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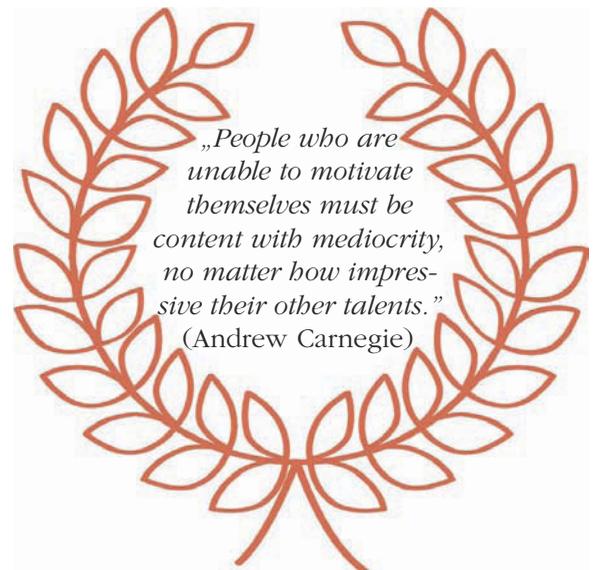
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Strategies to maximize performance

The organization's human capital is the pool of high potential and high performing employees. The collective value of the capabilities, knowledge, skills, abilities, life experiences, and motivation of an organization workforce are essential to human capital of company. These elements contribute to develop differentiated human resource architecture, to satisfy the needs of most critical talent, and lead to higher performance and organizational profitability. Thus, human capital can be a source of competitive advantage for companies whether they focus on business needs by identifying the key jobs, skills, competency models and the proper talent to work in these positions.

Talent management is a process that goes beyond simply identifying the jobs that provide a long-term advantage, it requires attracting and retaining talent as well as providing good development opportunities for high-performing employees, so that they can effectively work in these jobs. In addition, talent management is a process that must be fully integrated within all of the employee related processes of the organization and when developing company business strategies. The **talent management** process consists of recruiting, selection, placement, training, development, appraisals, compensation, career planning, succession planning and retention. Thus, this process should be able to place the right people in the right position at the right time. This means that it is not sufficient to attract individuals with the right talent, the organization need to develop, managing and retaining those individuals.

Some organizations focus **talent management** talents only a few „high-potential” jobs. Attracting, retaining and developing individuals with certain qualifications who are strong in specific skills have become the main emphases for many talent management efforts. Other organizations view talent management more broadly. Targeting primarily only a limited workforce of **talent management** efforts may lead to many other employees perceive their career opportunities as being limited. Many firms are not designed to optimize talent performance. Nevertheless, some companies have established programs to identify high-potential individuals providing learning opportunities to





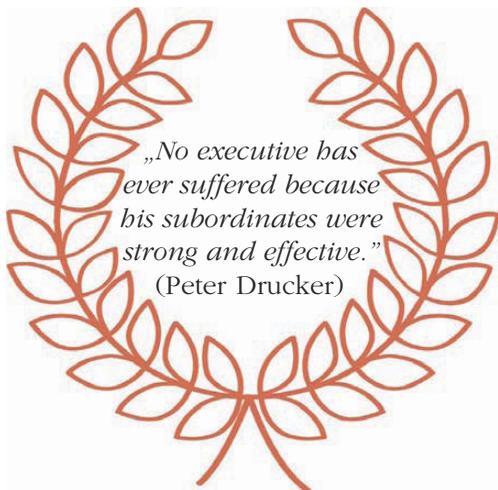
gain new competency and additional visibility in the firm. Talent management policies are strategic tools because they develop employees' careers.

Some studies show that many companies have a preference for hiring individuals who already developed their skills somewhere else, rather than develop internally competitive human resources. Thus, internal candidates are the best solution during times when company performance is high, and outside candidates are the solution during times of crisis.

Technical and professional workers, such as engineers, teachers, dentists, scientist, and IT experts are usually hired because the company can obtain the needed skills rapidly. When it is unable to find qualified job candidates to hire, the company looks internally for successive candidates.

The workforce becomes more global, dispersed and agile. As an organization strives to meet its business goals, it needs to quickly and effectively respond to the unexpected changes. Firms move individuals to new jobs calling for higher-level capabilities, for increased employee motivation. Career path represents employees' movements through opportunities over time and reflects the most important competencies needed to accomplishment company profitability. A clear path for talent planning is based on the competency model that helps to identify talent and gaps. For instance, coaching activities that combines observation with suggestions may help create high-performance teams. Coaching is the continual process of learning by doing.

Learning organization offers a significant opportunity to develop employees through continuously learning and solving problems in their areas of expertise. Thus, succession planning can be used to develop a plan for the orderly replacement of key employees, including deciding whether to make or buy talent. It identifies the critical knowledge, skills and ability gaps across the current workforce to develop targeted action plans. Individuals adapt to career demands by shaping their knowledge, skills and abilities. In fact, managers determine if individuals are ready, willing, and able to perform duties at a higher level of organization. Training, succession planning, career planning, and performance management are crucial components of **talent management**.



*Prof. Gheorghe Militaru Ph.D.
Deputy Chief Editor*

Multicultural Business Negotiation

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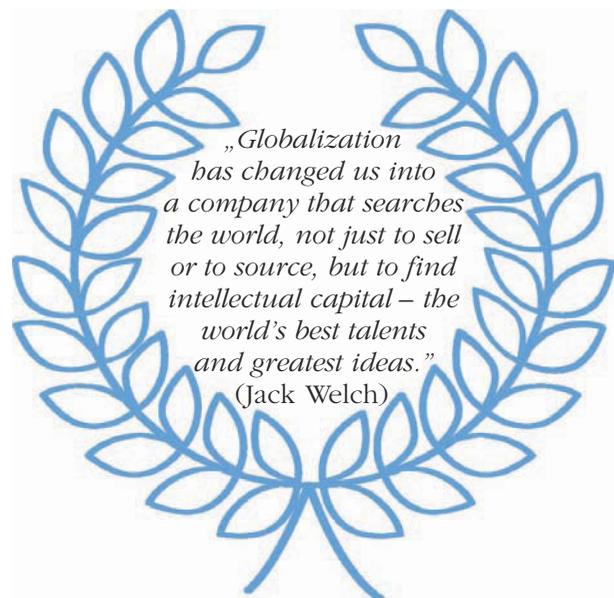
Abstract

In order to succeed in business, in the context of globalization, there is vital to understand how culture influences all processes that take place in an organization. Products are designed today in one culture, manufactured in another culture and sold in another, requiring more multicultural business interactions than ever before. The current research paper focuses on the intercultural negotiation processes, having the objective to show how developing cultural awareness in international business context can help negotiators to obtain better results. Using as a methodology the exploration of recognized literature sources, the paper analyzes the theoretical and practical implications of negotiations in certain cultural contexts, comparing individualistic to collectivist cultures, high to low-context cultures and egalitarian to hierarchical cultures, focusing on specific negotiation characteristics. There has been little attention given to the way Romanian negotiate, so this paper attempts to analyze the negotiation styles of Romanians in comparison with other negotiation styles, especially the American and the Japanese negotiation styles, as these two styles are the most encountered in negotiation literature. The ideas mentioned in this paper are based on literature research and also on author's participation in multicultural negotiations.

Keywords: multicultural negotiation, multiculturalism, international trade

1. INTRODUCTION

At the forefront of any business opportunity stand the agreements negotiated between companies. Especially in multicultural environments, every acquisition or sale is preceded by a form of negotiation,



whether it is a business meeting or a simple exchange of e-mails. According to the Romanian National Office for Commerce, about 40% of the total number of registered companies has business relations with companies from other countries. Given the big number of Romanian companies engaged in international business relationships, the aspect of negotiation effectively is of great importance to the success of the company, so this paper identifies the characteristics of the Romanian negotiator and gives valuable advice on how to conduct multicultural negotiations. The concept of negotiation was analyzed for the first time by Herodotus, who noticed the way Greeks were trading with Egyptians (Imai, 2010). In the second century BC, people from various cultures started to do business along the Silk Road, between the Roman Empire and China, later this being known as the first multicultural trading (Elisseff, 2000). In the last decade, taking into consideration the globalization phenomenon, effective multicultural negotiation is an important aspect of relationships between organizations, alliances and sells of products and services in a global market (Keller, 1993). The literature shows that the chances are higher to obtain a good result when negotiating in the same culture that both negotiators belong to, while there is less profit when negotiating with someone from a different culture (Adler, 2007).

