of a wind farm located in Fântânele, Dobrogea region. EIB funds were used to co-finance the plan, construction, commissioning and operational work related to the wind farm as well as the transformers and the connection to the grid.

❖ Romanian Power Grid Network

Transelectrica and the European Investment Bank (EIB) signed in 2010, a loan agreement worth 65 million euros to complete the funding of the investment program. This new loan co-financed 8 projects of Transelectrica, for the modernization and rehabilitation of Bucuresti Sud, Gădălin, Brazi Vest, Lacu Sarat, Mintia, Brasov, Cetate, as well as for replacing 11 transformers and autotransformers in Transelectrica stations. The loan, 50% guaranteed, is a real support for continuing investment on medium term, investments that lead to reducing maintenance costs and to increasing operational safety of the transport network, for fulfilling the adequacy criteria and performance standards.

❖ Petrom Brazi CCGT Project

EIB loan secured long-term financing for greenfield power plant in Brazi, of 860 MW, project that amounted to over 500 million and that is covering 9% of the country's electricity production, at the level of 2012, the year of total operating of the plant.

### **Services: support for energy efficiency and technology development**

**Table no. 3 Projects financed by EIB in Romania in the services field in the period 2009-2013**

<b>Name</b>	<b>Signature date</b>	<b>Signed Amount</b>
<a href="#">BUCHAREST S2 THERMAL REHABILITATION</a>	06/12/2012	60,000,000
<a href="#">BUCHAREST S4 THERMAL REHABILITATION</a>	02/11/2012	26,884,987
<a href="#">BUCHAREST S1 THERMAL REHABILITATION</a>	10/08/2011	125,000,000
<a href="#">BUCHAREST S6 THERMAL REHABILITATION</a>	17/12/2010	70,000,000
<a href="#">WAREHOUSE LOGISTICS ROMANIA</a>	10/12/2010	75,000,000
<a href="#">ENGINEERING INNOVATION - RSFF</a>	17/12/2009	7,500,000
<a href="#">ENGINEERING INNOVATION - RSFF</a>	17/12/2009	7,500,000
<b>Total Amount</b>		<b>371,884,987</b>

Source: realized by the author using data from  
<http://www.eib.org/projects/loans/regions/european-union/ro.htm?start=2009&end=2013&sector=>

❖ Bucharest Thermal Rehabilitation: Energetic efficiency in Bucharest

EIB supported residential renovation of buildings in Bucharest, namely in the sectors 1, 2, 4, and 6 of the Romanian capital, leading to a decrease in energy consumption of buildings in question with up to 50%.

Overall energy savings amounts to about 40 GWh per year. EIB funds will help to decrease energy consumption in Bucharest, on improving standard of living through a healthier environment, a more pleasant city buildings as well as to Romania's obligations on fighting climate change.

❖ Warehouse Logistics Romania

The project concerns the Warehouses de Pauw strategic investment programme for its logistics network extension in the Romanian market, with the construction of four industrial estates for logistic warehouses to be erected and operated in two sites close to Bucharest (Corbii Mari and Fundulea), one site close to Ploiesti (Aricestii), and one close to Pitesti (Oarja). The proposed project contributes to the further diversification of the economy of Romania through the establishment of additional logistics and warehouses modern supply chain, possibly leading towards an ameliorated productiveness of its wholesale and retail trade.

❖ Engineering Innovation - RSFF

The project concerns Software Research, Development and Innovation for virtual simulation, prototyping and testing technologies. The project will contribute to developing the field of virtual simulation, prototyping and testing technologies. In addition, it will contribute to the development of Europe's information infrastructure and support European competitiveness in the ICT sector, with beneficial impacts on technological developments.

**Innovative Industries: EIB support for the development of green vehicles**

**Table no. 4 Projects financed by EIB in Romania in the industry field in the period 2009-2013**

Name	Signature date	Signed Amount
<a href="#">RENAULT SUSTAINABLE HI TECH FOR ALL</a>	23/05/2013	10,000,000
<a href="#">CIE AUTOMOTIVE MULTITECHNOLOGY PARTS</a>	27/06/2012	2,941,176
<a href="#">GESTAMP GROUP RDI AND CONVERGENCE</a>	17/11/2011	4,114,286
<a href="#">GESTAMP GROUP RDI AND CONVERGENCE</a>	27/06/2011	411,429
<a href="#">GESTAMP GROUP RDI AND CONVERGENCE</a>	27/06/2011	9,874,286
<a href="#">PRIO OIL EXTRACTION ROMANIA</a>	30/12/2009	40,000,000
<a href="#">CIE AUTOMOTIVE MULTITECHNOLOGY PARTS</a>	23/12/2009	3,000,000
<a href="#">FORD PLANT CRAIOVA</a>	21/12/2009	400,000,000
<a href="#">PIRELLI SLATINA TYRE FACTORY II</a>	17/12/2009	50,000,000
<b>Total Amount</b>		<b>520,341,176</b>

Source: realized by the author using data from <http://www.eib.org/projects/loans/regions/european-union/ro.htm?start=2009&end=2013&sector=>

❖ Renault sustainable HI Tech for all

In 2013, the EIB has continued to support research, development and innovation (RDI) activities of Romania. Bank granted a loan to the Renault Group to finance the development of a new generation of environmentally friendly vehicles effective and affordable, by launching innovative platforms for light vehicles, some vehicles with transmission from the new generation and a new urban small vehicle with a revolutionary platform. Some of the loans - EUR 10 million - was allocated for R&D activities in this field in Romania.

❖ CIE Automotive Multitechnology Parts

EIB will support CIE's research and development investment programme for automotive parts, the company's core area of activity. The project has two basic objectives: (i) to obtain lighter and safer components and joints, and (ii) to ensure that all parts are fully recyclable. The main objective of these loans has been to support development with a focus on manufacturing cleaner automobiles.

❖ Gestamp Group RDI and convergence

The project financed by the EIB consists of two parts: firstly, RDI activities for automotive metal applications designed to further improve the fuel efficiency and safety of vehicles. Secondly, investments in technology implementation for enhanced productivity and energy efficiency located in the promoter's plants in convergence regions in Hungary, Slovakia and Turkey, and the construction of new plants in the Czech Republic and Romania. The implementation of the project will take place between 2011 and 2014.

❖ Ford Plant Craiova

The EIB loan will finance investments in the Craiova Ford plant for the facilities and tooling needed for the production of a new B-segment vehicle with a start of production in the near future and production of the existing model of the light commercial vehicle and a new model scheduled to be launched later. EIB funds will also help to introduce the production of a new small, advanced-technology petrol engine with low fuel consumption.

❖ Pirelli Slatina tyre factory II

The loan will finance an increase in tyre production for cars and light commercial vehicles in Pirelli's production facility in Slatina, Romania. It will be used within the context of the EUR 250 million in investments previously announced by the Group for its Romanian activities for a three-year period from 2009 to 2011.

❖ Prio Oil Extraction Romania

The project comprises the construction and operation of a seed crushing and oil extraction plant in Lehliu-Gara, Calarasi County, Romania. The annual production of the plant will be 265 kt vegetable oil and 400 kt of protein expeller based on about 830 kt of rapeseeds, sunflower seeds and soya beans. The plant will be located on the site of the recently built biodiesel production plant of the beneficiary (not included in the project).

**Telecom**

Regarding the area of telecommunications, in the analyzed period only Vodafone Group has received a loan from the EIB.

The British telecoms group Vodafone, the second player in the local market mobile, signed with EIB a loan total of 400 million in December 2011.

Of the 400 million EUR, 250 million are earmarked for investment in Turkey, and 150 million for investments in Romania, in order to increase speed and coverage for the 4G data services.

**Transport: supporting the national and international transport network modernization**

In the analyzed period, the EIB has financed three projects in transport area, as mentioned in the table below nr. 5.

❖ Bucharest Metro Line

It's about the funding agreements between Romania and the European Investment Bank (EIB), worth 860 million euros to finance the project on Modernization of the Bucharest Metro, Line 5 Drumul Taberei - Pantelimon.

❖ Mitsui Locomotive Leasing II

The project consists in the acquisition of around 80 new locomotives for leasing to European rail freight service operators (Railway Undertakings for freight in EU terminology) and possibly to a limited extent for passenger transport. The locomotives are destined to replace existing locomotives or provide additional capacity for the expanding rail freight market. The project will support rail freight competitiveness on a wider European level and contribute to the transfer of traffic from road to rail.

**Table no. 5 Projects financed by EIB in Romania in the transport field in the period 2009-2013**

Name	Signature date	Signed Amount
<a href="#">BUCHAREST METRO LINE 5 SECTION II</a>	16/12/2011	465,000,000
<a href="#">MITSUI LOCOMOTIVE LEASING II</a>	31/03/2011	5,000,000
<a href="#">BUCHAREST METRO LINE 5</a>	12/11/2009	395,000,000
<b>Total Amount</b>		

Source: realized by the author using data from <http://www.eib.org/projects/loans/regions/european-union/ro.htm?start=2009&end=2013&sector=>

**Water, sewerage**

In this sector, one project was funded in the period under review, namely: *Cluj/Salaj Cassa Water Project*. It is a loan of EUR 25 million to upgrade and expand water and sanitation infrastructure in Cluj and Salaj departments. This is the first direct loan provided by the EIB for a water operator in Romania, respectively Somes SA Water Company. EIB began working with the predecessor Somes Water Company, respectively Autonomous County Water Canal Cluj, in 2002, when it funded 12 million for development of local water services as part of a ISPA program.

**EIB co-financing with EU funds**

The Bank granted a loan of EUR 110 million to finance priority projects in the Romanian rural development program for 2007-2013, especially for afforestation, improving the management and protection of forests and small-scale investment in rural infrastructure and in agriculture.

**Table no. 6 Projects financed by EIB in Romania in the agriculture field in the period 2009-2013**

Name	Signature date	Signed Amount
<a href="#">ROMANIAN RURAL DEVELOPMENT EU CO-FINANCING</a>	24/12/2013	110,000,000
<a href="#">DASOS TIMBERLAND FUND II</a>	02/01/2013	3,600,000
<b>Total Amount</b>		<b>113,600,000</b>

Source: realized by the author using data from <http://www.eib.org/projects/loans/regions/european-union/ro.htm?start=2009&end=2013&sector=>

As for Dasos Timberland Fund II: Dasos Capital is an Investment Fund targeting sustainable forestry and biomass investments mainly in Europe. The fund manager plans to complete six to ten investments. The fund aims to make a commercial return whilst contributing to climate change and other environmental objectives.

## CONCLUSION

EIB maintains its objective to inject momentum into the EU economy by efficient and effective supporting of investment and remains well placed to contribute to sustainable economic growth and employment.

Along with traditional lending, are evidenced the new lending initiatives, focused on SMEs and employment among young people. EIB joins forces with the Commission, Member States and national development banks to optimize the chances of success while taking into account regional and local priorities for growth.

EIB contributes to the long term vision of Europe 2020 by complementation design, financial instruments "fit for purpose" and development of tailored consulting services. Outside the EU, the Bank will remain firmly committed to support EU policy. A particular attention will be paid to the implementation of the new External Lending Mandate and further strengthen of the dialogue with the Commission on policy, strategy and enhanced cooperation.

We believe that it is necessary to pay more attention to investment in economic growth and job creation on the long term.

It is desirable that the EIB to develop, in close cooperation with Member States, results-oriented investment plans, which to be adjusted properly to national, regional and local growth priorities.

EIB should also stimulate sustainable investment in debt instruments which to direct private capital to projects needed for transport, energy and ICT infrastructure. This way, the EIB resources could be complementary to resources for infrastructure development of trans-European transport, energy and telecommunications, made available through the Connecting Europe Mechanism.

EIB is also necessary to make greater efforts to support Member States' capacity to absorb EU funding, including structural funds, given the extremely low absorption rates that are currently in several Member States.

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## CHANGES PRODUCED BY PROJECTS IMPLEMENTED IN THE OPERATIONAL PROGRAMME ADMINISTRATIVE CAPACITY DEVELOPMENT ON PUBLIC ADMINISTRATION FROM ARGES COUNTY

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**Abstract:** *In a social and economic environment characterized by change, Romania's public administration must integrate and implement the administrative values characteristic to the European space: transparency, predictability, responsibility, adaptability and efficiency. These ones must be found in the administrative institutions and processes on all levels. This research is aimed to establish what change in public administration represents, to quantify the main directions of action in the change process regarding public management at the level of local collectivities and to trace the results of the projects financed by the Operational Programme Administrative Capacity Development (OPACD) as well as the expected impact of these ones on the local public administration from Arges county.*

**Key words:** change, changes in public administration, Operational Programme Administrative Capacity Development

**JEL Classification Codes:** H10, H83.

### 1. INTRODUCTION

”Change takes place all over the universe, inclusively in our private life and in organizations' life” (Burduș E. et all., 2003:14)

Within the studies regarding the main currents that affect individuals, organizations and society, John Naisbitt (1982) emphasized some types of major changes:

- the transition from an industrial society to an informational society (more than 60% of Americans now work as programmers, teachers, clerks, secretaries, accountants, stock brokers, managers, insurance people, bureaucrats, lawyers, bankers, technicians, or in healthcare. Manufacturing too now has more information workers);
- the transition from the situation where top technology impressed with its complexity to the use of top technologies in a personalized manner (the trend away from factory-like production systems to “high” technology robots, computers, and cutting edge automation requires a greater sense of self and closeness with others);
- the transition from a national economy to a global economy (although we’re more likely to compare industries between nations, industries are becoming global);
- the transition from short term managerial predictions to long term predictions (we are becoming more aware of the long term implications of short term fixes and strategies);

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- the transition from centralization to decentralization (best performing companies increase the autonomy of workers across organizations, at all levels in the hierarchy. Control is maintained through a nucleus of shared values).

We consider that a significant number of changes and with great impact occurred in what concerns not only public administration, but organizations also. "Administration gathers a machine composed of state institutions created to apply regulations, procedures and politics, normative acts etc. and management represents the ensemble of processes and relations within an organization whereby it is aimed the achievement of defined objectives. In other words, the management in an organization is represented by a group of individuals responsible for the achievement of certain objectives, and the administration is represented by distinct institutional structures whereby the power of the state is exercised. ". [Androniceanu, A., 1999: pag.100-134]

The growth of administrative capacity refers to a set of changes that allow public authorities to improve the formulation and implementation of programmes to obtain an enhanced impact. The projects financed through the Operational Programme Administrative Capacity Development (OPACD) in Arges County contributed to putting into practice these goals, with concrete results that will determine the efficient improvement and efficacy in public sector, and management in public administration will orient itself in a higher extent on objectives and results.

Operational Programme Administrative Capacity Development (OPACD) aims to create a more effective and efficient public administration for the socio – economic benefit of Romanian society. As specific objectives, the Operational Programme Administrative Capacity Development (OP PAC) aims to consolidate the process of taking efficient decisions such as the improvement of quality and efficiency in the provision of public services, with emphasize on the decentralization process from some key areas.