There are two forms of negotiation – distributive and integrative. Distributive bargaining suggests that the negotiator gives very little information to the other part, while the integrative bargaining requires cooperation between the parts and implies a higher level of trust. Both

forms should ideally end in win-win situations, when both parts obtain an equal benefit, but in reality, the end of a negotiation process favors one of the parts more than the other, usually the part with the better-skilled negotiator. All negotiators have the power of bargaining and the result of the negotiation depends on their experience and inspiration for choosing the best strategy and adapt it to the situation, but also on their understanding of cultural differences and on their ability to create an advantage. Some of the most important characteristics of multicultural negotiation are: Individualism, Communication, Power Distance and Environment. (Gelfand, 2004). Each of these characteristics gives hints to the negotiator about the values and expectations of the business partners he deals with. The characteristics give the possibility to understand different cultures, to position correctly towards them and to adapt the negotiation strategies accordingly in order to succeed. Each of the characteristics from above will be analyzed in multicultural context. To obtain desired outcomes from effective negotiations, organizations should

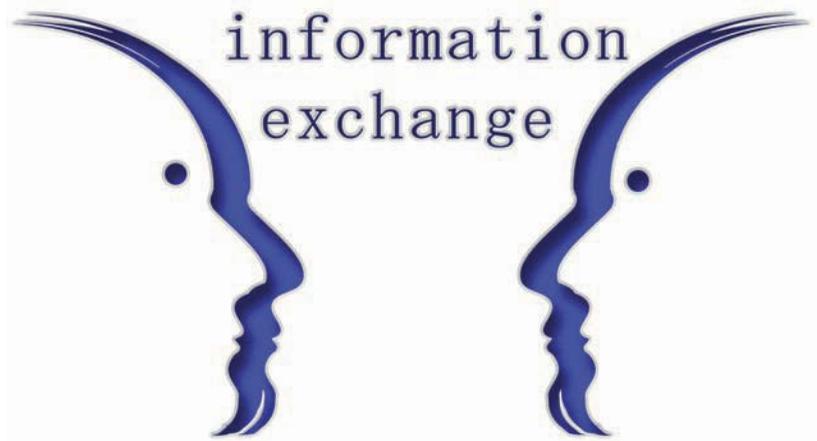


put cultural issues at the heart of their negotiation strategies.

The structure of the paper is as follows. Section 2 describes the differences between the high-context cultures and low-context cultures, section 3 highlights the characteristics of both collectivist and individualistic cultures and section 4 discusses Hofstede's power distance index in the context of hierarchical and egalitarian cultural negotiation. The last section draws conclusions and provides further discussions.

2. HIGH VERSUS LOW-CONTEXT CULTURE NEGOTIATION

The terms high-context culture and low-context culture were introduced by Hall and refer to a culture's tendency to use high-context messages or low-context messages in routine communication and negotiation. In low-context cultures, the negotiator needs to be very explicit and the value of a single word is less important than in high-context cultures where many things are left unsaid, and should be understood from the cultural point of view. Some of the low-context cultures are encountered in United States, Switzerland, England or Germany, while a few of the high-context cultures are encountered in Japan, China, France, Spain, Greek or Italy (Hall, 1973). Romania is a higher-context culture, being grouped together with Italy and Spain in the Latin European cluster (Adair, 2005). Romanian negotiators are different from the ones from neighboring countries, being more similar to Italian or Spanish negotiators mostly due to the fact that they prefer to have personalized services and to develop personal friendship in parallel with the business relationship. Contrary to the low-context cultures, like



Switzerland or Germany, that put a lot of importance on speed and efficiency, the high-context culture countries appreciate more a good personal relationship between the business partners, then the speed of solving issues appeared in the negotiation process.

During business negotiations, the exchange of information is done according to the type of cultural context the negotiators come from. Negotiators from low-context cultures exchange information directly, being honest about their interests and priorities, while negotiators from high-context cultures exchange information indirectly, by using vague statements and not being very open about their interests or priorities (Adair, 2005). It is more difficult to lead an effective integrative negotiation in high-context cultures than in lower-context cultures. The problem that might appear even for experienced negotiators, whether they are dealing with a high- or a low-context culture, is the reciprocal sequencing of integrative techniques or complementary sequencing of integrative techniques (Adair, 2005). This issue can be avoided by being prepared when interacting with different culture negotiators and by cooperating in order to obtain a mutually beneficial agreement.



Higher-context cultures are more frequent in Asia and in countries with low racial diversity, that have the tendency to rely more on traditions, and at the same time, have a representative history and little change over time. It is essential for a negotiator to be able to adapt to higher or to lower-context cultures, in order to have a successful negotiation outcome. When a high-context culture negotiator goes into a low-context culture environment, the negotiator should be aware of the fact that the relationship with the partners will be strictly a business one, and the focus will be on how efficient is the negotiation process going. Even if his cultural background might influence the negotiator into trying to develop a personal relationship with the business partners and to try to know them better before signing any agreement, this strategy might have exactly the opposed result and lower the chances of succeeding. Also, when a low-context culture negotiator goes into a high-context culture environment, there will often be an interference of the personal life in the business negotiation and the negotiator should know that building a friendly relationship with the partners is the key to get to an agreement, even if from his own cultural background this behavior might not seem that important. There is a tendency for low-context cultures to use distributive bargaining, while integrative bargaining is encountered more in high-context cultures, as it requires a stronger relationship and a higher level of trust.

3. INDIVIDUALISTIC VERSUS COLLECTIVIST CULTURE NEGOTIATION

The concepts of individualistic culture and collectivist culture refer to the dependence of a person towards his social group. From negotiation point of view, individualistic cultures focus on the individual achievements of the negotiator, that has a competitive attitude, looks for challenging opportunities and are not afraid to take risks. The negotiator wants to reach his personal goals before reaching the goals of the group he belongs to (Hooper, 2005). For collectivist cultures on the other hand, traditions and customs maintain a deep interconnection and dependence between its individuals, as most of the times, the needs of the group come before individual ones. If in individualistic culture, the personal achievements of the negotiator are rewarded, in collectivist cultures, the sacrifice of the personal interest for the ones of the group is appreciated most. Collectivist culture negotiators are more empathic to the needs and interests of their groups and communities than individualistic culture negotiators are. After studying for many years the characteristics of IBM employees at the end of 1980s Geert Hofstede classified the cultures to which the employees belonged, in individualistic and collectivist. He found out that the most individualistic people come from United States, Australia, Canada, England and Netherlands, while the most collectivist cultures are in Japan, Russia, South Korea, China and the Middle East countries (Hofstede, 1990).



A negotiator from an individualistic culture wants to win in a negotiation, regardless if the other part loses, while collectivist culture negotiators look for win-win agreements. Individualistic culture negotiators focus on short-term goals, while collectivist culture negotiators are more interested in fulfilling their long-time plans (Hooper, 2005). The negotiations within the same cultural background, either between collectivist culture negotiators or between individualistic culture negotiators, go smoothly and also high-goals are achieved most of the times, the problems appearing when negotiators have different cultural background (Okumura, 2001). Okumura analyzed the negotiations between American and Japanese and concluded that the self-interest of the Americans affect the negotiation process with the Japanese, who emphasize social obligations before economical interest (Okumura, 2001).

Collectivist negotiators are more pessimistic, fearful of failure and have a greater tendency to eliminate conflict causes in the discussions, while individualists are optimist, ready to risk in order to achieve their goals, not afraid of conflicts and ready to leave the negotiation table at any moment if there is not the chance of winning (Hooper, 2005). Individualistic cultures emphasize on positive outcomes as opposed to collectivist's cultures that avoid negative outcome, so „collectivists are more likely to cooperate in negotiations where they stand to lose. Individualists are quite happy to leave a negotiation if it does not result in a profitable deal for them” (Hooper, 2005).