## **2. CHANGES IN PUBLIC ADMINISTRATION**

Romania's public administration faced, in the last couple of years, significant changes regarding its own operating framework, political and citizen expectations, attributions, responsibilities, etc.

“The main directions of action in the public management change process at the level of local collectivities targets:

- The profound reorganization of public management;
- The orientation of public authorities and institutions directly towards citizen's needs;
- The professionalization of public function;
- The decentralization of public services and consolidation of local administrative and financial autonomy;
- The change of the formulation process for public politics, decisional act at central level and the increase of this process's transparency
- The efficiency of public administration
- The informatization of local and central public administration [Androniceanu A, 2007: 32]

Regarding the orientation of public authorities and institutions directly towards citizen's needs, some priority directions of actions stand out:

- creation, at the level of each administrative territorial unit, of web sites which allow citizens to access information of public interest regarding the activity of local public administration's authorities (in conformity with law no. 544/2001, updated), as well as administrative forms, documents necessary to obtain some assents, organizational chart and the attributions of local public administration's representatives;
- implementation of electronic management systems for documents, which allow the improvement to the way citizens' requests are processed, reduction of waiting terms and increase of the administrative act's transparency.
- introduction and management of electronic collecting systems for local taxes and assessments at the level of all administrative territorial units.
- experience transfer and adaptation by exchange of good practices in the field of human resources, economy and law, in order to improve the process of fulfilling the administrative tasks.
- introduction and certification of some integrated systems regarding quality, health and occupational security management;
- sessions of organized instruction carried for the purpose of developing the employees' professional abilities.

### **2.1. Projects financed by the Operational Programme Administrative Capacity Development in Arges County**

The projects financed by the Operational Programme Administrative Capacity Development (OPACD) contribute to the put into practice of the thematic priority "Consolidation of an effective administrative capacity", established at the National Strategic Reference Framework (NSRF), by their contribution to the creation of an efficient public administration for the socio – economic benefit of Romanian society.

The results of this programme, which regards an improvement of the relation between local administration and citizen, can be quantified by the indicator level (%) of citizens' trust in public administration and the level (%) of governmental efficiency. (Table 1).

**Table no.1 Indicator of impact and its components**

<b>Indicators</b>		<b>2007</b>	<b>2008 - 2010</b>	<b>2011</b>	<b>2012</b>	<b>2015</b>	<b>Total</b>
The level of citizens' trust in local public administration (%)	Realized		-				-
	Target					60	-
	Reference value	52					
The level of governmental efficiency (%)	Realized		-				-
	Target					60	-
	Reference value	56,9					

*[Source: The annual implementation report of the Operational Programme Administrative Capacity Development, AM OPACD, 2012:11]*

The Operational Programme Administrative Capacity Development (OPACD) is implemented through three priority axes, linked directly to the specific objectives: improvements of structure and process for public politics cycle management, improvement of quality and efficiency for public politics provision (Table no.2), with an emphasis on the

decentralization and technical assistance process. By analysing the quantitative indicators of each priority axe results a priority interest for the increase of authorities' transparency, increase of local incomes collection degree and increase of the knowledge level in formulating public politics, but also for the development of cost standards in certain sectors where the process of reform had already begun.

**Tabel no. 2 Projects implemented in Arges County within The Operational Programme Administrative Capacity Development**

<b>No. crt.</b>	<b>Beneficiary</b>	<b>Project's title</b>	<b>Priority axe / Intervention field</b>	<b>Project's total budget (lei-without VAT)</b>	<b>Solicited irredeemable assistance (lei)</b>
1.	Institution of the Prefect – Arges County	European integration of officials from local public administration by developing project management abilities	Improvement of structure and process of public politics cycle management /Improvement of organizational efficiency	1.135.391,33	963.947,24
2.	Curtea de Arges City Hall	Improvement of services provided by Curtea de Arges City Hall, by implementing integrated management systems	Improvement of quality and efficiency of public services provision, with emphasis on the decentralization process/ Improvement of quality and efficiency of services provision	372.000,00	364.560,00
3.	Arges County Council - General Directorate of Social Assistance and Child Protection Arges	Specialization of the personnel involved in the provision and management of social services in Arges County Council and city halls from Arges county	Improvement of structure and process of the public politics cycle management /Improvement of organizational efficiency	678.995,00	665.415,10
4.	Arges City Council - General Directorate of Social Assistance and Child Protection Arges	Implementation of a quality management system at the level of some services within the General Directorate of Social Assistance and Child Protection Arges	Improvement of quality and efficiency of public services provision, with emphasis on the decentralization process/ Improvement of quality and efficiency of services provision	271.150,00	265.727,00

5.	Draganu commune	Adaptation to actual and future needs for the local development strategy of Draganu commune	Improvement of structure and process of the public politics cycle management / Improvement regarding the decisions taken at the political – administrative level	261.006,44	255.786,31
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*Data source: processing of authors from the List of projects approved for financing from the Operational Programme Administrative Capacity Development and the Situation of payments published by the Management Authority in October 2013*

## 2.2. Obtained results and expected impact of these ones on local public administration from Arges County

Analysing the objectives proposed within the projects, the following main priorities identified and proposed as action directions stand out, with a direct impact on local administrative capacity development:

1. development of professional skills for the employees of local public authorities from Arges County
2. implementation of certain integrated management systems within public institutions from Arges County ;
3. elaboration of development plans.

**1. Development of employees' professional skills** within local city halls and city councils of communes, cities and municipalities from Arges County, from Arges County Council and from the Institution of the Prefect – Arges County, in the activity fields appropriate to the attributions these ones have (Table no.3):

**Table no. 3 Instruction of public institutions' employees**

Beneficiary	No. participants	Specialization fields	Impact/Expected changes in public administration
Institution of the Prefect – Arges county	249	Communitary development (agents of local development); European business – European Integration; Management of decentralized services; Public acquisitions; Accountancy; Urbanism;	Increase of employees' expertise from Arges County local public institutions in order to increase local public institutions' capacity to implement and manage projects with irredeemable financing and to ensure local initiatives' durability
Curtea de Arges City Hall	68	Environment and quality management	Modernization in the local public administration from Curtea de Arges municipality, by specializing the city hall's employees, resulting the motivation and mobilization of these ones towards innovation and qualitative public services

Changes produced by Projects Implemented in the Operational Programme Administrative Capacity Development on Public Administration from Arges County

Arges County Council - General Directorate of Social Assistance and Child Protection Arges	200	Management of projects and partnerships; Management of social services; Strategic planning; Trainer of trainers;	Specialization of employees who work in the social domain, in order to enforce the institutional/administrative capacity of county city halls in order to ensure a better implementation of programmes and projects in social services field
Arges County Council - General Directorate of Social Assistance and Child Protection Arges	127	Management of quality systems and audit of quality systems	Improvement of quality and increase of public services efficiency provided at the level of Arges County Council - General Directorate of Social Assistance and Child Protection Arges by consolidating the administrative capacity to manage these services
Draganu commune	14	Communication and public relations; Projects elaboration and management ; Public acquisitions; Strategic planning;	Gain of increased skills necessary to implement the Strategy of Durable Development 2010 - 2020 and to provide some public services to increase by 50% the number of projects financed by European funds realized by the city halls' employees who got involved due to the obtained preparation
TOTAL	659		

*Data sources: processing of authors based on the financed projects' results published by beneficiaries*

**2. Implementation of certain management systems certified by competent bodies** which integrate all the institutions' systems and processes in a single complete framework, allowing this one to function as a single authority with unified objectives (Table no. 4):

**Table no. 4 Implementation of management systems**

<b>Beneficiary</b>	<b>Certified management systems</b>	<b>Impact/Expected changes in public administration</b>
Curtea de Arges City Hall	Integrated management system of quality – environment - health and occupational security in conjunction with a management software for documents	Implementation of this management integrated system will lead to the reduction of costs, to a better use of human, logistic financial resources, resources that the authority has, the increase of employees' responsibility degree in performing their work tasks, debureaucratization by implementing a management system for documents

Arges County Council - General Directorate of Social Assistance and Child Protection Arges	Combined management system of quality, health and occupational security in conjunction with a manual of combined management system of quality, health and occupational security and appropriate procedures	Implementation of this integrated management system will lead to the integration of SR EN ISO 9001:2008 și SR OHSAS 18001:2008 standards , an increase in employees' performances by training them about the quality management field, environment, health and security at work, and to a better understanding of institution's policy, work procedures instituted by the quality manual.
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*Data source: processing of authors based on the financed projects' results published by beneficiaries*

**3. Elaboration of development plans** as an integrated tool of public management which includes the developing directions through an integrated approach of problems public authorities face and reflects the development aspirations locally, based on the area's existent potential (Table 5):

**Table no. 5 Elaboration of Durable Development Strategy**

<b>Beneficiary</b>	<b>Management systems certified by certifying bodies</b>	<b>Impact/Expected changes in public administration</b>
Draganu commune	Development strategy adapted to citizens' short and long term needs	The Creation of the Durable Development Strategy 2010 – 2020 reflects as accurately as possible the common stringent community development priorities and supports these ones by public and private investments focused to efficiently use the specified funds, internally and externally as well

*Data source: processing of authors based on the financed projects' results published by beneficiaries*

The results obtained after finishing the proposed activities within the financing projects can be grouped as follows:

- Achievement of more outputs for the same inputs. In the analysed cases, employees' professional skills development generates the provision of the same public services with a reduced personnel, taking into consideration their specialization in interdisciplinary activity fields;
- The increase of activity's quality by correlating the identified problems, by processing and solving them faster. Concretely, implementing such integrated management systems determines the increase of institutional efficiency and the reduction of response time to citizens' demands;
- Strategic changes within a time horizon, which involve the institution's flexibility and orientation towards the needs and opportunities present locally, by a strategic planning of resources and assignment of these ones towards identified objectives, materialized in the Creation of the Durable Development Strategy 2010-2020.



## CONCLUSIONS

The necessity to invest in the institutional capacity is proposed and planned through short and long-term plans, because the socio – economic performance and good government constitute the premises for prosperity and development in all member states. The increase of the administrative capacity refers to a set of structural and process changes that allow public authorities to improve programmes' formulation and implementation in order to obtain increased results.

European strategies claim the necessity of a better legislation, as well as a better elaboration and provision of public politics for the purpose of ensuring conditions for economic growth and creation of new jobs. Therefore, it is recognised the important contribution that a better reglementation can have in the improvement of politics and strategies framework, which should lead to a direct improvement in the administrative performance, with emphasis on aspects related to strategic planning regarding the improvement of politics' coherency at institutional level and reforms regarding public expenses management by allocating budgetary funds based on performance (program budgeting).

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## THE CORPORATE SOCIAL RESPONSIBILITY- AN IMPORTANT ASPECT FOR CONSUMERS

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**Abstract:** *In the last period, expectations towards corporate social responsibility (CSR) have been increasing, with people demanding businesses to behave in a socially responsible manner. One of the biggest challenges for marketers nowadays is about satisfying the consumers' complex needs and the direction tacked by marketing toward social responsibility strengthens the conviction that CSR is no longer a related domain but is a domain that will be part of the future branding. Starting at the word of the managing director of Echo Research, who states that "companies have a tremendous opportunity to partner with enthusiastic global citizens to affect change, but they must understand the motives, perceptions and appropriate types of engagement from market",<sup>1</sup> this article aims to present some theoretically aspects and some findings of the researches demonstrating the importance given by the consumers to the corporate social responsibility.*

**Key words:** consumer expectations, consumer behavior, Corporate Social Responsibility, responsible citizens, engagement.

**JEL Classification Code:** M14, M31

### 1. INTRODUCTION

Corporate social responsibility (CSR) seems to be a useful tool for companies to engage in environmental and social projects and, moreover, it seems to become an effective marketing tool which gains more and more popularity within companies.<sup>2</sup>

In just few years, CSR has caught the attention of CEOs, as not just the activists have begun to follow CSR involvement of companies, but investors and consumers too. Executive leaders and members of the organizations boards are directly involved in structuring the social responsibility strategy of the company, as the economic arguments of CSR efforts become more and more solid.

### 2. THE METHODOLOGY OF THE RESEARCH

In order to reach the purposes and objectives of the research, we have studied the Romanian and foreign literature of this specific field, presenting the main aspects and opinions that we consider relevant to our study. We also made our documentation, by researching various studies carried by national and international organizations in the field.

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<sup>1</sup> <http://www.conecomm.com/2013-global-csr-study-release>,

<sup>2</sup> Schiefelbein K., „Using the right CSR communication strategy: The impact on consumer attitude and behavior”, University of Twente, [http://essay.utwente.nl/62190/1/MSc\\_K\\_Schiefelbein.pdf](http://essay.utwente.nl/62190/1/MSc_K_Schiefelbein.pdf)

### 3. THE CORPORATE SOCIAL RESPONSIBILITY IN ROMANIA

The Country Managing Partner Ernst&Young Romania&Moldova states that “although involvement in CSR was a practice initiated by the subsidiaries of multinational companies, which have CSR as a part of their values, it is not anymore an abstract concept for the Romanian companies. The fact that 82% of the leaders of respondent companies are actively involved in CSR efforts clearly shows the importance that they attach to the corporate social responsibility”.

Most of the Romanian companies define CSR through actions with social/environmental/health/education character (47%), while less tangible actions, like business ethics and corporate civics, that are a more recent focus in Western CSR, are topping the following places (24 % and 18%).<sup>3</sup>

According to the study realized by Ernst&Young Romania in collaboration with CSRmedia, CSR is being ever more defined in our country, with 78% of respondents declaring that their company has a CSR strategy, while 67% of them consider that the general interest in CSR has increased in the last 12 months.

Also, more than three quarters of Romanian companies have dedicated an annual budget for CSR actions, budget that, for a half of the respondents, was kept at the same level, compared to 2012, 16% noticing an increase between 5-10%.

**Table 1. The SWOT Analysis of CSR in Romania**

STRENGTHS	WEAKNESSES
The interest of society for CSR and the relative novelty of the concept in the Romanian public space; The involvement of the multinationals and Romanian companies in CSR initiatives; The continuous increase of the number of the CSR initiatives and of the best practices in this field at the national level; The increase of the number of consumers attending to buy the products and services of the socially responsible companies.	The concept of CSR is little known in the Romanian society; The lack of studies on the application of CSR in our country; Some SMEs are not convinced yet of the relevance of CSR initiatives.
OPPORTUNITIES	THREATS
The opportunity to learn, to retrieve and to adapt the best practices from the experience of other more developed countries; The increased corporate reputation through CSR efforts; Funding opportunities for the CSR initiatives, offered by the EU; The positive attitude of consumers toward the companies' implication in the community.	The lack of coherent public policies to promote CSR; The lack of a coherent and consistent legal framework; An insufficient support and involvement of the public authorities in promoting and implementing of CSR; The lack of budgetary funds to promote the CSR application.