The collectivist culture negotiators value their social networks much more than individualistic culture negotiators. For negotiators with collectivist cultural background it is more important to build a long-term



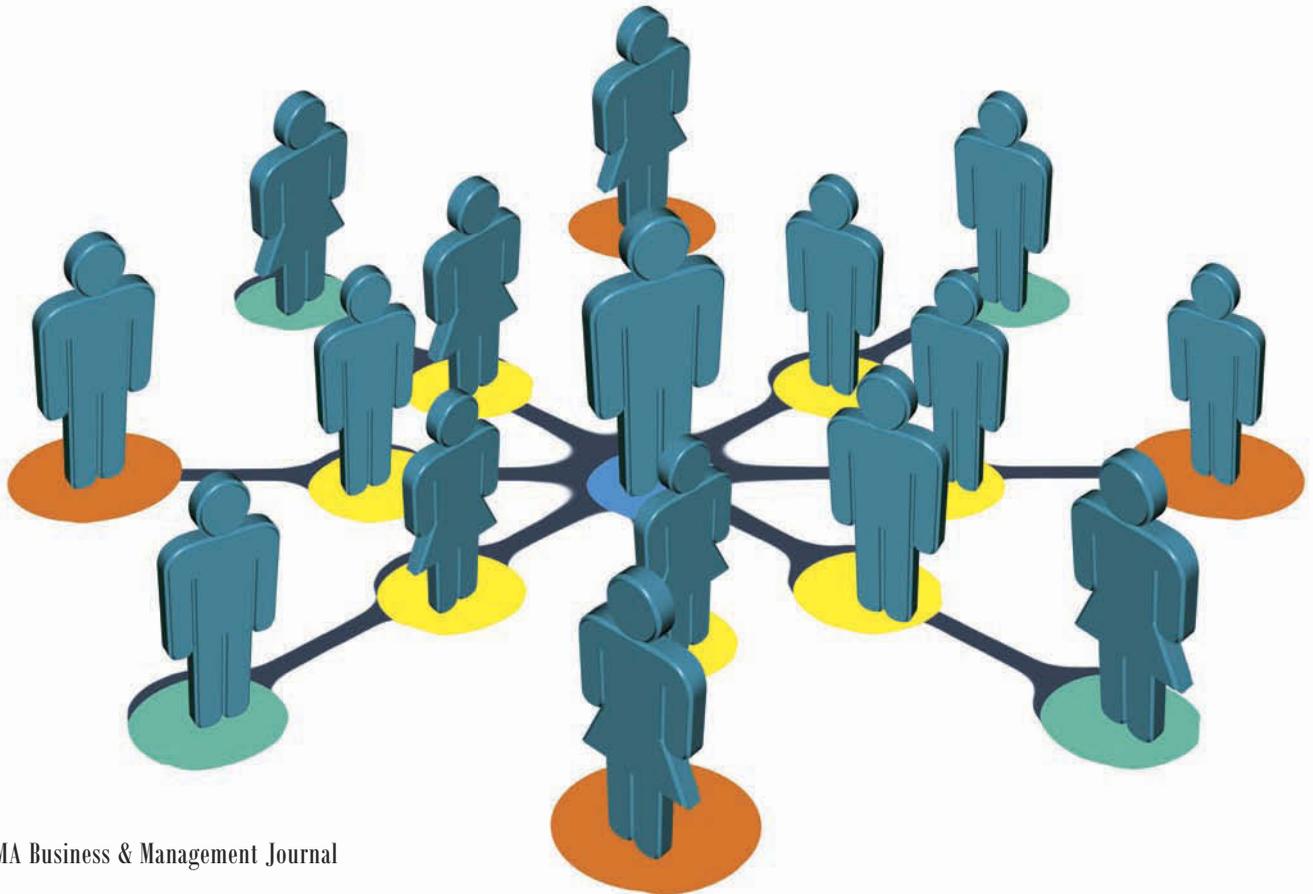
business partnership, then to make a good business one time. Especially in Arabic countries, the friendship is equally important and sometimes even more important than the outcome of the negotiation. Companies should be very careful when replacing the negotiator that got to an agreement with a business partner from a collectivist culture, as the agreement might fall if the contact person has changed.

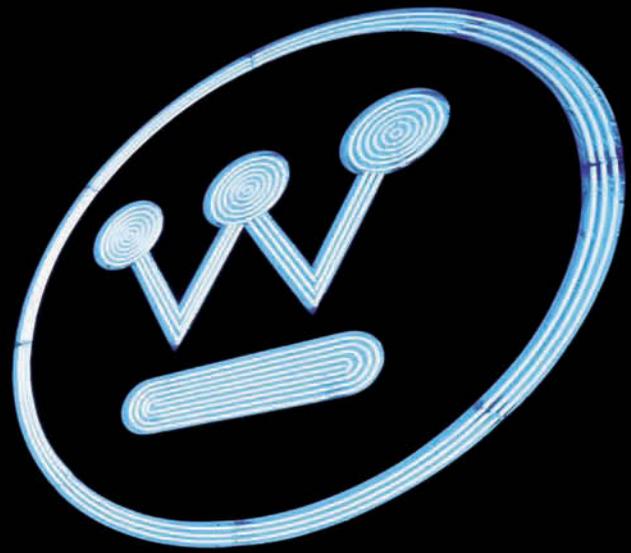
Romania, as a former communist country, is closer to collectivist cultural negotiation. The Romanian negotiators value trust and a close business relationship. They tend to develop informal relations beside the formal business ones with their partners and in the negotiation process they are rather pessimist and try to overcome any negative situation that might appear. However, in the last two decades, after the revolution, due to the presence in the Romanian market of the multinational

companies, the Romanian negotiator is getting further from the extreme collectivist negotiation style used in communist times and integrates in the negotiation process some elements of individualistic culture negotiations.

4. POWER DISTANCE: EGALITARIAN VERSUS HIERARCHICAL NEGOTIATION TYPE

The idea of power distance refers to the acceptance of unequal power between negotiators. Cultures where high-power distance is common (hierarchical) are the ones where some people are considered superior to others due to social status, sex, race, age or family backgrounds, as opposed to the cultures with low-power distance (egalitarian) that consider people to be equal and focus more on the





personal achievements of individuals, not on their inherited status. The power distance grows proportionally with the unequal distribution of wealth in the society. High-power distance cultures are comfortable with hierarchical structures, have very clear authority representatives and accept the right to use the power of the authorities. The cultures with the highest power distance are in the Arabic countries, the Asian countries and in India (Hooper, 2005). Low-power distance cultures use shared authority, are comfortable with flat democratic organizational hierarchies and use the power only if it is absolutely necessary and only in legitimate scopes. Low-power distance cultures are found in Austria, Israel, Sweden, Norway, Switzerland, England and Germany. Romania is closer to the high-power distance cultures. From a score of 0 (low) to 100 (high), Romania obtained 90 in 1984 in Hofstede research, and is considered to be around 75-80 at the moment, due to the changes that the country experienced after 1989.

Romanian society is still organized within hierarchical culture structures that determine the social status. Like in any other high-power distance culture, in Romania respect is given to those in senior positions, together with authority and social advantages, but at the same time, the re-

sponsibility to take care of the people in lower positions within the same group. This responsibility towards lower status members does not exist in egalitarian cultures, as everybody is considered to have the same rights and responsibilities, regardless of the rank (Hooper, 2005).

Conflicts between hierarchical culture groups is very rare, as both will ask for mediation from a superior, instead of having a face-to-face negotiation, as opposed to conflicts between egalitarian culture groups, that will work the conflict out themselves, in a direct negotiation (Hooper, 2005).

Another difference between the two cultural types is the use of BATNA as Okumura states, the hierarchical culture negotiators, like the Japanese, view BATNA as „a point to reach for in negotiations”, contrary from the way egalitarian cultures negotiators, like Americans, see it as „a starting point to begin negotiations” (Okumura, 2001; Hooper, 2005). The survey developed by Geert Hofstede’s Institute of Research (IRIC) gives the power-distance index for managing diversity, but it can be used also in negotiation processes. In contains several indexes, but for this research were relevant PDI (Power Distance Index) and IDV (Individualism).

Table 1 – Hofstede's estimation on PDI and IDV

Country	PDI	IDV
Romania	90	30
United States	40	91
Japan	54	46
UAE	80	38
Turkey	66	37
Switzerland	34	68
China	80	20
Mexico	81	30
Guatemala	95	6
Egypt	80	38
Ecuador	78	8
India	77	48
France	68	71
Hong Kong	68	25
Thailand	64	20
Portugal	63	27
Greece	60	35
Czech Republic	57	58
Spain	57	51
Italy	50	76
South Africa	49	65
Netherlands	38	80
Costa Rica	35	15
Germany	35	67
United Kingdom	35	89
Finland	33	63
Norway	31	69
Sweden	31	71
Israel	13	54
Austria	11	55

Source: <http://geert-hofstede.com>

The high-power index of Romania in Table 1, proves that Romanian employees and negotiators in particular, don't like to take risks and prefer to build a good relationship with the managers, in order to

feel protected and to avoid direct responsibility. This high score also shows that Romanians don't disagree with their superior and accept their authority in most cases, without any comment.

Conclusions

This paper emphasized on the importance of negotiating across cultural barriers in a global trade environment. The individual cultural difference characteristics of the counterpart's representative are a key predictor of intercultural negotiation effectiveness. Being aware of whether the negotiation process is done with a high or low-context culture negotiator, with a hierarchical or egalitarian culture negotiator or with an individualistic or collectivist one, can help overcome communication obstacles due to cultural differences. Negotiators should find a balance between their personal interests and objectives and the counterparts' goals and expectations and find the best negotiation strategies in order to obtain the desired output in a win-win agreement. Multiculturalism

should be seen as an advantage for creating strong connections between organizations from different cultures, using pleasant conversations while building trust. It is recommended for a negotiator to be exposed to as many different cultures as possible, in order to gain experience and to be able to find opportunities for integrative deals based on cultural differences. The ideas presented in this paper are useful for both the academic researchers and for the companies' representatives, which want to assure the desired negotiation outcomes.

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The Impact of Imitation on Innovation

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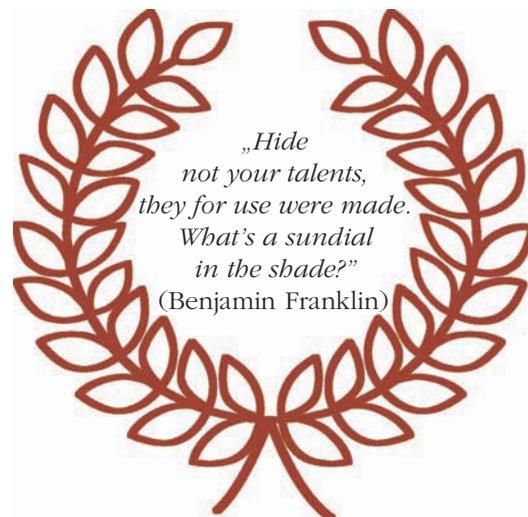
Abstract

The aim of the paper is to show that innovation and imitation should not be regarded as entirely distinct concepts, being inextricably intertwining. An innovation is being capitalized on by followers having fully imitative behavior, the imitation benefiting from innovation using either licit or illicit instruments and having either a creative and added value approach or causing disruptive effects to the initial innovation. The methodology consists of a comparative analysis of two significant forms of imitation, i.e. cross-industry innovation vs. counterfeits, being opposite in terms of creativity and legality, with the purpose of establishing an analytical view of the associated drivers and/ or risk factors. The paper displays as results the analytical view of said drivers and/ or risk factors empirically indicating that cross-industry innovation promises stronger and sustainable economic impact and potential for further development over counterfeiting. Still, the authors argue that innovation, comprising it's both dimensions (i.e. „new to the world” and „imitative behavior”) is to an extent the result of multiculturalism due to its global attribute and its intrinsic dependence on human factor, and teamwork and globally available knowledge.

Keywords: innovation, counterfeiting, disruptive, risk factors

INTRODUCTION

Innovation and imitation are defined by the literature as being two processes having both distinct and similar characteristics. Moreover, imitation is increasingly viewed as a component or as one dimension of innovation. Yet, the merits of imitation take a back seat to its „disruptive” features. For the purpose of this



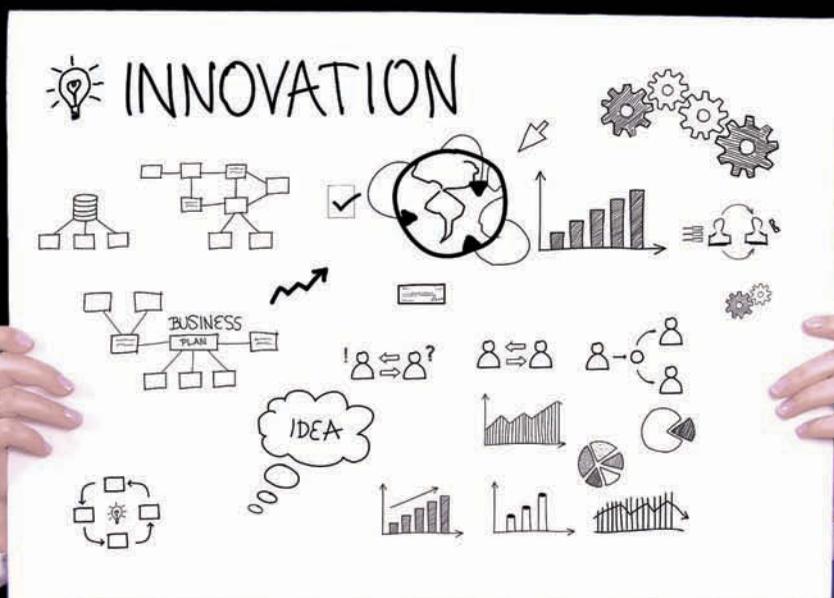
paper, the authors consider that just as innovation has a „disruptive” potential, the imitation can also display a disruptive nature, especially when causing infringement of intellectual property rights. In view of this opposite features (i.e. merits and disruptive nature), the authors propose a new classification of imitation to be discussed in the present paper.

The structure of present paper unfolds with the state of the art and objectives of the work followed by the research, comprising the methodology and a comparative analysis presenting the results and discussion. The conclusions follow the research highlighting the aspects raised in present paper in regards to innovation and imitation and the relation between the two.

STATE OF THE ART

Building on Schumpeter’s vision on innovation, the Oslo Manual depicts innovation as involving the utilization of new

knowledge, but also the new use or combination of existing knowledge, and as demanding the minimum requirement for a product, process, marketing method or organizational method of being new or significantly improved to a particular organization (OECD, 2005). This approach defines the innovator as being either the first to develop the innovation, or the one who is adopting it from other organizations, thus clearly comprising the dimension of imitative innovation. While going over some of the most comprehensive works in the field, Niosi (2012) concentrates the features of imitation from the perspective of innovation. He highlights that most economic development in catching up processes starts up with imitative innovation (i.e. which is new to the countries and the organizations that adopt the innovation, but not necessarily new to the world). Still, incremental innovation is the basis of evolutionary imitation as the observation



and imitation of others are the basics for progress and innovation in the case of most individuals and organizations. Furthermore, imitation is pervasive due to its cost and time saving, while being centrally linked to diffusion (i.e. the diffusion of innovation at a large scale is being achieved through a process of imitation). R&D is a key routine not only for innovation, but also for imitation and creative or innovative imitation as the first mover advantage is oversold (i.e. the followers and imitators often reap the benefits of innovation) (Niosi, 2012).

As long as innovation is defined both as being something completely new to the world, but also as something new just for a particular entity or market, and not necessarily new to the rest of the world, it can be argued that imitation is an integral part of innovation. To this end, the Oslo Manual justifies the „new to the firm” minimum requirement of an innovation as follows: adopting other’s innovations require a learning process which can lead to improvements of the initial innovation, and also the development of others; the full impact and economic benefits of an innovation are reached by having other entities and markets adopting the initial innovation (OECD, 2005). It should also be noted that 80% of all innovations are based on the recombination of existing knowledge (Echterhoff et al, 2013).

When integrating imitation into the innovation concept, the degree of novelty allows for identifying the various players on the market, e.g. the developers and adopters of innovations, the market leaders and followers (OECD, 2005). Katz and Shapiro describe two types of follower’s behavior: license and imitation (Katz et al, 1987). Thus, it can be argued that when distinguishing between the innovation



players on the market, the ones that stand out are the innovators who first bring the innovation to the market, and their followers who are either choosing the legal approach of adopting the initial innovation by employing instruments of intellectual property or the more or less disruptive components of imitation, while breaching or not the intellectual property rights of the initial innovator. Furthermore, it can be argued that when referring to all followers of an initial innovation, which are either legally or illegally benefiting from it, their behavior is entirely imitative. Accordingly, it is the approach the imitator takes when benefiting from the creation of the initial innovator, that should be clearly categorized, and not his behavior. Thus, the imitation and imitators could be categorized as licit or illicit and as creative or disruptive to the initial innovation.