Source: *Strategia Națională de promovare a responsabilității sociale 2011-2016*, p. 6, <http://www.sgg.ro/nlegislativ/docs/2011/05/2x4bdfjnwskv89h17pzq.pdf>

<sup>3</sup>Ernst&Young Romania, CSRmedia, *Tendințele și realitățile CSR în România - Ediția 2013*, [http://www.csrmedia.ro/wp-content/uploads/2013/05/Studiu\\_Tendinte\\_si\\_realitati\\_CSR\\_in\\_Romania\\_CSRmedia.ro\\_ErnstYoung\\_2013.pdf](http://www.csrmedia.ro/wp-content/uploads/2013/05/Studiu_Tendinte_si_realitati_CSR_in_Romania_CSRmedia.ro_ErnstYoung_2013.pdf)

#### 4. THE IMPORTANCE OF CSR FOR CONSUMERS

Starting at his definition, a socially responsible company is supposed to address the concerns and satisfy the demands of its main stakeholders<sup>4</sup>, who, in Freeman's vision, are composed by those actors who can, directly or indirectly, affect or be affected by corporate activities, including customers, suppliers, employees, shareholders, the media, investors, trade associations, political groups, unions, and competitors.<sup>5</sup>

We can say, without being wrong, that consumers are one of the key stakeholders of organizations in the marketing exchange process, because the customers represent the lifeblood of every business. Time and resources put into understanding the customer perspective will be always a good investment, building strong and effective customer relations being always the direct route to long term success.<sup>6</sup> Taking into account that such an important role is played by the manner in which those affected by these mechanisms perceive this, we agree that, in order to avoid distortion, we need to communicate effectively, this type of communication requiring an exercise of will and the acquisition of some compliance requirements such as the ability to be empathetic.<sup>7</sup>

No longer a nice to do, CSR is becoming a reputational imperative, because, when it comes to CSR, consumers want more than aspirational mission statements.<sup>8</sup>

The managing director of Echo Research states that "consumers across the globe resoundingly affirm CSR as a critical business strategy". These days, companies are expected to be an active participant in solving the most pressing social and environmental issues, and organizations that disregard this consumer-demand risk more than their reputation, 90% of global citizens saying they would boycott if they learned of irresponsible behavior.<sup>9</sup>

As consumers become increasingly aware of businesses' behaviors and CSR initiatives, they are also becoming more astute about both corporate and consumer impacts. The majority of consumers feel both individuals and corporations are having some degree of positive influence on social and environmental issues, but just 27% feels either is making a significant impact.

The managing director of Echo Research considers that those "varying degrees of perceived individual and corporate impact underscore the overwhelming need for companies to consistently communicate both corporate and consumer CSR return."

Consumer expectations are known to motivate marketers to incorporate social considerations into their marketing practices and to communicate about these actions.<sup>10</sup>

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<sup>4</sup> Beckmann Suzanne.C., *Consumers' perceptions of and responses to CSR: So little is known so far*, Strategic CSR communication, Mette Morsing and Suzanne C. Beckmann eds. Copenhagen: Djof Publishing, 2006, p. 164

<sup>5</sup> Freeman R. E. , *Strategic Management: A Stakeholder Approach*, Academy of Management Review, 24, 1984, pp. 233-236

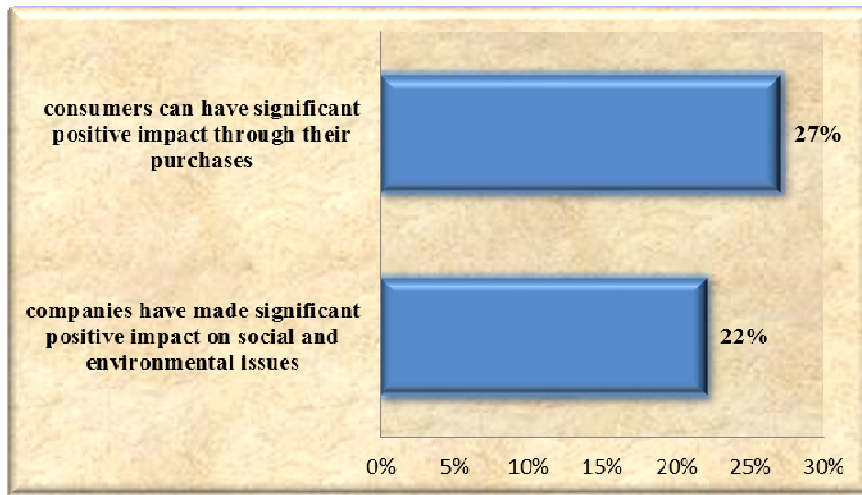
<sup>6</sup> <http://www.ic.gc.ca/eic/site/csr-rse.nsf/eng/rs00593.html>

<sup>7</sup> Secară C. G., *Communication and International Trade Negotiation - academic course*, Sitech Publishing House, Craiova, 2011, p 13

<sup>8</sup> *Consumers Demand More Than CSR "Purpose"*, [http://www.conecomm.com/stuff/contentmgr/files/0/b2481c3a38bbac7c659ca5f4f1cb9a4a/files/2012\\_corporate\\_social\\_return\\_press\\_release\\_and\\_fact\\_sheet\\_final.pdf](http://www.conecomm.com/stuff/contentmgr/files/0/b2481c3a38bbac7c659ca5f4f1cb9a4a/files/2012_corporate_social_return_press_release_and_fact_sheet_final.pdf)

<sup>9</sup> *2013 Cone Communications/Echo Global CSR Study*, <http://www.conecomm.com/2013-global-csr-study-release>

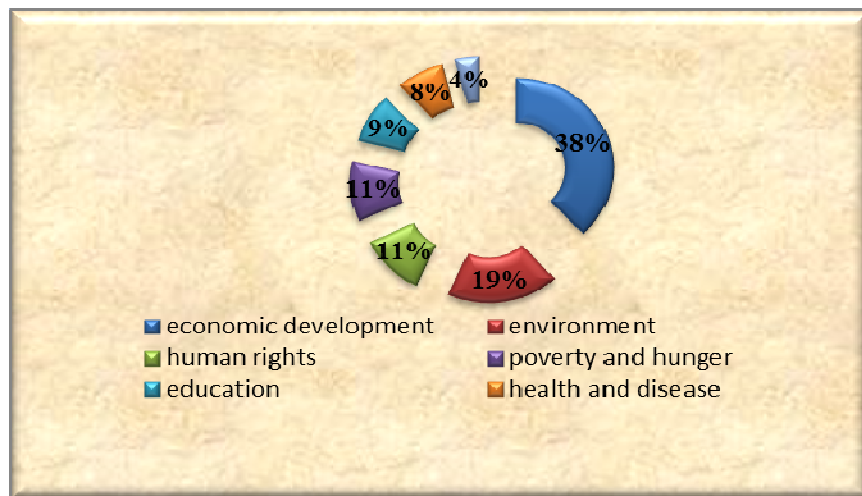
<sup>10</sup> Golob U., Lah M., Jancic Z., *Value orientations and consumer expectations of Corporate Social Responsibility*, Journal of Marketing Communications, 14:2, 2008, pp. 83-96.



**Figure 1. The consumers perception of who is driving the positive impact on social and environmental issues**

Source: [2013 Cone Communications/Echo Global CSR Study,   
http://www.conecomm.com/2013-global-csr-study-release](http://www.conecomm.com/2013-global-csr-study-release)

If we refer to the issues that consumers most want companies to address, the economic development is the most pressing issue (38%), with the environment (19%), human rights (11%) and poverty and hunger (11%) being the next most important priority issues consumers want companies to tackle.

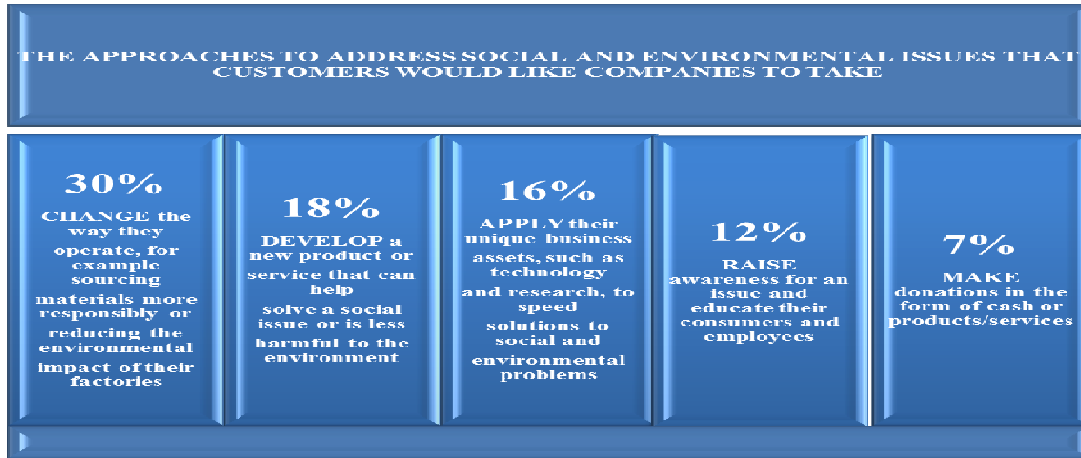


**Figure 2. The main issues that consumers most want companies to address**

Source: [2013 Cone Communications/Echo Global CSR Study,   
http://www.conecomm.com/2013-global-csr-study-release](http://www.conecomm.com/2013-global-csr-study-release)

The study conducted by Cone Communications and Echo Research reveals that, when it comes about the approaches that companies should take to positively affect social and environmental issues, 18% of respondents consider new product or service development as principal approach, 7% thinking that it's enough for companies to engage in issues through cash, product or service donations (Table 2).

**Table 2. The approaches that companies should take to positively affect social and environmental issues**



Source: *2013 Cone Communications/Echo Global CSR Study*, <http://www.conecomm.com/2013-global-csr-study-release>

The consumer's expectations regarding CSR actions have a huge impact on their behavior towards the companies, the reactions of these persons depending on the congruency between expectations and the company's actions.<sup>11</sup> Some authors believe that "in order for consumers to support firms that engage in CSR, they must receive value from the exchange"<sup>12</sup>

So, the benefits of CSR extend far away, with 96% of the respondents having a more positive image of the company who is engage with CSR, 94% being more likely to trust that company and 93% being more loyal to the company and continuing buying her products or services. Also, 92% of the consumers participating on the survey lead by Cone Communication and Echo Global would buy a product with a social or environmental benefit, and, giving the situation of similar price and quality, 91% of the consumers are likely to switch brands to one that supports a good cause.

Moreover, in the survey carried by the Nielsen Company in 2013, the percentage of respondents who said they would be willing to reward companies that give back to society by paying more for their goods and services increased among both males and females and all age breaks covered.<sup>13</sup> The highest percentage of respondents who would be willing to pay more for the products of responsible companies is aged between 25 and 29 years (56%), an increase in consumer charge being registered among those who are over 40 years old (53% - 12% more than in 2011).<sup>14</sup>

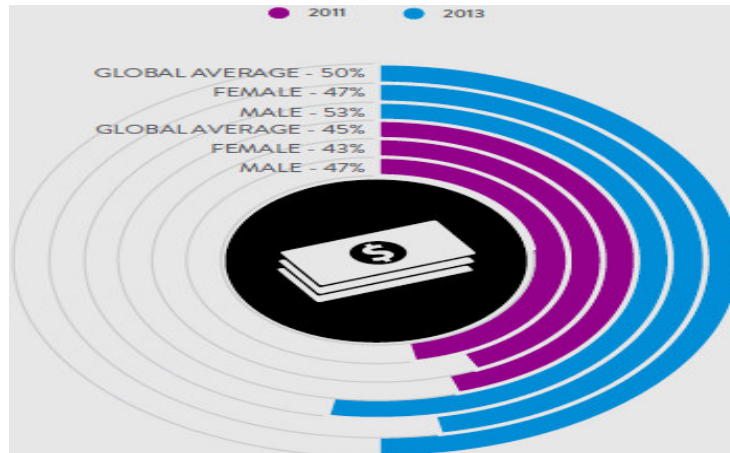
<sup>11</sup> Gatej (Bradu) C. P., *CSR and Consumers' Expectations towards it – A Marketing Perspective*, EuroEconomica, Vol 31, No 1 (2012), p. 11

<sup>12</sup> Green T., Peloza J., *How does corporate social responsibility create value for consumers?*, Journal of Consumer Marketing, 28(1), 2011, p. 48

<sup>13</sup> Nielsen, *Consumers who care and say they'll reward companies with their wallets*, 2013, <http://www.nielsen.com/content/dam/corporate/us/en/reports-downloads/2013%20Reports/Nielsen-Global-Report-Consumers-Who-Care-August-2013.pdf>

<sup>14</sup> *The Nielsen Company: Consumatorii ar plati mai mult pentru produse de la companii responsabile*, <http://www.responsabilitatesociala.ro/stiri-csr/the-nielsen-company-consumatorii-ar-plati-mai-mult-pentru-produse-de-la-companii-responsabile.html>





**Figure 3. Percent who agree to reward companies that give back to society by paying more for their goods and services**

Source: Nielsen, *Consumers who care and say they'll reward companies with their wallets*, <http://www.nielsen.com/content/dam/corporate/us/en/reports-downloads/2013%20Reports/Nielsen-Global-Report-Consumers-Who-Care-August-2013.pdf>

According to the same survey, in Romania, the number of people who would pay more for products from responsible companies increased from 38% in 2011 to 42% in 2013.

## 5. CONCLUSIONS, LIMITATIONS AND PERSPECTIVES OF RESEARCH

The paper had as a purpose the presentation of the Corporate Social Responsibility from a theoretical and a practical point of view. The importance of this paper is given by the correct identification of the main criteria considered by the consumers when speaking about the CSR initiatives.

Given that “companies have a tremendous opportunity to partner with enthusiastic global citizens to affect change, but they must understand the motives, perceptions and appropriate types of engagement from market to market, we can say that it is not anymore a question of if companies should engage in CSR, but it is a question of to what extent will they do so, and how will they create and communicate real and meaningful impact.”<sup>15</sup>

Analyzing the theoretical review and the researches concerning the status of the CSR in our country and all over there, and concerning the individuals` expectations towards it, we found out that it is potentially fruitful for the organizations to become socially responsible and that the marketers should really think into incorporating CSR in the company`s marketing communication and objectives.

The studies suggest that consumers have great expectations especially regarding the ethical and philanthropic dimensions of CSR and they care if a company hires national minorities, if she does not hire children and if she supports the local schools<sup>16</sup> (Harrison, Newholm, and Shaw 2005).