Niosi (2012) summarizes the various forms of imitation found in the literature as follows:



- Counterfeits (product pirates, fraudulent imitations, e.g. fake Hermes bags, fake Rolex watches);
- Clones (similar copies, usually under a different brand name or none, e.g. „Nibe” instead of Nike, „McDnoald’s” instead of McDonald’s, „Nokla” instead of Nokia,);
- New or improved products or processes inspired from competitors;
- Creative adaptations;
- Design copies (the original design of a product is being creatively replicated and adjusted to represent a new

product with a similar design, under a completely different brand name, usually that of a competitor, e.g. similar design cars, similar logos, similar websites);

- Adaptations of a technology to another industry (i.e. cross-industry innovation);
- Simplifying the original product;
- Repositioning the original product to a different segment of the market.

OBJECTIVE OF RESEARCH

Considering the above various forms of imitation and their above proposed categorizing, the following distinction is asserted: new or improved products or processes inspired from competitors, creative adaptations, design copies, adaptations of a technology to another industry, simplifying the original product and repositioning the original product to a different segment of the market represent licit and creative forms of imitation, while counterfeits, clones and other similar reproductions represent illicit forms of imitation and disruptive to the initial innovation (Figure 1).

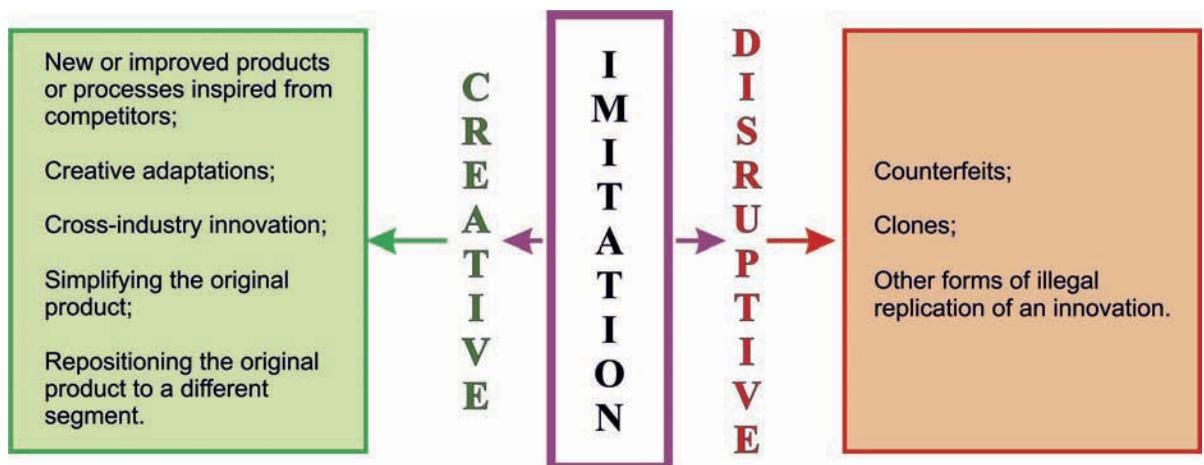


Figure 1 – *Forms of imitation. Adaptation from Niosi (2012)*



When distinguishing between licit and creative imitation versus illicit and disruptive imitation, the following characteristics need to be emphasized:

- The legal aspect refers to the state of breaching or not the intellectual property rights of the initial invention;
- The creative attribute refers to the ability of the imitator/the potential of the imitation to creatively utilize an improved, simplified or repositioned innovation without breaching any intellectual rights of the initial innovation;
- The disruptive aspect refers to the capacity of an illicit imitation to affect the initial innovation in its economic valorization on the market.

In order to understand the impact and potential for further development of licit and creative imitation, versus illicit and disruptive imitation, an empirical research was performed on two representative forms of each imitation categories, respectively on cross-industry innovation and counterfeiting, with the aim of establishing an analytical view of the associated drivers and/or risk factors.

RESEARCH METHODOLOGY

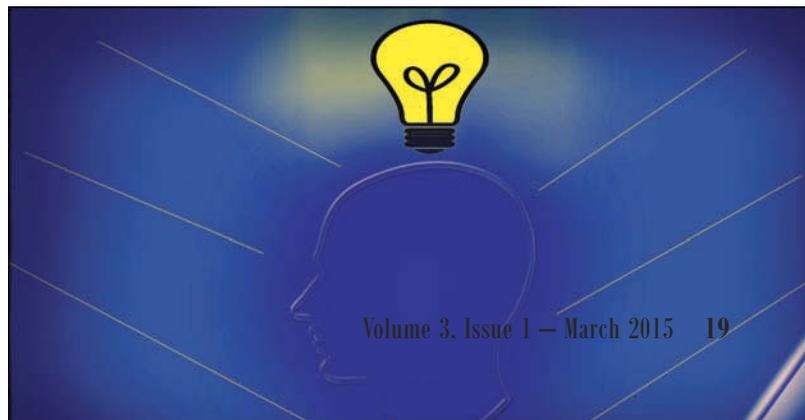
The methodology employs tools of secondary research, and consists of a comparative analysis of two significant forms

of imitation, i.e. cross-industry innovation vs. counterfeits, the two being opposite in terms of creativity and legality. Various online sources, i.e. secondary sources, were researched, and the findings were interpreted with the purpose of determining the potential of creative and licit imitation over the illicit and disruptive imitation by establishing an analytical overview of the associated drivers and/or risk factors. Still, other secondary sources (i.e. literature and previously conducted research studies) were researched to identify said drivers and/or risk factors empirically indicating that cross-industry innovation promises stronger economic impact and potential for further development over counterfeiting.

RESULTS AND DISCUSSION

When distinguishing between licit and creative imitation, versus illicit and disruptive imitation, the following characteristics need to be emphasized:

- The legal aspect refers to the state of breaching or not the intellectual property rights of the initial invention;
- The creative attribute refers to the ability of the imitator/the potential of the imitation to creatively utilize an improved, simplified or repositioned innovation without breaching any intellectual rights of the initial innovation;
- The disruptive aspect refers to the capacity of an illicit imitation to affect the initial innovation in its economic valorization on the market.





In order to understand the impact and potential for further development of licit and creative imitation versus illicit and disruptive imitation an empirical search was performed on two representative forms of each said imitation categories, respectively on cross-industry innovation and counterfeiting, thus establishing an analytical view of the associated drivers and/or risk factors.

Cross-industry innovation takes place when „...already existing solutions from other industries are creatively imitates and retranslates to meet the needs of the company’s current market or products. Such solutions can be technologies, patents, specific knowledge, capabilities, business processes, general principles, or whole business models” (Enkel et al, 2010). Considering that most of innovation is expressed by an imitative behavior, and by new use or combination of existing knowledge from various domains, it can be argued that cross-industry innovation represents a significant component of the licit and creative imitation.

On the other hand, counterfeiting is „used to describe a range of illicit activities linked to intellectual property rights (IPR) infringement“, taking place when product pirates are placed on the market (OECD, 2007). Considering that counterfeiting affects all forms of intellectual property, it can be argued that it represents a significant component of the illicit and disruptive imitation.

In order to better understand the complexity of cross-industry innovation and its unlimited ability to reach across industries, Table 1 presents various innovations which were successfully transferred and readjusted from the initial industry where they were first developed to become new solutions in different domains or industries. To this end, important features such as source industry and adoptive industry and the transformation path of the initial innovation into a new solution were identified and highlighted by researching various online sources comprising relevant examples of cross-industry innovation.