Green and Peloza see it as a kind of win-win situation for the company and the consumer. The ‘win’ for the company is the consumer’s approval and support, whereas the ‘win’ for the consumers is the value they receive from CSR activities.<sup>17</sup>

<sup>15</sup> <http://www.conecomm.com/2013-global-csr-study-release>

<sup>16</sup> Harrison R., Newholm T., Shaw D., *The Ethical Consumer*, London: Sage, 2005.

<sup>17</sup> Green T., Peloza J., *How does corporate social responsibility create value for consumers?*, Journal of Consumer Marketing, 28(1), 2011, p. 48

In addition to this paper, we think that a qualitative research can enrich this study, presenting the Romanian consumers behavior toward CSR initiatives, the importance that they give to these initiatives and the ways in which they reward a company that is a good corporate citizen.

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## ANALYSIS OF THE CONSUMERS' SATISFACTION FOR QUALITY DACIA' CARS

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**Abstract:** *Measuring customer satisfaction can be considered a tool for monitoring, evaluation and quality improvement processes and internal activities, to reflect the degree to which organizations achieve their objectives and goals. The quality of management and the quality of various products have become critical coordinates of the competitiveness, so that the firms are determined to use the methods and techniques of quality management as their economic development engines. Customer' satisfaction has become one of the most important goals for companies operating in the Romanian market. It is also a necessary tool for providing information about customer's needs and behavior. Talking of satisfaction, the consumer always seeks to compare the performance of the product, with certain standards and they have required to inform themselves and to reflect upon purchasing the product. To a better analyze of the degree of satisfaction, we implemented a model based on a questionnaire that allows us to detect and evaluate the reasons for the satisfaction / dissatisfaction of the consumers in terms of quality regarding Dacia cars on the Romanian market.*

**Key words:** consumer satisfaction, product quality, quality services, automotive industry

**JEL Classification Codes:** L15, L92

### 1. INTRODUCTION

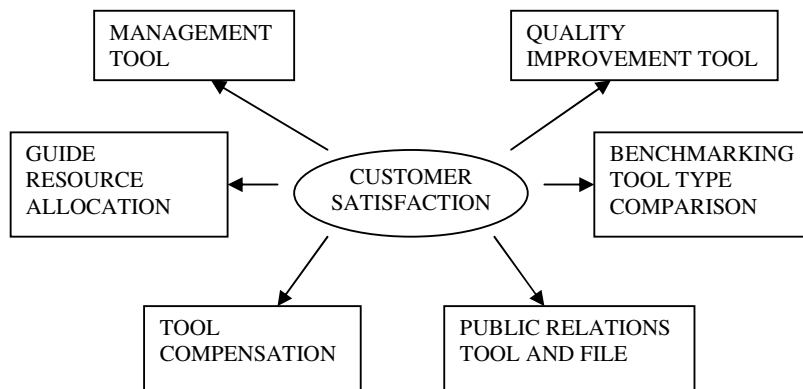
Customer satisfaction has been defined in various ways, but the conceptualization, which appears to have achieved the widest acceptance, is that satisfaction is a post-choice evaluative judgment of a specific transaction (Bastos and Gallego, 2008). According to (Rigopoulou D., et al., 2008) customer satisfaction is the state of mind that customers have about a company when their expectations have been met or exceeded over the lifetime of the product or service. Customer satisfaction measurement involves the collection of data that provides information about how satisfied or dissatisfied customers are with a service. This information can be collected and analyzed in many different ways (Kindye E., 2011).

When examined as a whole, three general components can be identified:

1. Consumer satisfaction is a response (emotional or cognitive);
2. The response pertains to a particular focus (expectations, product, consumption experience etc);
3. The response occurs at a particular time (after consumption, after choice, based on accumulated experience, etc).

Consumer is defined as person that acquires uses or consumes the final products obtained from recipient undertakings or receiving services provided by them. Measuring customer satisfaction is a necessary tool to provide complete information as necessary to

identify, evaluate and improve the quality of the various aspects of the organization. According to (Singh H., 2006), customer satisfaction does have a positive effect on an organizations profitability but (Potluri R. and Hawariat H. 2010) stated as customer satisfaction is a direct determining factor in customer loyalty, which, in turn results: increased purchases of the existing product, Cross-purchase of your other products, etc.



**Fig 1. The role and importance of customer satisfaction**

*Source: adaptation Derek R. Allen, 2004: 21*

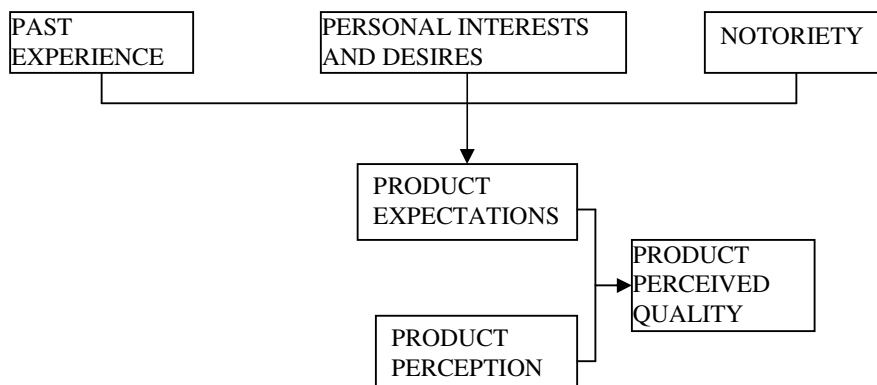
Customer satisfaction (Fig.1) for the enterprise can be used as a tool to improve product quality and must have the basic customer preferences, ie their relative satisfaction with the quality provided. (Mosteanu, T., 2000).

One of the most common theories which reflect customer satisfaction theory is process theory of the confirmation / failure satisfaction. In this respect, the customer satisfaction can be explained in three stages (Terry, Vavra, 1997), namely:

- In the first stage, consumer builds and forming a level of expectation of the product or service you want.
- In step 2, the consumer consumes or "experience" product or service, that make contact with the actual performance or quality that it has this.
- In step 3, after "experience" gained on the quality or performance of the product or service consumed, follows a process of comparing expectations after consumption and level of quality or performance experience.

Based on the three cases above (Fig.2), logically phenomenon of satisfaction / dissatisfaction involves the following:

1. If the level of quality or performance perceived by the consumer is below his expectations appears dissatisfied;
2. If the level of quality or performance perceived by consumer expectations is at level of expectations appear own satisfaction;
3. If the level of quality or performance perceived by the consumer exceeds his expectations, satisfaction is proper.

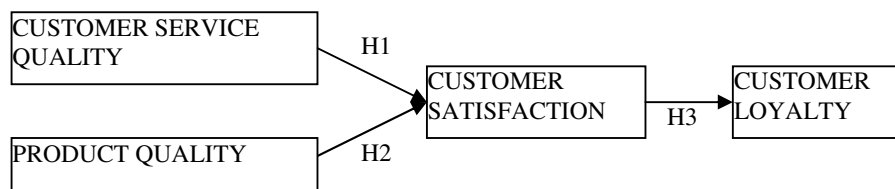


**Fig 2. The theory model of "confirmation process / Failure to confirm satisfaction"**

Source: Sandor S., Raboca, H., 2007: 104

In general, the model assumes the existence of a gap on certain issues, issues that affect product quality, considering that customer satisfaction is related to the size and personal experience vis-à-vis initial expectations (Derek A. T. and Rao, 2004). If a customer is not satisfied, he expresses dissatisfaction intentionally and effectively. The number of people receiving negative information is 5-7 times higher than the number that would receive positive information.

Customer satisfaction in the Plan-level quality of Renault group - Dacia Renault goal is to be afforded quality, becoming one of the best on the market. To achieve this goal, it is absolutely essential that all employees have positive feedback.



**Fig. 3: Research Conceptual Model**

Source: Asghar A. et al., 2011

From (Fig.3) the following hypotheses are developed:

H1: Customer service quality influences customer satisfaction in the automotive industry.

H2: Product quality influences customer satisfaction in the automotive industry.

H3: Customer satisfaction influences customer loyalty in the automotive industry.

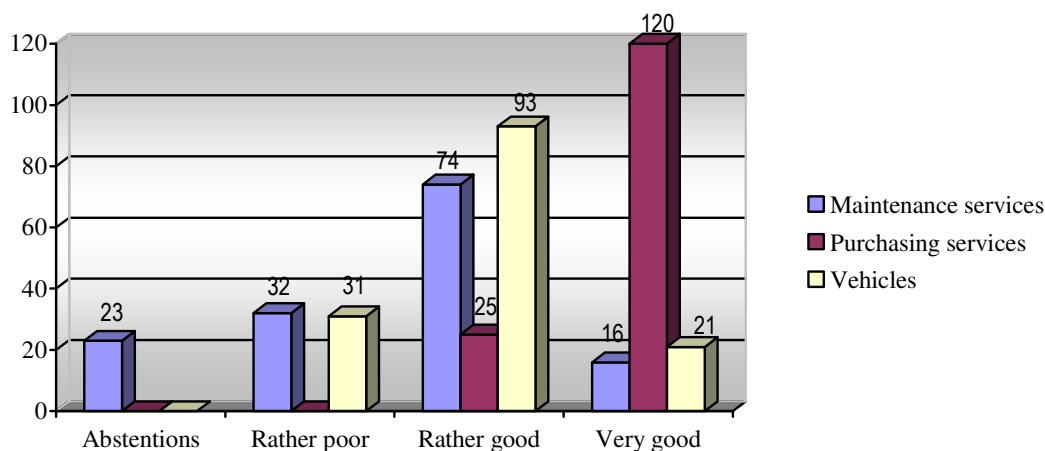
## 2. METHODS USED FOR RESEARCH

The research method used in this case will be survey using as a tool for investigation and collection of information the questionnaire and interpreting the results with Statistical Package for the Social Sciences method.

For this research to measure the level of customer satisfaction, responses were recorded by the field operator to each individual, using the interview as a means of communication 'face to face'.

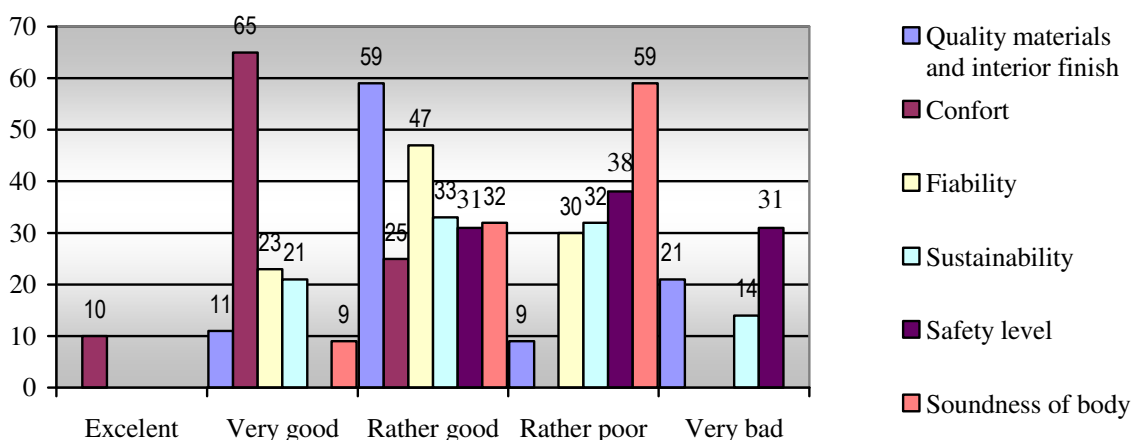
- the questionnaire was structured in two parts as follows: the first part includes 10 questions open, closed and mixed, and a table of scale on respondents' views on the quality of products and services offered by factory Dacia vehicles, and the second part contains questions to identify respondents.
- general investigated the community dimension: people aged between 18 and 50 years belonging to urban, male and female;
- sample size: total number of respondents was 145.
- structure sampling: random sampling;

### 3. DISSCUSSION OF RESULTS BASED ON THE ANALYSIS AND PROCESSING OF INFORMATION



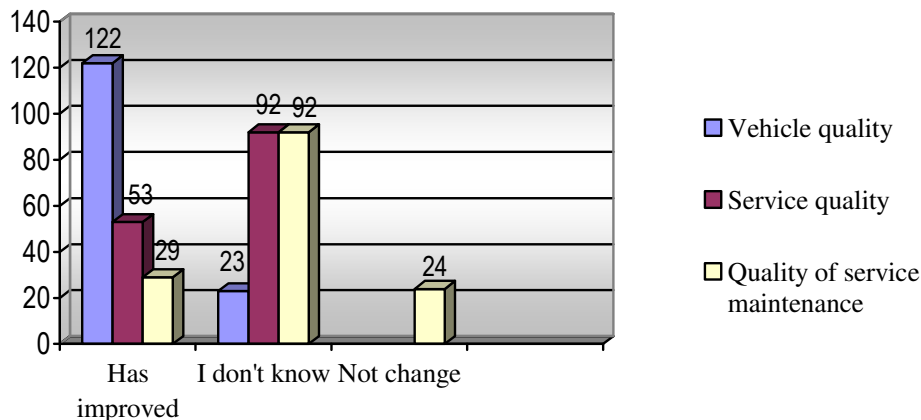
**Fig. 4: Dacia quality perception**

From (Fig.4) we can observe that 83% of customers surveyed said they were satisfied with the quality especially when buying a vehicle in the Dacia brand concessions, 64% of them feel rather good quality vehicle and 52% quality maintenance rather poor.



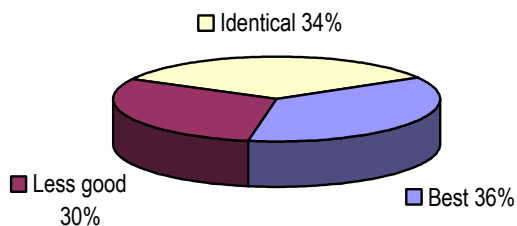
**Fig. 5: The significance of main indicators for the consumers**

The closest is the quality of materials and finish inside the car, 59% of respondents believing that it is rather good. 65% consider their comfort as very good. Level of safety in the vehicle is considered by 38% of respondents as being rather weak, and 59% consider body strength as rather poor (Fig. 5).



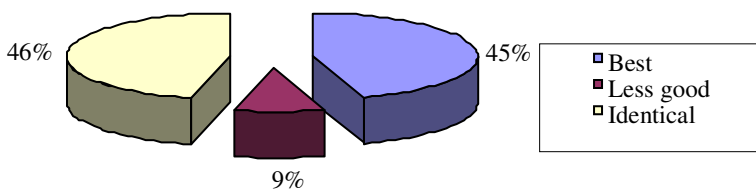
**Fig. 6: Quality's Evolution in the last 3 years**

Regarding (Fig.6) the evolution of the Dacia brand last 3 years, 65% of people surveyed considered that changed vehicle quality brand, but 64% of them do not know if the quality has changed services offered by Dacia.

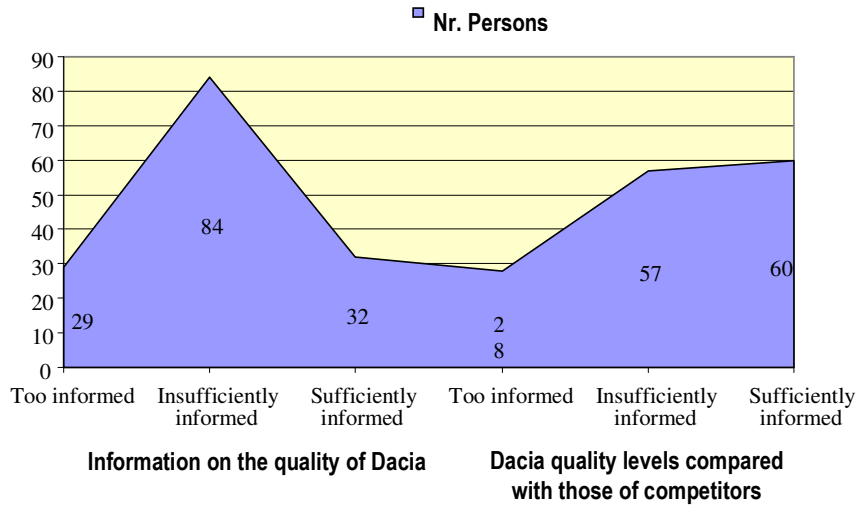


**Fig. 7: Vehicle quality against the competition**

Comparative analysis of the quality of Dacia brand from the competition, it appears that respondents are not sufficiently well informed because they have responded in a similar percentage it is better or less good and identical (Fig. 7,8,9).

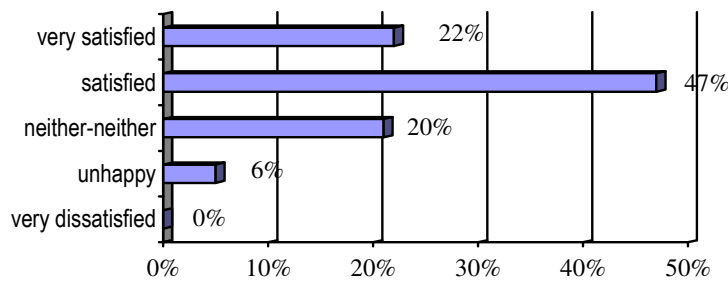


**Fig. 8: The Quality of services to purchase a vehicle DACIA compared to the competition**



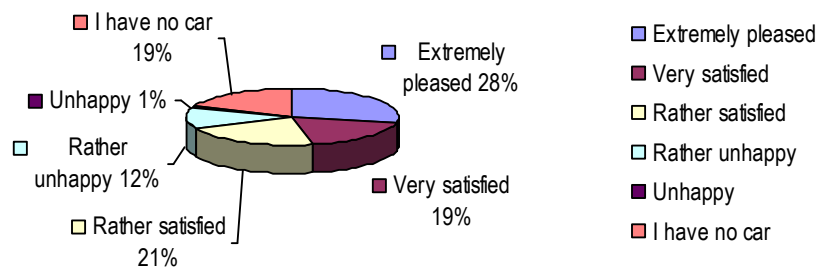
**Fig. 9: The level of information communicated**

From the chart above (Fig. 9) we can see that information to customers about the quality insufficient Dacia brand and the quality of the Dacia brand against the competition enough. This information is sufficient to promote quality because that accomplishes both Renault and Dacia Renault compared to main competitors Renault.



**Fig. 10: Satisfaction of Dacia car owned by respondents**

In this case (Fig.10) we observe that 22% are very satisfied with the car Dacia owned, 47 % are satisfied and only 6 % of them said they were unhappy about it. High degree of satisfaction is mainly due to favorable image of Dacia cars on the national market.



**Fig. 11: The level of customer satisfaction in relation to quality**

28% of respondents believe that they are extremely satisfied with the quality of their car, 19% are very satisfied, and 21% are somewhat satisfied, 12% dissatisfied and 1% rather unhappy.

A percentage of 81% of respondents were aged 20 to 25 years, 11% aged 26-30 years, 5% aged 31-35 years and 3% were aged 36 - 40 years (Fig.11).

## CONCLUSIONS

Satisfaction measurement system is structured around key moments of customer experience on issues related to product. From the presented analysis we conclude that the customer' satisfaction for the enterprise can be used as a tool to improve product quality and it should be based on customer preferences, their relative satisfaction with the provided quality. In terms of consumer' behavior, it has been shown, in most cases, it compares product performance with certain standards.

For this, the steps to be followed within the organization in order to achieve a higher product quality and to meet customer's requirements are:

- automobile plant needs time off, between three and five weeks in order to perform maintenance work and to improve the manufacturing process;
- vehicle reliability is rather bad, not great;
- safety and soundness of the body are very low.

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## ROLE OF TRAINING COURSES IN MOTIVATING HUMAN RESOURCES IN THE NUCLEAR RESEARCH SUBSIDIARY OF PITESTI

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***Abstract:** With the globalization and industrialization of all areas of activity, it also increased the role of the individual within the organization, moving from being a mere employee to that of human resource, thus emphasizing their role and importance in the organization, which is why human resource management should pay special attention to people, to treat them professionally according to principles of human resource management. The main investment is human resource. Their motivation should be a constant concern for all organizations. Among motivating factors, an increasingly important role is training courses that are part of the extensive process of training.*

**Key words:** training, professional career, training courses.

**JEL Classification Code:** M21

### 1. INTRODUCTION

Human resource is a variable with major influence in the smooth running of the activities of the organization, so the success of an organization depends heavily on how the human factor is understood, motivated and managed because it is the creative, active and coordinating "engine" of the organization<sup>1</sup> having a decisive influence on the use of other resources of the organization (physical, financial, informational).

Training and development are two sides of the continuous improvement of employees' skills, establishing an important function of human resource management, determines a positive perception, increases employment, labor productivity and reduces absenteeism.

Vocational training aims to develop new capabilities, while continuing professional training aims at improving the existing professional capabilities, the latter sometimes being seen as a stage in vocational training, that of accumulation of professional knowledge additional to basic formation<sup>2</sup>.

Professional training and professional development are necessary processes for the employee's individual progress and the progress of the organization and are addressed together by some experts as the training - development activity.

Many HR specialists have given various definitions for training, but it is most often defined as a systematic process of adult learning in order to acquire new knowledge, skills and abilities, necessary to perform tasks more effectively to a particular position, present or future or as any process designed to facilitate learning in an established audience.

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<sup>1</sup> <http://ebooks.unibuc.ro/StiinteADM/cornescu/cap12.htm>

<sup>2</sup> Ticu C., *Personnel psychology*, Editura Polirom, Iași, 2007, p. 97



Along with training, other two concepts - education and development - marks a person's career. Training is the opportunity offered to an individual in order to learn.

Learning is defined as constantly relative changing of the cognitive resulting from experience and influence's individual behavior, a continuous process conducted throughout their lives.

The development is the result of long-term learning activities. Education is defined as the set of knowledge, skills and attitudes of general nature, acquired through learning activities, both within and outside the company.

In conclusion, we can say that training helps the employee to be more efficient on the job, progress is a prerequisite for his development and trainers facilitates the individual's success regardless of the work field.

Efficiency shows how far have been reached the expected standards.

## 2. THE METHODOLOGY OF THE RESEARCH

To achieve the objectives proposed for analysis in this article, we present a brief state of knowledge in the field, by studying literature in Romania and abroad. We also analyzed the importance of human resource within the Pitesti Nuclear Research Subsidiary, the investments made for their motivation as well as trainings made for this purpose.

## 3. VOCATIONAL TRAINING AND PROFESSIONAL DEVELOPMENT PROCESS

Every employee should constantly and carefully assess his skills and opportunities and to plan his vocational training and professional development activities in accordance with his needs and the needs of the organization.

This process may take place in five stages<sup>3</sup> and should clearly define training needs and purposes of these efforts, the most appropriate methods of training and training evaluation to see whether the objectives have been achieved.

**Stage 1:** Determine training and development needs.

Determination of specific training needs is done through analysis on various levels of the organization, the study of objectives and strategic plans of the organization, human resource planning outcomes and targets to be met relating to job performance evaluation, performance assessment, performance ratings and individual needs of training.

**Stage 2:** Establishing training and development objectives.

It is necessary to establish clear and concise objectives for the development of training programs and effective evaluation of these programs.

**Stage 3:** Training and development methods.

There are two main types of training methods:

- training methods at work: instruction and tutorial training, apprenticeship method, position rotation, learning by assistance;
- methods of training outside workplace: case study, simulation, role play, formal courses, courses on video, computer-based methods.

**Stage 4:** Implementation of training and development programs

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<sup>3</sup>Stanciu □., Leovaridis C., Ionescu M., Stănescu D., *Managementul resurselor umane*, Editura Comunicare.ro, 2003, p. 279

A perfect training program may fail if the participants are not convinced of the utility of the programs on professional and personal level that is their credibility.

Difficulties in implementing the programs are:

- managers do not pay enough attention to programs,
- unavailability of qualified specialists,
- lack of feedback from the participants,
- ensuring a high level of results during the program.

**Stage 5:** Evaluation of training

The evaluation takes into account the organization's tangible benefits due to the implementation of programs and is done by criteria such as:

- participants opinions (with answers and suggestions),
- the scope of the training (the same tests at the beginning and end of the program),
- behavioral change,
- achievement of program's objectives.

A simple evaluation scheme was described:

< *Evaluation of reactions* - immediately assesses how students appreciate the training (topics, content, usefulness, attitude and talent of lecturers, training conditions, etc.);

< *Evaluation of learning* - testing of students at the end of the training program (questionnaires, practical tests) to see whether students have acquired the knowledge, abilities or skills expected in the program;

< *Evaluation of behavior* - is to assess whether the knowledge and skills acquired in the program are applied in the workplace.

#### **4. TRAINING – “ACCESORRY OR NECESITY”**

Amid financial crisis companies' decreased budgets and have changed their priorities and so giving up to employee training programs, which can be a mistake because a valuable employee with a better training is an asset in present context.

Some managers consider training a luxury and personal development of employees a waste of time and money, bringing three reproaches to training stages<sup>4</sup>:

- training is designed to distract employees from their respective daily duties according to the position held in the company.
- training does not constitute an additional value to the organization and, often, even for those who participate in these courses
- is impossible to establish a direct link of type cause - effect between investment in training and success of the company.

These reproaches are justified when trainers are less talented and prepared and employees poorly motivated, but given appropriate training can make the difference between performance and survival for an organization because the adaptability of a company depends primarily on the ability to learn and change its employees, the role of the training is precisely to foster a better adaptation to the business environment.

Companies that recognize the value of the training consider the following strategic advantages:

- quality training increases employees morale and motivates them in their daily work;
- training stimulates competitiveness, while its absence may "preserve a modest professional development;

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<sup>4</sup> <http://catalina.cochinescu.com/2009/04>

- specialized professional development courses are designed to make clear to the employee the priorities of the organization;
- training is a catalyst for teamwork;
- in training, employees learn from one another what are the best or most appropriate practices within the company;
- training programs help in retaining valuable human capital that will not feel the need for a "change" to develop professionally;
- as "coverage" solution (creation and training) for the lack of skills within the company, training is cheaper than recruitment and selection process;
- training is an investment that brings profit on medium and long term, increasing efficiency and maintaining high professional standards;
- training contributes to developing the quality and efficiency of the organization.

Training has results if it is thought strategically and is invested with required time and energy. So, to demonstrate effectiveness there should be aggregated some important factors such as:

1. Strategy- training must be supported by managers with power of decision and along with personal development it should be integrated into the evaluation of the employee
2. Training must match the goals and objectives of the organization.
3. Development of professional and interpersonal skills of employees should be consistent with the company's activities.
4. Training's objective is to achieve a direct correlation between the proposed package and increase performance at work that is why previously is required an evaluation of skills and existing activities and their quality.
5. The way of providing the training is very important, it may be internal, external, in seminars, computer or e-learning, according to financial possibilities, working hours and professional and psychological profile of employees.
6. Training is effective when knowledge and skills acquired are put into practice and that is why training evaluation is very important.
7. Employees should receive the training positive, to cover their professional, theoretical and practical needs.

There are widely recognized the following training benefits:

- ❖ increased efficiency,
- ❖ increased customer satisfaction,
- ❖ increased satisfaction and employee morale.

Training achieves its purposes when responding both to the needs of the organization and the employee, and only if the content and delivery focuses on the skills necessary to improve job performance.

## **5. TRAINING AND DEVELOPMENT OF HUMAN RESOURCES IN PITESTI NUCLEAR RESEARCH SUBSIDIARY**

Carrying out their work in a top area of technology continually developing new technologies, Pitesti Nuclear Research Subsidiary (NRS) shall permanently maintain a high level of personnel training, especially in research it should be aware of all the latest discoveries and innovations in the field of activity but also news from related fields that can contribute to increase the quality of the NRB (Nuclear Research Branch). This requires conducting training sessions to inform and familiarize personnel with all that is new and

useful to unfolding a successful activity imposed by the policies and strategies of the organization.

Further, we consider the training and development activities of Pitesti Nuclear Research Subsidiary between 2008 -2013.

In the period 2008 - 2013 in Pitesti Nuclear Research Subsidiary were conducted training activities in the following fields:

- Top management - 2 people;
- General Management - 168 people;
- Human Resources Management and Social –Human Sciences - 13 people;
- Commercial Management and Marketing - 1 person;
- Accounting - 20 people;
- Informatics - 48 people;
- Legislation - 52 people;
- Technical courses - 137 people;
- Quality, environment, safety and health at work - 63 people.

As we can see the institute was concerned to cover a wide range of training in its field and in related fields of its work.

It stands out the interest in personnel training, mainly administrative, particularly in management training of new managers at all hierarchical levels to successfully cope with current and future challenges in this special field of their work but also with current economic crisis.

At the end of 2010, Nuclear Research Branch had a total number of 646 employees of which 100 administrative personnel, the number being correctly reported to the number of employees directly productive.

In the period under review were conducted trainings in various fields, thus ensuring personnel knowledge updating from all departments of the enterprise.

A particular attention should be given to courses on quality, environment, safety and health at work, as occupational hazards in this field are very large and may cause diseases such as: osteoporosis, anemia, various forms of cancer, radiation and contamination of environment and population professionally unexposed.

Environmental risks are a controversial topic in this field, as the unsuspecting population in this field supports the view that this nuclear field is a major threat to the environment and public health. In reality, the lack of information in the field and wish of media to gain audience (alarmist way in which the media covered the event at Fukushima) caused a series of unjustified fears. These are fed by events occurred both in Ukraine (Chernobyl) and in Japan (Fukushima), where causes were human error at Chernobyl and natural disaster at Fukushima, where systemic work equipment and protective systems were significantly different from those of Pitesti Nuclear Research Subsidiary.