Table 1 clearly shows the unlimited potential of innovation to cross over sectors and industries which apparently do not employ the same means and solutions. Furthermore, extra benefits of the innovation are exploited when crossing the initial industry, providing also a source of both incremental and radical innovation. By overcoming the industrial barriers, cross-industry innovation stimulates a global perspective, thus accelerating progress. While an innovation is maturing in one specific sector or industry, same innovation can be capitalized by transferring it and adjusting it to work as a new solution for another sector or industry. Considering the growing competitiveness of the global economy, the above attributes of cross-industry innovation allow for substantial capitalization

Table 1 – *Examples of cross-industry innovation*
(Bader et al, 2013; Natural Edge Project, 2006; Ask Nature, 2014;
Cross Industry Innovation, 2014; Biomimicry Institute, 2014)

SOURCE INDUSTRY	SOLUTION DESCRIPTION	ADOPTIVE INDUSTRY	RESULTED NEW SOLUTION
Biology	Brain reverse engineering in order to create artificial intelligence	IT	Intelligent machines
Constructions	Materials, e.g. cement, Teflon	Medicine	Bone cement, Teflon-covered implants
Astronomy	Liquid cooled outer space clothing	Medicine	Medical treatment for burned victims
Eco-energy	Asphalt and concrete surface replacement with solar panels	Road Transportation	Solar roadways
Sports-Golf	Golf balls	Sports-Athletics	Superlight track suit
Electronics/Instruments manufacturing	Guts from music box	Chemistry	Super-precision chemical reaction controller
Agriculture	Pomegranate seeds placement	Electronics	Design for clustering silicon particles in lithium ion batteries
Entertainment	Experience design for children	Medicine	“Adventure Series” MRI and CT scanner for children
Biology	Mechanism adopted by birds, bats, insects and snakes	Robotics	Flying robots
Aeronautics	Airplane's landing gear	Consumer Goods Manufacturing	Foldable baby pram
Biology	Ventilation design from termite mounds	Construction	Passive-cooling structure (variable thickness walls and light coloured paints for heat absorption)

of innovations which are now facing a faster maturity growing speed. Still, instruments such as technology transfer, intellectual property rights valorization, cooperation, technology diffusion, etc. are being exploited where possible or necessary. Table 1 also highlights the importance of knowledge and innovation in nature study (e.g. biology) which shows the biggest potential for cross-industry innovation and progress. It needs to be emphasized that cross-industry innovation involves products; technologies, organizational processes and marketing processes.

At the opposite end of the imitative behavior, we find counterfeiting as illicit and disruptive imitation. In a study measuring the economic impact of counterfeiting, the Organisation for Economic Co-Operation and Development has highlighted the fact that counterfeiters and pirates target products with high profit margins, while considering the risks of detection, the potential penalties, the size of the markets that could be exploited and the technological and logistical challenges in producing and distributing products (OECD, 2007).

Havocscope, which is an online available database permanently collecting data on the global illicit market, is providing a comprehensive view of the counterfeiting around the world. Figure 2 depicts such

data, respectively the ranking of counterfeit goods by losses, allowing thus for an understanding of the type of industries most affected by counterfeiting and of the economic impact of this phenomenon.

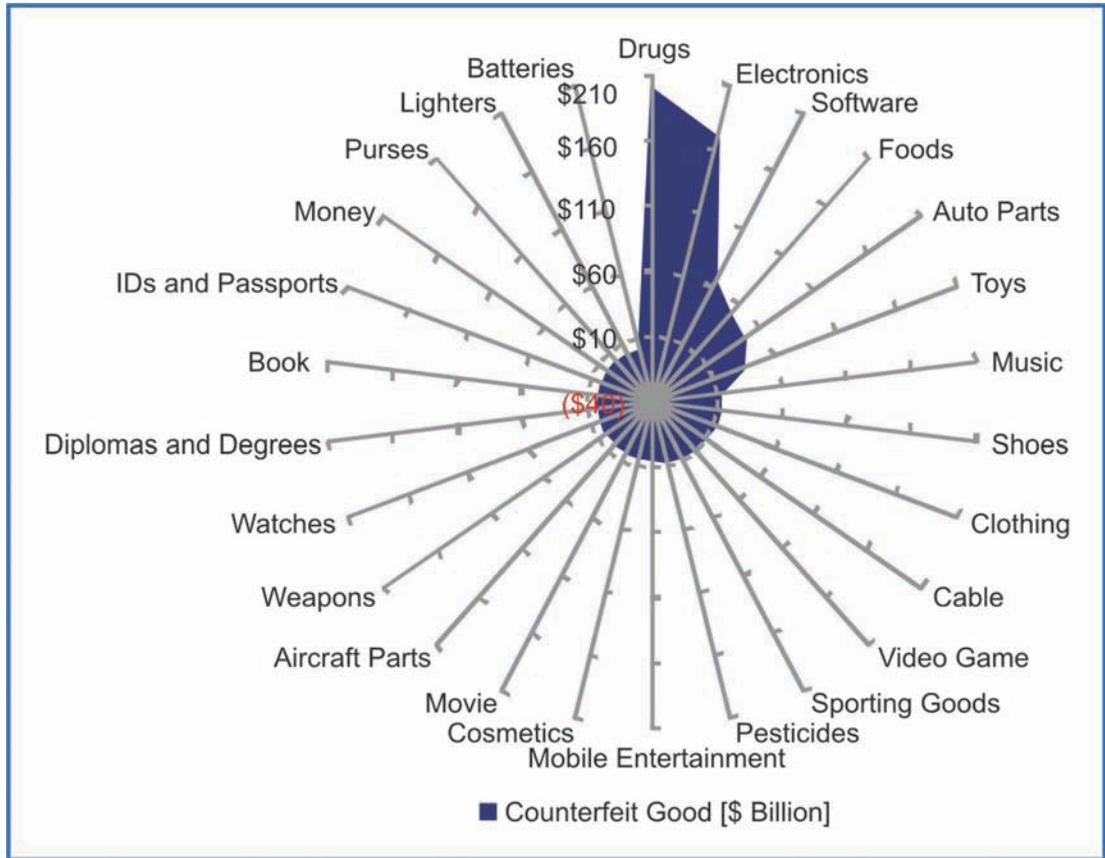


Figure 2 – *Type and ranking of counterfeit goods by losses (Havocscope Global Black Market Information, 2014)*

As illustrated in Figure 2, the counterfeiting takes place in any industry where products can be counterfeited for satisfactory profits, covering industries from medicine to military, from clothing to money manufacturing and others. It can be seen that not only products with luxury items categories are being counterfeited, but also everyday products. The economic impact of the counterfeiting, respectively the losses it generates, shows the biggest loss in the pharmaceutical industry, i.e.

an estimated \$200 billion financial loss is caused globally by counterfeited drugs, followed by the electronics industry, where counterfeited electronics generate global losses of \$169 billion, and the IT industry where counterfeited software generates global losses of \$163 billion. A dramatic financial loss is noted in the case of counterfeited foods, i.e. \$49 billion, highlighting the dangerous feature of counterfeiting, present also in other goods sectors such as counterfeited drugs, cosmetics, pesticides, etc.

The ranking puts counterfeited lighters and batteries in the last two positions, yet with significant losses, respectively \$42 million and \$23 million.

To help complete the view on counterfeiting, Figure 3 shows the losses to counterfeit goods by country.

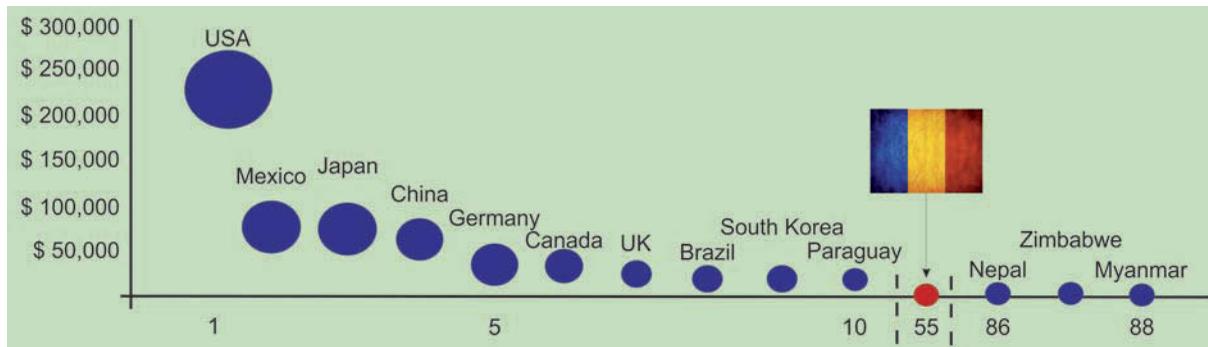


Figure 3 – Losses to counterfeit goods by country
(Havocscope Global Black Market Information, 2014)

According to Havocscope database, Figure 3 puts the United States at the top of losses to counterfeit goods, i.e. \$225 billion, followed at a significant distance by Mexico and Japan with \$75 billion each. Romania ranks in the 51 position out of a total of 88 ranked countries, with losses to counterfeiting of \$236 million. Counterfeiting affects also the most underdeveloped countries in the world, such as Zimbabwe or Myanmar with losses of \$4 million each. Figure 3 provides understanding of the magnitude of counterfeiting which is present in most economies regardless of their development stage. Additional to the information provided by Havocscope database, the Organisation for Economic Co-Operation and Development highlights the variation in the consumption patterns (OECD, 2007). Accordingly, it identifies the Middle East as the principal market for counterfeit automotive parts, followed by Europe and North America, while most counterfeit pharmaceutical products are sold in Africa. Still, counterfeits such as electrical components, food and household products are being marketed worldwide, yet Africa, Asia and

Latin America are identified as key markets. Counterfeited music, movies and software cover the global market being significant in all economies. While having disruptive effect on innovation, counterfeiting is estimated to reach a global trade value of \$1.77 trillion in 2015, according to the International AntiCounterfeiting Coalition (The International AntiCounterfeiting Coalition, 2010).

The impact and potential for further development of licit and creative imitation versus illicit and disruptive imitation can be foreseen as a result of the empirical research above on the two representative forms of each said imitation categories, respectively on cross-industry innovation and counterfeits, and expressed through an analytical view of the identified associated drivers and/or risk factors.

Drivers and/or risk factors associated with cross-industry innovation and counterfeiting are indicating that cross-industry innovation promises stronger economic impact on innovation and potential for further development over counterfeiting, as further detailed:

● Industry

Cross industry innovation

- Creates added value to each industry where it is transferred;
- It shows a multi-industrial applicability (i.e. one innovation can have effect on a number of segments) or an industrial chain applicability (i.e. an innovation can have effect on one industry and afterwards adapted to a different industry and so forth);
- It promotes co-operation between industries;
- It capitalizes on the adapted solution even though the initial innovation has already matured in the previous sector/s where it has been initially benefited from;
- Creativity of innovative markets and the collaboration between industries encourage the rate of cross-industry innovation.

Counterfeiting

- The applicability is limited to specific industry goods; however, there is development potential due to the segment diversity;
- It can weaken industry sectors if not counteracted, determining the growth of the black economy;
- It has a closed approach due to potential penalties caused by intellectual property infringement;
- It depends on the rate of innovation being discouraged by fast innovative markets.
- It can encounter technological limitation in manufacturing the counterfeit products and logistical difficulties in distributing it.

● Demand

Cross industry innovation

- Consumer always buys knowingly the product resulted from cross-industry innovation: he has access to the information on the initial solution as it was already available on the market but in a different industry and different product;
- Consumer values the solution obtained through cross-industry innovation as it is a mean for a smart and improved life-style;

- The demand has no limitation on any market as long as the cross-industry innovation provides an applicable solution.

Counterfeiting

- The demand depends on the consumer's profile in a particular market, respectively on the sophistication of the market (e.g. the consumer is either cheated into believing that he is buying a genuine product or he is aware of the counterfeit, yet willing to buy due to low cost, apparent efficient imitation of the original product, etc.);
- The demand is bigger in less developed economies than in the developed ones;
- The demand depends on the strength of the intellectual property system in a particular market and on how it is perceived by the consumer.

● Research & Development

Cross industry innovation

- R&D efforts require resources and a wide range of collaboration with experts from a broad spectrum of domains;
- R&D activities can result in shifted directions of research due to creative thinking.

Counterfeiting

- Counterfeiting is mostly focused on reverse engineering and not on creative R&D;
- There is a dependency relationship between the costs of imitation and the cost of the innovation;
- The creativity is limited to the replication of the initial innovation.

● Employment

Cross industry innovation

- Generates an increasing number of jobs through diversification and novelty of adapted solutions;
- Upholds the employee's overall working conditions as the health and safety working compliance and enforcement regulatory measures are ensured.

Counterfeiting

- Illicit activities provide clandestine jobs for workers forced by various social factors to accept poor work conditions;
- Employees' discontent towards unethical and unsafe working conditions is in most cases disregarded.

● **Intellectual Property Rights (IPRs)***Cross industry innovation*

- If situation requires so, licenses to use the initial innovation are being requested;
- Determines the progress of incremental innovation in the case where the initial innovation is being creatively adapted and potentially improved or redesigned;
- Strong IPRs promote and support innovation.

Counterfeiting

- The infringement of IPRs always takes place;
- The innovation incurs losses due to the market share occupied by counterfeiting;
- Strong IPRs discourage the counterfeiting in the protected markets;
- IPRs generate penalties for the counterfeiters if discovered by authorities and possibly shutdown of the illicit activities.

● **Return on Investment (ROI)***Cross industry innovation*

- Cross industry innovation, as in the case of all innovations, develops better on markets with strong legal and economic systems, including the intellectual property system;
- It has the advantage of starting from an already successful initial solution based on R&D activities; thus requiring limited further investment when adapted to work in a different industry;
- The adaptation process can provide solutions for multiple applications in various sectors or industries generating a faster ROI.

Counterfeiting

- Low initial investment and high ROI due to the success of the counterfeited goods;

- Counterfeiting targets goods with high profit margins and also
- High penalties and possible business shutdown if exposed by authorities can generate the lost of investment and other losses;
- Counterfeiting supports the growth of the underground economy, while expending on other goods;
- It rarely follows a comprehensive business development due to the clandestine and risky nature of activities.

Innovation, fully comprising its both dimensions (i.e. „new to the world” and „imitative behavior”), relies on common drivers such as:

- Availability of knowledge;
- Foreign direct investment;
- Efficient national, regional, sectoral/ technological innovation systems;
- Global diffusion of innovation;
- Creative, capable and mobile human factor;
- Team work; etc.

Essential to the innovation process are the collective efforts of the human factor and the global availability of information and diffusion of innovation. Considering the mentioned attributes and the more present and complex national and regional/ international policies for cooperation regardless of culture and borders (e.g. the EU encourages the multiculturalism of its Member States and supports through policies the cooperation of, but not limited to, scientists and innovators with the purpose of reaching a high economic growth in the upcoming years), it can be argued that innovation is to a significant extent the result of multiculturalism. In support of multiculturalism being a feature of innovation, the Global Innovation Index 2014 (GII) can be provided as argument (Cornell University et al, 2014; The Global Innovation Index Rankings, 2014).

The GII, being co-published by Cornell University, INSEAD (The Business School for the World) and WIPO (World Intellectual Property Organisation) and audited and validated by the European Commission Joint Research Centre, represents an innovation index ranking the world economies according to their innovation capabilities and results. The GII 2014 focuses on the human factor and cooperation as key elements of the innovation process. Education and life-long learning while upholding the value of skills acquiring in an open cooperation environment allow for

strong innovation capabilities of the human factor. Figure 4 was created by authors to illustrate the ranking provided by the GII 2014, i.e. out of 143 ranked countries, first 10 positions were highlighted, including the 55th position in the ranking occupied by Romania and the final 3 positions ending the ranking. Furthermore, the indicators employed by the GII 2014 revealed the innovation capabilities and results of each country, but also the weaknesses (improvement targets) each country needs to work on, as shown in Figure 4.