Within the Institute can be found innovative protection systems that ensure a high safety level, supported by the fact that it does not make nuclear energy but only research activities that involve a low risk and a restricted activity.

## **6. TRAINING METHODS USED IN PITESTI NUCLEAR RESEARCH SUBSIDIARY**

Within NRB (Nuclear Research Branch) are used two methods of training: classroom type training methods (pre-operative method, case study method and physical simulation method), methods of instruction through lectures and training methods outside and inside Nuclear Research Branch.

**Table 1. Personnel distribution that attended training programs by years and level of education**

Year	Educ. level	Training inside the Institute	Training outside the Institute
2008	Higher	--	12
	Secondary	--	--
2009	Higher	85	45
	Secondary	32	12
2010	Higher	--	10
	Secondary	--	4
2011	Higher	45	25
	Secondary	--	1
2012	Higher	--	11
	Secondary	--	4
2013	Higher	125	32
	Secondary	41	6

*(Source: The records of Human Resources Department in the NRB)*

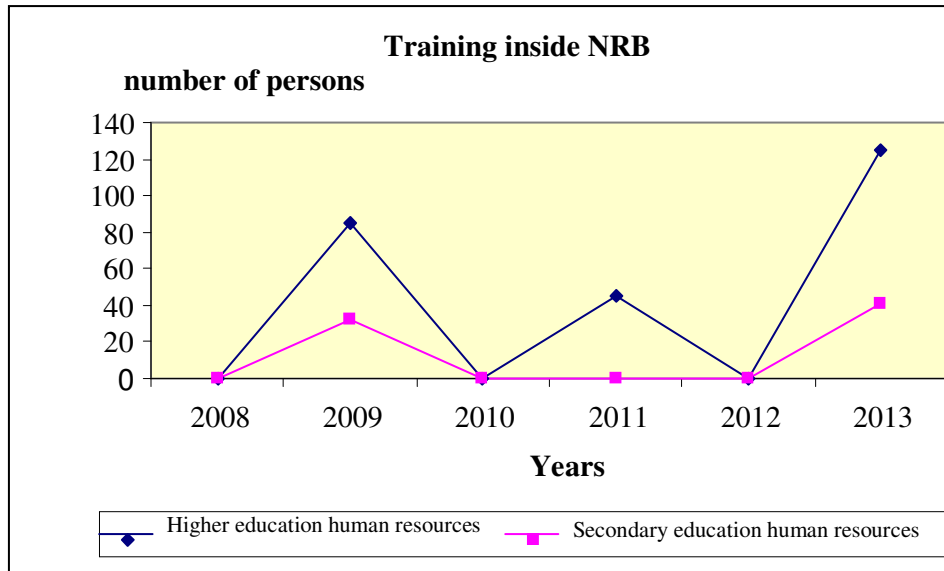
This table shows that more attention was given to training outside the institute, thus resorting to trainers with special training (some of whom are university professors) who addressed particularly to higher education personnel.

**Table 2. Training inside NRB (Nuclear Research Branch)**

Year	Higher education human resources	Secondary education human resources
2008	0	0
2009	85	32
2010	0	0
2011	45	0
2012	0	0
2013	125	41

*(Source: The records of Human Resources Department in NRB)*

Table 2 reveals that at NRB (Nuclear Research Branch) is given significantly greater importance to the training of personnel with higher education, both in number and frequency. Although the institution has chosen to undertake such courses every two years, this policy is not beneficial and creates discrepancies and delays in active training and in time of the human resources.



**Figure 1. Training inside NRB (Nuclear Research Branch)**

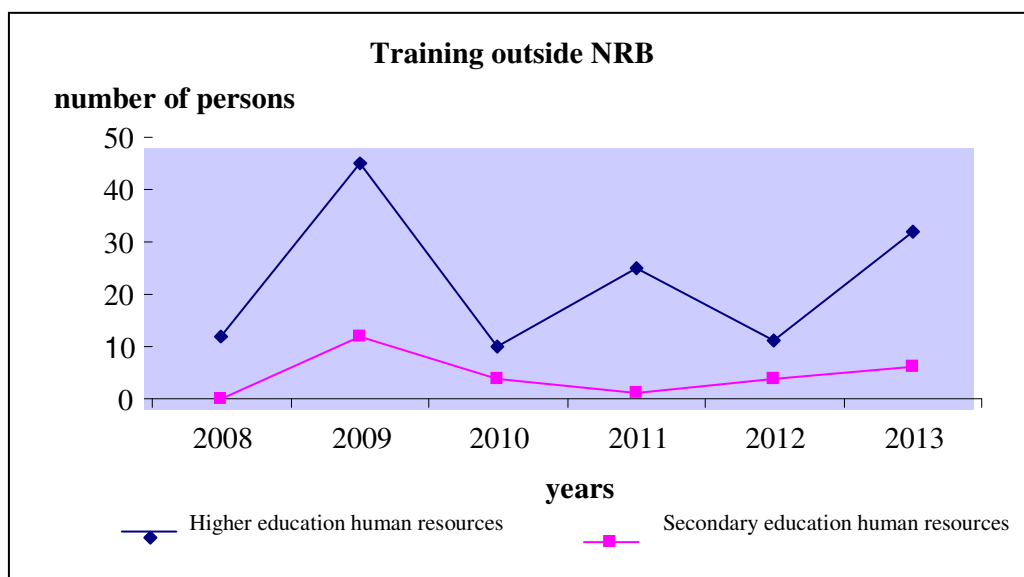
Figure 1 highlights the significant difference between the number of higher education people attending training courses inside the Institute to that of persons with secondary education.

**Table 3. Training outside NRB (Nuclear Research Branch)**

Year	Higher education personnel	Secondary education personnel
2008	12	0
2009	45	12
2010	10	4
2011	25	1
2012	11	4
2013	32	6

*(Source: The records of Human Resources Department in the NRB)*

Table 3 shows the same major difference between secondary education personnel and higher education, in favor of the latter, participating in training courses outside the Nuclear Research Branch, so in 2008, only a person with secondary education received training outside the institute, the widest participation of this category of employees in training courses outside the institution registered in 2009 (12 persons). In the same year and the same type of training received 45 persons with higher education, the lowest participation of this category of personnel registered in 2010 (10 persons).



**Figure 2. Training analysis outside NRB**

Figure 2 highlights the situation of personnel with secondary education, not participating in trainings outside the institution only in very small numbers, except in 2009 when it reached a peak of personnel participation in training courses both employees with secondary education, as well as those with higher education, the number of the latter being significantly higher (four times higher). Since 2012, we notice a slight increase of secondary education personnel participation in trainings outside the institution, while higher education personnel is evolving inconstant, varying significantly from year to year.

**Table 4. Personnel training expenditures incurred in the analyzed period**

Year	Training inside the Institute ( Lei)	Training outside the Institute (Lei)	Total ( RON)
2005	--	288	288
2006	2340	1368	3708
2007	--	336	336
2008	900	624	1524
2009	--	360	360
2010	3320	912	4232
Total	6560	3888	10448

*(Source: The records of the Financial Department in the NRB)*

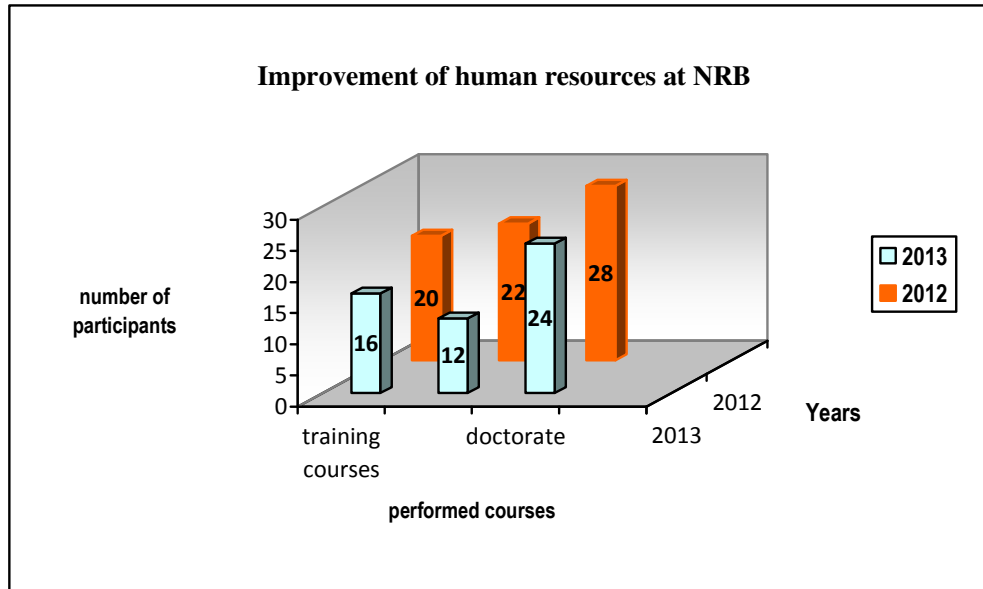
Analysis of Table 4 shows that although the amounts allocated to training outside the institution are 40% lower than those assigned to training within the organization these are annual.

One of the objectives of human resources policies in NRB (Nuclear Research Branch) is training young employees that can attend professional development courses, masters and doctorate programs in the field of activity of the department in which they work, subsidized by the employer. This goal was achieved in 2012, 2013 according to the table below.

**Table 5. Participant employees in training courses**

Year	Continuing education courses	Master	Doctorat
2012	20	22	28
2013	16	12	24

(Source: The records of Human Resource Department in the NRB)

**Figure 3. Employees participation in continuing training courses**

The figure shows the low number of participants, both in the continuing training courses and to the masters and doctoral courses.

## 7. EFFECTS OF TRAINING ON NUCLEAR RESEARCH SUBSIDIARY

The Nuclear Research Subsidiary is part of the National Company for Nuclear Activities that gives it a disadvantage in this time of financial crisis by reducing the funds granted by the government for work, but this disadvantage was overcome with competent management and activities that have brought additional funds to NRB budget.

These funds have not only contributed to the smooth running of business within the NRB, which was not affected by the reductions in wages, but also the possibility of conducting training and development activities for the benefit of employees and organization, thus ensuring the necessary personnel needed to carry out in maximum efficiency all activities.

## 8. CONCLUSIONS, LIMITATIONS AND PERSPECTIVES OF RESEARCH

Being an elite institution of the Romanian economy and scientific research, a particular attention should be paid to constant training and instruction of personnel, due to the fact that the entire work is subject to research and innovation especially in the nuclear field, but also in other business fields.



For the success of training programs we should take into account the fact that learning involves both mind and body. It is a conscious process, rational, verbal, but also involves emotions, senses, receptors. In trainings, students can be encouraged to:

- work in teams;
- build a model (concept, process or procedure), for example own coaching model;
- physically manipulate the components of a system or a process, for example to build models;
- create cognitive maps;
- discuss after each exercise, simulation, experience; conclusions if necessary.
- projects completed by students who require movement and active experience (an example would be field trip).

These are just a few ways to accelerate learning and allocate to students the role of creators of information. Research in this field is in continuous progress and we will soon benefit from accelerated learning methods increasingly revolutionary.

As shown in the data studied, half of employees have secondary education and some of them work in key points of the activity. Lack of concern from those dealing with planning these programs affects them from several respects. Lack of education is accompanied by wage restraints, this being a reason of stress and dissatisfaction for this category of employees, all this leading to limitation of secondary education personnel.

The institution must make serious efforts to develop organizational culture, mentioning the fact that although we found a positive understanding and appreciation for our approach on this paper at the higher level of management, we have been treated at least inappropriate. For this reason, we believe it to be important to emphasize communication and relationship skills of these employees.

In our opinion it would be necessary to use two important methods of training, namely simulation with role-play or job rotation, both meant to remind to the above mentioned that each individual is unique and that for every problem there are several points of view and several solutions, important being the willingness to cooperate in order to solve "problems".

To motivate and stimulate personnel with secondary education there should be implemented training programs for them after applying questionnaires to highlight their training needs, to build training programs with realistic goals and not an experimental training program. Training programs should answer questions like:

1. What are the ongoing activities that participants fulfill? (and correlations with the job description)
2. What types of tasks / activities are performed unsatisfactory now?
3. What elements can help improve current performance? (sometimes can be just internal issues, not necessarily insufficient knowledge or skills)
4. Among the elements that can contribute to improving the performance of the work under review, which can be acquired in a training program and to what extent? (it is necessary to define most pragmatically, by verbs of action like: *to delegate, do a report*)
5. Was there a previous training to improve performance for these types of activities? (If so, what impact did it have?)
6. What performance indicators will measure the effectiveness of training? (e.g. reducing the number of complaints, compliance with deadlines, use of tools etc.)
7. How will these indicators be measured?

The list can go on with specific questions for specific training needs.

Even if at first glance it may seem time consuming, an analysis of training needs can significantly contribute to increasing the effectiveness of implemented programs. This analysis can be developed with a training provider who has:

- a. expertise (specialized knowledge with mastery of a specific set of tools and methodologies)
- b. interpersonal skills (listening and understanding needs, clearly and concisely express certain ideas / recommendations, to be able to disagree when necessary, maintain a constructive approach, to understand and adapt to different styles of communication / learning)
- c. the ability to manage the process- stages, resources, roles and responsibilities at each stage, the purpose,
- d. professional conduct and adherence to a code of ethics (understood and accepted by the client), essential for building a partnership.

The main advantage of such an approach is that it is addressed to the cause of certain problems and not to symptoms. For example, the lack of planning tools leads to congestion of the employees, with consequences on the quality of interpersonal communication. Lack of tools can be treated with knowledge and implementation of those instruments rather than a single team-building). In this way, there can be identified root causes of certain problems and create a solution that will bring sustainable results and a real contribution to the development of the organization.

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## ANALYSIS OF THE INDICATORS SPECIFIC TO ENTITIES LISTED ON THE CAPITAL MARKET AND THEIR ROLE IN QUANTIFYING COMPANY PERFORMANCE

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***Abstract:** The paper aims at presenting certain indicators specific to entities listed on the capital market and their analysis based on the financial statements of C.N.T.E.E. Transelectrica S.A., listed on the Bucharest Stock Exchange: growth stock exchange indices (market capitalization, earnings per share, price to book ratio, price to sales ratio, price earnings ratio, cash EPS) and dividend stock exchange ratios (dividend per share, dividend yield, and dividend payout ratio). The research methodology involved studying the financial statements of the entity for the 2009-2013 period. The case study method was used to study the evolution of the stock exchange indices and opinions were formulated concerning the performance reflected by the analysed indices.*

**Key words:** capital market; performance; stock exchange indicators.

**JEL Classification Codes:** G11, G12.

### 1. INTRODUCTION

The reasons underlying the analysis of the stock exchange indicators (the market ratios) are determined by the fact that, by being listed on the Stock Exchange Market, the securities of a company will receive a market value resulted from balancing demand and supply, which value will be different from the book value of the share.

The measurement of the economic and financial performance of the companies traded on the capital market for the assessment of the structure of their securities portfolio is a complex activity that implies the collection and processing of a large volume of information, but also experience and a little bit of flair in interpreting it (Siminică, 2008, p. 168)

The calculation of the market ratios helps investigators select the securities they want in their portfolio by using the so-called fundamental analysis, completed by a technical analysis that allows for determining the right moment for the entry of the respective securities. The fundamental analysis is a method of forecasting the future evolution of the price of a financial instrument, based on economic, political, environmental factors, as well as other relevant factors and statistical factors that may have a significant impact on the supply and demand for the analysed financial instrument (Prisacariu et al., 2008, p. 191).

The indicators specific to the entities listed on the stock exchange market can be grouped in two sub-categories, namely: growth stock exchange rates and dividend stock exchange ratios. Each of them will include a number of ratios used to identify and measure

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the financial performance of an entity listed on the stock exchange market. In our opinion, the stock exchange market ratios are the most comprehensive measures of the performance of an entity because they reflect the corroborated influence of the financial rates of risk and return (Achim, 2010, p. 355).

The National Electrical Power Transmission Company "Transelectrica" S.A. is the Romanian Transmission and System Operator, with a key role on the electrical power market, being included in the local stock exchange market indices (BET, BET-XT, BET-NG, BET-C, ROTX) and in the international indices DowJones Wilshire Global Indexes, which is the reason why I chose to carry out the case study at this entity.

## 2. GROWTH STOCK EXCHANGE MARKET INDICATORS

The category of the growth stock exchange market indices is extremely important for the majority shareholders and long-term investors who are interested in increasing the result of the accounting period, thus being able to ensure the increase of the market value of the entity (Achim, 2010, p.356). The growth stock exchange market indices are related to: market capitalisation, earnings per share, price to book ratio, price to sales ratio, price earnings ratio, cash EPS.

### a) Market Capitalisation

Market capitalisation is the market value of an entity listed on the stock exchange market, being used to assess its shares, and basically reflects the value given to the entity by the public. This index is determined as the product of the multiplication of the market value of a share ( $V_{pa}$ ) by the total number of shares issued by the entity ( $N_a$ ) (Brezeanu, Boştinaru, Prăjişteanu, 2003, p. 105).

$$KB = V_{pa} \times N_a$$

If the value of this index is high and keeps growing, it will be a plus or any capital investor; the disadvantage of using this indicator is that it does not always reflect the real value of the entity (at takeovers or acquisitions). On the other hand, the big advantage of this index is that it is extremely useful in the analysis of the liquidity of an entity, thus assessing the possibility to trade the securities of an entity easily (an investor who used large amounts of cash to buy the securities of an entity can thus assess the possibility to obtain cash quickly). In such circumstances there are three categories of entities: large caps, mid-caps, and small caps. This index is also used to assess the size of a stock exchange market, calculated as sum of the market capitalizations of all the listed entities.

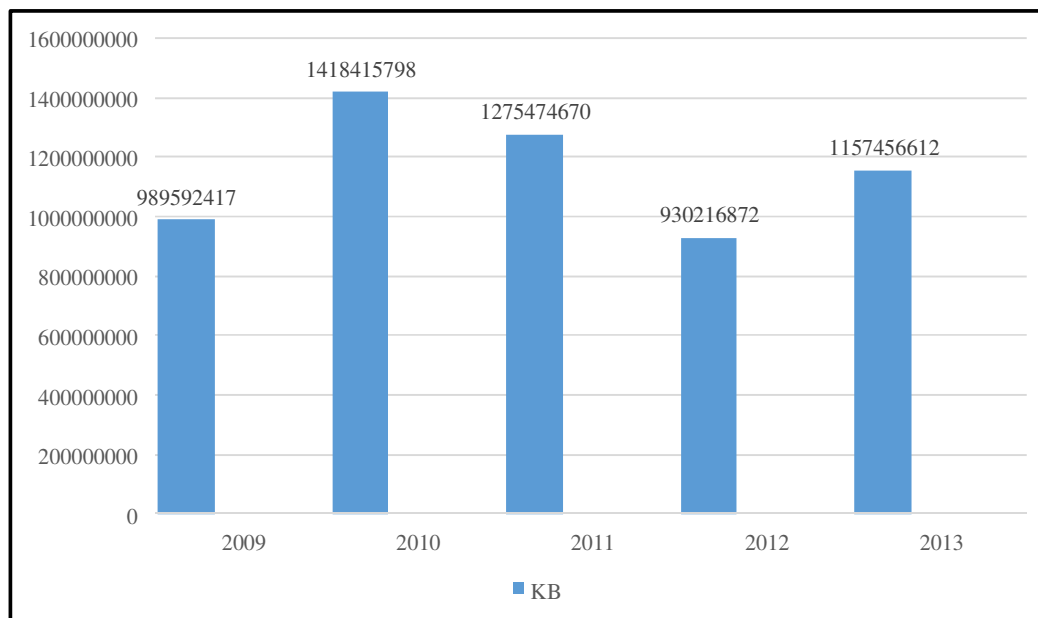
**Table 1. Determining the market capitalization**

Indicators	2009	2010	2011	2012	2013
V <sub>pa</sub>	13.50	19.35	17.40	12.69	15.79
N <sub>a</sub>	73,303,142	73,303,142	73,303,142	73,303,142	73,303,142
<b>KB</b>	<b>989,592,417</b>	<b>1,418,415,798</b>	<b>1,275,474,670</b>	<b>930,216,872</b>	<b>1,157,456,612</b>

*Source: Information obtained by processing the financial statements of C.N.T.E.E. Transelectrica S.A.*

We can notice an oscillatory dynamics of the market capitalisation, i.e. the market value of the company, with increases in 2010 and in 2013 and decreases in 2011 and in 2012 due to

the decrease in the market value of a share compared to the previous year, the number of shares issued being constant.



**Figure 1. Evolution of the market capitalisation**

The level of the index in the last analysed year (2013) reflects the added value obtained by the capital holders by increases compared to the levels recorded in 2009 and in 2012.

#### b) Earnings per Share

An entity will calculate the value of the earnings per share (EPS) for the profit or loss attributable to the shareholders of an entity, dividing the profit or loss attributable to the shareholders of the mother entity (the numerator) by the weighted average of the ordinate shares outstanding (the denominator) of the accounting period.

The objective of the information concerning the basic earnings per share is to assess the level of contribution of each ordinary action of an entity in the performance of the entity throughout the reporting period. In order to calculate the basic earnings per share, the values attributable to the ordinary equity holders of the entity concerning the profit or loss from the continuous activities attributable to the entity and the profit or loss attributable to the entity will be presented adjusted with the after tax values resulted of the preferential dividends, with the differences resulting from paying the preferred stock, and with other similar securities of the preferred stock classified as equity capital.

In a capitalisation or bonus issue or a share split, ordinary shares are issued to existing shareholders for no additional consideration (International Accounting Standard IAS 33, paragraph 28). Therefore, the number of ordinary shares outstanding is increased without an increase in resources. The number of ordinary shares outstanding before the event is adjusted for the proportionate change in the number of ordinary shares outstanding as if the event had occurred at the beginning of the earliest period presented.

Also, according to IAS 33 *Earnings per share* (paragraph 29), A consolidation of ordinary shares generally reduces the number of ordinary shares outstanding without a corresponding reduction in resources. However, when the overall effect is a share repurchase

at fair value, the reduction in the number of ordinary shares outstanding is the result of a corresponding reduction in resources. An example is a share consolidation combined with a special dividend. The weighted average number of ordinary shares outstanding for the period in which the combined transaction takes place is adjusted for the reduction in the number of ordinary shares from the date the special dividend is recognised.

Practically, the net earnings per share generated during the accounting period can be assessed using the formula:

$$EPS = \frac{Rn}{Na}$$

where  $Rn$  – the net earnings of the period,  $Na$  – the number of shares.

A high level of this index can highlight either high trust of the investors in the company's management, or lack of trust, estimating that a transfer of assets can be made to another company with a more credible management. In the case of a low level of this index, there is lack of trust in the management or the existence of difficult problems for it (Achim, 2010, p. 357). The overall usefulness of this index lies in the fact that it is not affected by the dividend distribution policy.

The price rate is an external measure of the performance of the listed entity, while EPS is the direct expression of the profitability of the company (Stancu, 2007, p. 788)

Based on the financial statements of C.N.T.E.E. Transelectrica S.A., I determined the value of the basic earnings per share (table 2).

**Table 2. Determining the earnings per share**

<b>Indicators</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Rn	6,135,590	9,557,424	90,913,316	34,487,968	201,017,126
Na	73,303,142	73,303,142	73,303,142	73,303,142	73,303,142
<b>EPS</b>	<b>0.08</b>	<b>0.13</b>	<b>1.24</b>	<b>0.47</b>	<b>2.74</b>

*Source: Information obtained by processing the financial reports of C.N.T.E.E. Transelectrica S.A.*

We can notice a significant increase of the index in 2013 (the highest level in the analysed period), determined by the good financial results (the net profit grew 5.8 times compared to 2012 and 32.8 times compared to the first year analysed, 2009).

The limits of this index are deemed to be as follows (Achim, 2010, p. 358):

- time limits: the index is based on historical profits (in the past the management was able to make decisions from the perspective of increasing current profit), consequently EPS cannot underlie future growth prospects;
- space limits: the profits are influenced by the decisions of the managers of the various entities concerning the accounting policies, the earnings per share being influenced by the capital structure at various companies.

c) Price to Book Ratio

This index ( $PBR$ ) is used to identify the entities with low prices that have been neglected by the market. It is calculated as ratio between the market value of a share ( $Vpa$ ) and its

accounting value ( $Vca$ ), highlighting in a practical manner the value given by financial markets to the entity management.

$$PBR = \frac{Vpa}{Vca}$$

The book value of a share ( $Vca$ ) is determined by dividing book net asset ( $ANC$ ) to the number of shares ( $Na$ ).

In the analysis of the market value ratio the following aspects are taken into account:

- a properly managed entity with high growth prospects should have a market value equal to or higher than the book value of the equity capital (Halpern et. all, 1998, p. 114);
- the entities with a rate of return higher than their equity capital and their turnover have a higher ratio, while the entities with a lower rate of return, and a stable profit and turnover respectively, have a lower index;
- when an entity is traded at a lower value than  $Vca$ , the market deems that its assets are overestimated, respectively its profitability is very low (it is recommended either to sell its shares, or to change the management).

In table 3 we determined the market value ratio.

**Table 3. Determining the market value ratio**

Indicators	2009	2010	2011	2012	2013
Vpa	13.50	19.35	17.40	12.69	15.79
ANC	2,351,632,024	2,355,441,697	2,881,622,054	2,430,758,272	2,793,897,135
Na	73,303,142	73,303,142	73,303,142	73,303,142	73,303,142
Vca	32.08	32.13	39.31	33.16	38.11
<b>PBR</b>	<b>0.42</b>	<b>0.60</b>	<b>0.44</b>	<b>0.38</b>	<b>0.41</b>

*Source: Information obtained by processing the financial reports of C.N.T.E.E. Transelectrica S.A.*

We can notice the oscillation of PBR, from 0.42 in 2009, with a maximum level of 0.38 in 2012 and a maximum level of 0.60 in 2010, but less than one throughout the whole period analysed, showing an overvaluation of the assets compared to their market value.

#### d) Price to Sales Ratio

This index is used to identify unprofitable investments, being very useful in the assessment of the shares of entities with low profits or unprofitable). It is very useful when other indices cannot be used, because the entity is running at a loss or has extremely low profitability, or margins).

It is determined as a ratio between the market price of a share ( $Vpa$ ) and the net turnover per action ( $CAna$ ) or as a ratio between the market capitalization ( $KB$ ) and the net turnover of the entity ( $CAn$ ):

$$PSR = \frac{Vpa}{CAn} \text{ or } PSR = \frac{KB}{CAn}$$

The index does not allow for comparisons between sectors of activity, but it can be used for entities with similar activity or in comparisons with the average values of the sector. The calculation of the price too sales ratio of the market was made using the second calculation formula (table 4).

**Table 4. Determining the price to sales ratio**

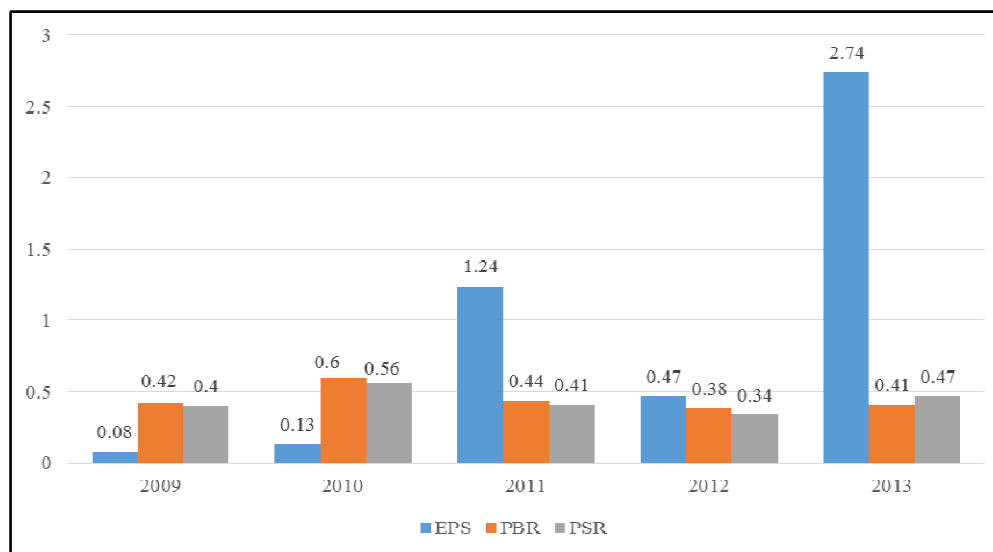
Indicators	2009	2010	2011	2012	2013
KB	989,592,417	1,418,415,798	1,275,469,125	930,216,872	1,157,009,203
CAn	2,485,127,373	2,545,724,630	3,113,142,778	2,767,686,710	2,472,315,761
<b>PSR</b>	<b>0.40</b>	<b>0.56</b>	<b>0.41</b>	<b>0.34</b>	<b>0.47</b>

Source: Information obtained by processing the financial reports of C.N.T.E.E. Transelectrica S.A.

It is deemed (Petrescu, 2009, p. 276) that a value bigger than 0.5 of this ratio can be attractive for investors, while a value lower than this level indicates an undervaluation of the turnover as a result of the lack of financial performance of the entity.

We can notice that only in 2010 the level of the index was bigger than the 0.5 threshold, while for the rest of the analysed period it was lower than this threshold. In 2013 PSR grew (0.47), getting closer to the benchmark level.

The evolution of the last three indices analysed is shown in figure 2.



**Figure 2. Evolution of the market growth rates**

e) Price Earnings Ratio

This index is very important for any entity known and listed on the stock exchange. In combination with all the earnings obtained by the entity, it provides information concerning



the possibility to decide to undervalue or overvalue shares. It is calculated as a ratio between the market value of one share ( $Vpa$ ) and the earnings per share ( $EPS$ ).

$$PER = \frac{Vpa}{EPS}$$

Based on this index, stock market analysts assess investors' reactions to changes in the financial rate of return of the listed entity (Mironiuc, 2006, p. 387) and in how many years the investment will be recovered, under the assumption that the whole profit is distributed as dividends. Thus, we can determine how much an shareholder should invest in order to obtain a profit unit. A high level of the  $PER$  means that the shares are expensive or overvalued and vice versa (Achim, 2010, p. 359).

Statically speaking, a share with a low  $PER$  is preferable to a share with a high  $PER$  mare, concerning the purchase price, but a share with a higher  $PER$  is possibly much more profitable than one with a lower  $PER$  (the increase or decrease of the earnings of the share in the future are taken into account). The index is extremely useful provided it is based on future prospects, rather than if it is determined based on historic information (thus a higher level of this index can be explained either by a higher growth rate, or by a reduction of the risk).

The price earnings ratio allows for comparisons among companies, regardless of the dividend payout ratio, being more objective in assessing the profitability of the shares compared with the dividends per share (Petrescu, 2008, p. 276).

**Table 5. Determining the price earnings ratio**

Indicators	2009	2010	2011	2012	2013
Vpa	13,50	19,35	17,40	12,69	15,79
EPS	0,08	0,13	1,24	0,47	2,74
<b>PER</b>	<b>168,75</b>	<b>148,85</b>	<b>14,03</b>	<b>27,00</b>	<b>5,76</b>

*Source: Information obtained by processing the financial reports of C.N.T.E.E. Transelectrica S.A.*

The dynamics of the index is influenced especially by that of the earnings per share ( $EPS$ ) which, as we have seen hereinabove, was determined by the net earnings which recorded a significant increase in 2013, which led to a low value of the  $PER$  (5.76) – a positive aspect.

f) Cash EPS

This index highlights the amount of cash generated by an action in an accounting period (Duțescu, 2000, p. 57) and is determined as a ratio between the cash generated by the operating activity (operating cash flow –  $OCF$ ) and the number of shares ( $Na$ ).

$$CashEPS = \frac{OCF}{Na}$$

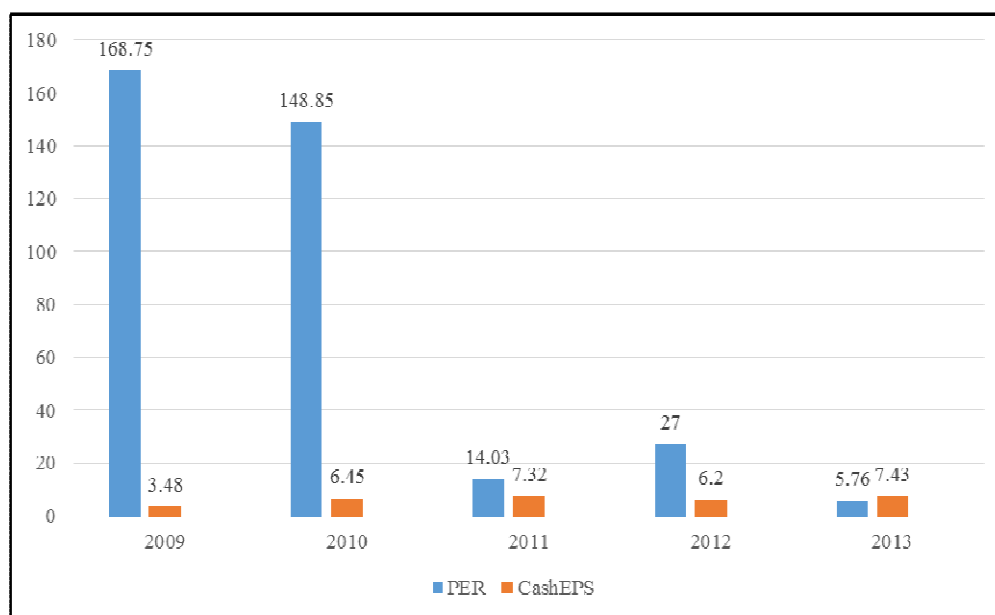
We agree with the opinion according to which this index is much more relevant than  $EPS$ , because the net earnings of the accounting period from the profit and loss account used for its calculation is much more impure and easier to handle than cash.

In order to make assessments concerning this index we must analyse it by comparing it with EPS: if *EPS* is lower than the *Cash EPS*, this means that the net earnings reported is better in terms of quality, and the entity has generated more cash than the net earnings; otherwise, it is deemed that the net earnings could not be appropriately turned into cash.

**Table 6. Determining the CashEPS**

Indicators	2009	2010	2011	2012	2013
OCF	254,775,293	472,596,507	536,429,538	454,568,800	544,417,740
Na	73,303,142	73,303,142	73,303,142	73,303,142	73,303,142
<b>CashEPS</b>	<b>3.48</b>	<b>6.45</b>	<b>7.32</b>	<b>6.20</b>	<b>7.43</b>

Source: Information obtained by processing the financial reports of C.N.T.E.E. Transelectrica S.A.



**Figure 3. Evolution of PER and CashEPS**

We can notice that the index CashEPS has had an oscillating evolution too, with a minimum level in 2009 and a maximum level in 2013, due to the increase in the operating cash flow.

### 3. DIVIDEND STOCK MARKET RATIOS

This category of ratios is, in its turn, important both for shareholders and for the short-term investors of an entity, as they are interested in getting high short-term profitability for the shares, and consequently for the level of the distributed dividends. This category includes: the dividend per share, the dividend yield, and the dividend payout ratio and the dividend coverage ratio. A company with a low dividend payout ratio, due to the fact that it reinvests its profit, will grow faster and will generate future earnings (Oancea-Negescu, 2009, p. 159).

a) Dividend per Share

This index (*DIVA*) shows the level of the dividend corresponding to one share. It is determined as a ratio between the value of the dividends distributed to the shares from the net earnings of the accounting period (*DIV*) and the number of common shares outstanding

$$(Na): \text{DIVA} = \frac{\text{DIV}}{Na}$$

An uptrend of the dividend corresponding to an invested share is desirable, from the point of view of the minority shareholders or short-term investors in the equity capital of the entity. A high level of this index usually attracts investors aiming at obtaining short-term profits (Bondoc, 2014, p. 142).

**Table 7. Determining DIVA**

Indicators	2009	2010	2011	2012	2013
DIV	3,665,157	8,503,165	80,633,456	29,614,469	163,319,401
Na	73,303,142	73,303,142	73,303,142	73,303,142	73,303,142
<b>DIVA</b>	<b>0.05</b>	<b>0.12</b>	<b>1.10</b>	<b>0.40</b>	<b>2.23</b>

*Source: Information obtained by processing the financial reports of C.N.T.E.E. Transelectrica S.A.*

In our opinion, the level of the dividend corresponding to one share is extremely low. Since the number of shares in the analysed period is constant, the oscillations of the dividend per share were determined exclusively by those of the allocated dividends, but we should also highlight that there is a significant increase in the index *DIVA* in the accounting period 2013 (due to the increase in the net earnings distributed as dividends).

b) Dividend Yield

This index (*RDIV*) measures the gain collected by the shareholders following their investments in the entity shares. It is determined as a ratio between the dividend per share

$$(\text{DIVA}) \text{ and the market value of one share (Vpa): } \text{RDIV} = \frac{\text{DIVA}}{Vpa}$$

The dividend yield is calculated in relation to a financial value (an exchange rate) and in any case not in relation to an accounting value (Vernimmen, 2009, p. 551).

In this case too an uptrend is desirable, as it shows a maximization of the effects in the form of dividends per share invested to the efforts of the shareholders substantiated in the value of the price paid for purchasing one share.

**Table 8. Determining RDIV**

Indices	2009	2010	2011	2012	2013
DIVA	0.05	0.12	1.10	0.40	2.23
Vpa	13.50	19.35	17.40	12.69	15.79
<b>RDIV</b>	<b>0.004</b>	<b>0.006</b>	<b>0.063</b>	<b>0.032</b>	<b>0.141</b>

*Source: Information obtained by processing the financial reports of C.N.T.E.E. Transelectrica S.A.*

The dividend yield decreased in 2012 compared to 2011, but it increased in 2013, recording the highest level of the gain collected by the shareholders following their investments in the actions of the entity.

c) Dividend Payout Ratio

This last index (*DPR*) analysed in this paper measures the proportion of the net profit (*Rn*) distributed to shareholders as dividends (*DIV*) and is determined as a ratio between the two elements.

$$DPR = \frac{DIV}{Pn}$$

A very high level of this index reflects an enhanced dividend policy corroborated with a diminished self-financing policy. On short term, a high value of this index seems attractive for investors, but in the long term, it does not provide a sustainable development for the business.

**Table 9. Determining DPR**

Indicators	2009	2010	2011	2012	2013
DIV	3,665,157	8,503,165	80,633,456	29,614,469	163,319,401
Pn	6,135,590	9,557,424	90,913,316	34,487,968	201,017,126
<b>DPR</b>	<b>0.5974</b>	<b>0.8896</b>	<b>0.8869</b>	<b>0.8587</b>	<b>0.8125</b>

*Source: Information obtained by processing the financial reports of C.N.T.E.E. Transelectrica S.A.*

The level of the dividend payout ratio is determined by the dividend policy (reinvestment or distribution of the net profit) practiced by an entity. A constant dividend payout rate indicates a stability of the future incomes (cash flows) of the company, while an increase in the dividends indicates higher cash flows that will cover the dividends, and consequently the market value of these shares will grow (Stancu, 2007, p.683).

If a company maintains the level of the dividends when its net profit decreases, it signals to the market that this decrease of the earnings is only temporary and that the profit increase will be resumed (Vernimmen, 2009, p. 896). In the opposite case, if it reduces or even ceases to distribute dividends, the company sends a signal concerning the prospects of the activity susceptible to be interpreted in a negative manner, determining the decrease of the exchange rate of its shares.

In the case of C.N.T.E.E. Transelectrica S.A., although the increase in the net result in 2013 was accompanied by the increase in the distributed dividends, the profit index is higher than the distributed dividend index, so the profit was distributed to the shareholders as dividends in a lower proportion than the previous year (81.25% in 2013 compared to 85.87% in 2012), which is the reason why the dividend payout ratio decreased. It is believed (Martin, 2006) that the decision to distribute dividends reflected by the dividend policy is determined by a number of factors, among which the income tax applied to the two incomes arising from holding shares: the dividend and/or the capital gains from the increase in the share value.

The evolution of the dividend stock exchange ratios determined for C.N.T.E.E. Transelectrica S.A. is shown in figure no. 4.

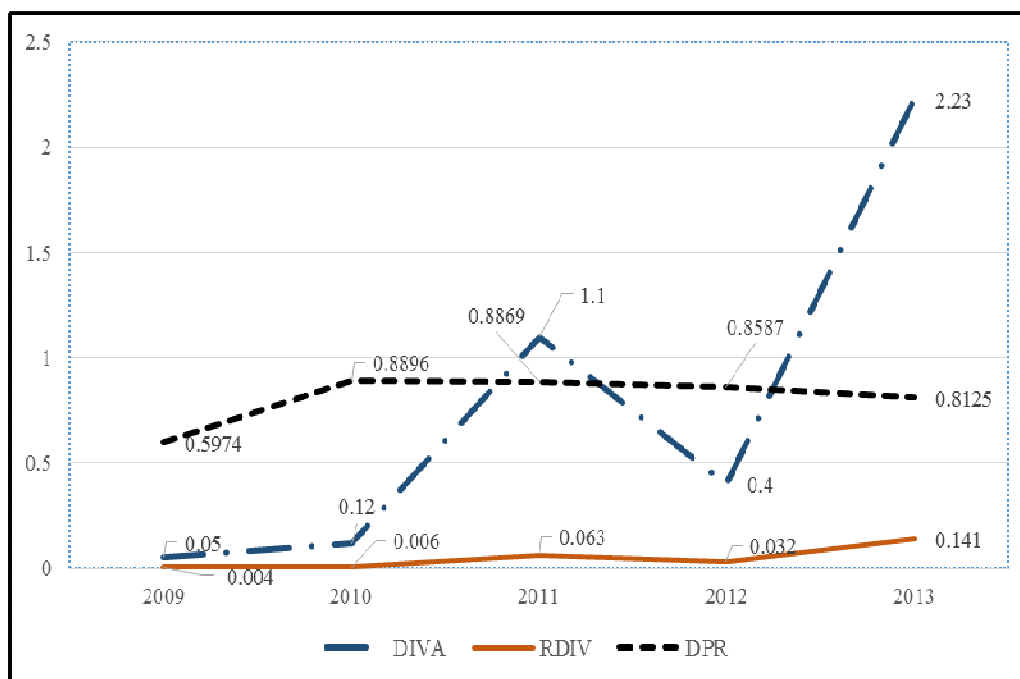


Figure 4. Evolution of the dividend stock exchange ratios

#### 4. CONCLUSIONS

The absolute value of one of the indicators presented herein cannot be significant for a potential investor without a reference framework that can be the trend of the respective rate, a level pre-established, by a similar entity or a standard accepted by stock exchange specialists.

In relation to the market indicators analysed based on the financial statements of C.N.T.E.E. Transelectrica S.A. we can express the following opinions:

- generally, the analysed indices had an oscillating evolution in the analysed period (2009-2013)
- the market capitalization indicates that Transelectrica is a large and prominent entity;
- the entity recoded net profit in the analysed period and distributed dividends;
- the highest dividend payout rate was recorded in 2010, but until 2013 it was maintained at the level of 80% of the net profit;
- the significant increase of the net profit in 2013 compared to 2012 (but also compared to the other accounting periods analysed) had a direct influence on EPS and, through it, on PER;
- the dividend yield recorded the highest level in 2013, also as an indirect consequence of the financial performance reflected by the net profit.
- when comparing the level of CashEPS to that of EPS, we can notice lower levels of the latter, so we can say that the net earnings reported are good in terms of quality, the entity generated more cash than the net earnings.
- the decrease in the dividend payout ratio in the last year analysed could indicate a need for cash related to new investment opportunities, which is therefore a positive aspect.

It is believed (Horobeț et al., 2011) that the performance of companies on the capital market is not explained by their operating and financial performance, except PER and EPS, which indicates a clear separation between the performance of the companies that is reflected in the financial statements and the performance of the investors obtained by trading on the capital market.

Consequently, in our opinion, a continuation of the research can represent a benchmarking of the performance reflected by stock exchange indices and those reflected by the traditional performance indicators determined based on the profit and loss account.

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