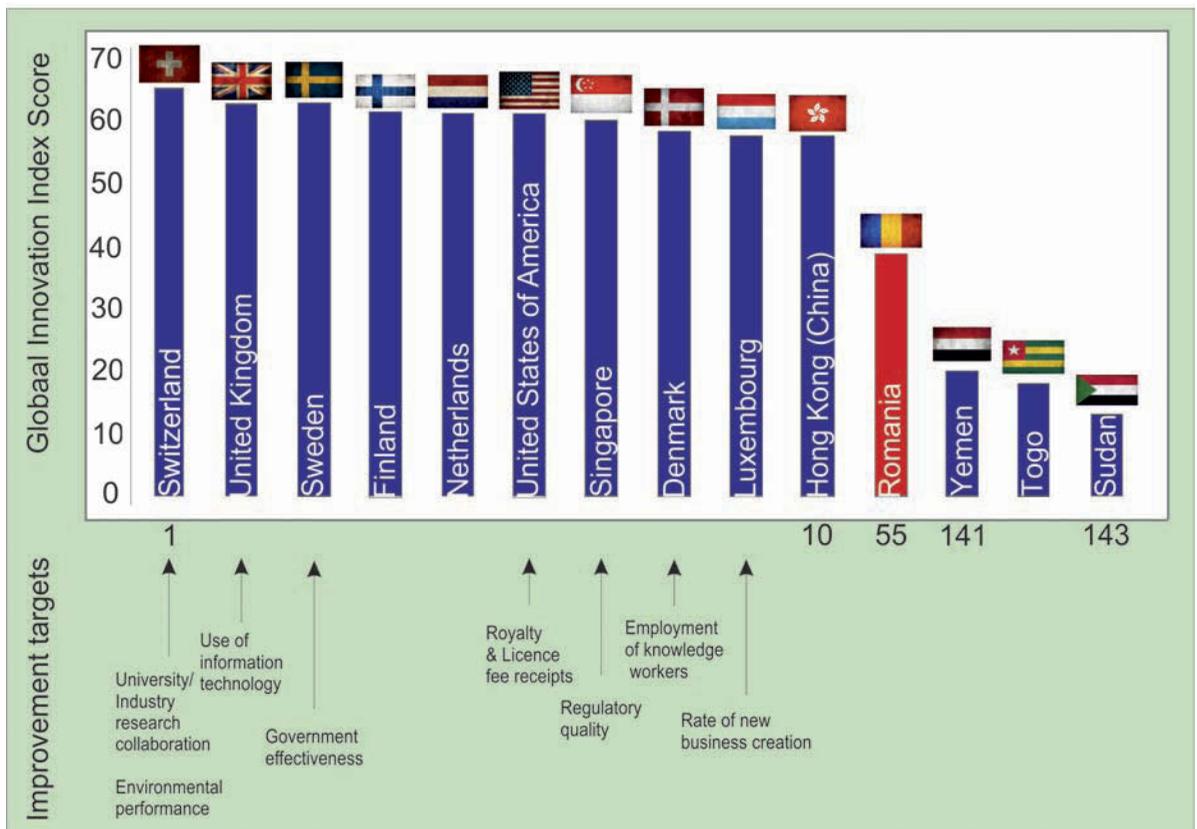


Figure 4 – The Global Innovation Index 2014
 (Cornell University et al, 2014; The Global Innovation Index Rankings, 2014)

The top rankings of GII 2014, as depicted in Figure 4, are Switzerland, United Kingdom and Sweden, all being EU Member States. Emerging from a multicultural

European Union endorsing cooperative innovation as the forthcoming solution for economic development, the aforementioned three Member States are outranking all

other economies at global level, thus revealing the positive effects of good common policies.

Exploring imitation allows for understanding both its innovative and disruptive potential. Furthermore, considering that the diffusion of innovation implies its adaptation by other entities on the market through an imitative behavior within the boundaries of competitiveness and intellectual property protection, classifying imitation a formal component of innovation is long overdue.

Conclusions

When referring to all followers of an initial innovation, which are either legally or illegally benefiting from it, their behavior is to a great extent imitative. Accordingly, it is the approach the imitator takes when benefiting from the creation of the initial innovator that should be clearly categorized, and not necessarily his behavior.

Thus, the imitation can be categorized as licit or illicit and as creative or disruptive to the initial innovation.

The analytical view of the drivers and/or risk factors associated with cross-industry and counterfeiting indicates that cross-industry innovation promises stronger and sustainable economic impact and potential for further development over counterfeiting. Still, cross-industry innovation indicates potential in finding solutions for diminishing the presence and impact of counterfeiting.

Innovation, fully comprising its both dimensions (i.e. „new to the world” and



„imitative behavior”), is to a significant extent the result of multiculturalism due to attributes such as collective efforts of the human factor and the global availability of information and diffusion of innovation.

Innovation and imitation should not be conceptualized or studied separately; moreover, their comprehensive analysis should be performed exclusively by comparing and assimilating imitation as a component of the innovation, especially considering that the literature make no clear and generally accepted distinction between the two.

Acknowledgements

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Management Information System Flexibility

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Abstract

The turbulent organization environment enforces management changes, whose in turn affect MIS transitions. Without these modifications, efficiency of management processes and procedures may dramatically decrease. The phenomenon of MIS flexibility is not well and completely developed. Based on prior literature we propose a deepend and more detailed analysis of basic MIS flexibility protection aspects. First, we discuss MIS flexibility concept, presenting his classic model. Next we analyse general principles of MIS flexibility management. We concentrate on strategic MIS flexibility problems, seldom presented in literature. Then we focus on selected specific flexibility problems, which may occur in network organizations.

Keywords: MIS flexibility, network organizations, application software, management information system

INTRODUCTION

Modern concepts of business emphasize that company information and its management are very important. The main target is to make the Management of Information System Area (MIS). Information Systems (IS) (as part of enterprise IS/IT environment) have the potential of being an opportunity for each organization – a strategic asset, a tool for collecting strategic information regarding the development of new products and services, new markets, organization and management, communication and establishing distribution channels to customers and suppliers, a tool for raising productivity, effectiveness,

quality, and flexibility of production and services. IS are vital in the context of the





globalization and the increasing market dynamics, the shortening of innovation cycles, the growing intensity of the competition struggle, the dynamics and sophistication of intra- and inter- company processes and decision-making. The progress in the field is changing IS in a radical way, broadening their user potential.

Contemporary enterprises must dynamically act and react, currently adjusting their policies, methods and procedures. The turbulent organization environment enforces management changes, which in turn affect IS transitions. Without these IS modifications, efficiency of management processes and procedures may dramatically decrease.

MIS should be examined from an enterprise perspective. Usually this is a complex set of different modules (applications, toolkits and tools), which are functionally and technologically specialized. These elements may be interrelated or integrated. They may: work on different software platforms, use inconsistent technologies, have separate architectures and integration rules, be separately managed (dedicated domain administrators).

Analyzed changes may result in addition, modification, deletion, integration or disintegration of elements, their parts or groups. Implemented changes may be propagated, then it usually occurs a chain of various coupled MIS elements modifications.

While the literature has recognized the importance of the analyzed area, the phenomenon of MIS flexibility is not well developed. Studied research papers embrace selected aspects of the identified problem, focusing on flexibility ideas, forms, symptoms, their interrelations and metrics. More advanced studies are concerned to fragmentary questions, particularly related to methods and techniques for obtaining application and increasing software flexibility.

Taking into account the existing literature, the authors propose a deep and more detailed analysis of basic MIS flexibility protection aspects. First, we discuss MIS flexibility concept, presenting his classic framework. Next we analyse general principles of MIS flexibility management. We concentrate on strategic MIS flexibility problems, seldom presented in literature. Then we focus on selected specific flexibility problems which may occur in a network organization.

MIS FLEXIBILITY CONCEPT

Flexibility is a very general and intuitive term. Universally the flexibility is treated as ability to changes resulted of surroundings extortions. According to the literature review (Golden, 2000, p. 378) we ascertain that flexibility:

- Is a multidimensional and polymorphous category;
- Has different meanings in various contexts;

- May be differently applied to individual system elements.

We propose as preliminary concept definition: *MIS flexibility is the **capacity to adapt** MIS solutions to various organizational goals, requirements and limits. It is a complex MIS property, and must be multidimensionally evaluated.*

In order to explain the essence of MIS flexibility we use the analogy to organizational flexibility, described by De Leeuw (1996). Figure 1 presents a basic model of

MIS flexibility. Based on systems theory of control, the flexibility problem is presented as a game between the controlling organ (CO – in this context, the Flexibility Manager), and the target system (TS – in this context MIS). The desired activity of the target system describes goals collection (\mathbf{G}); only certain outputs (\mathbf{y}) within \mathbf{G} are acceptable. Environmental disturbances (\mathbf{e}) will be limited to influences within a class \mathbf{E} . Flexibility is always relative to the goal strived for, and to the environmental circumstances.

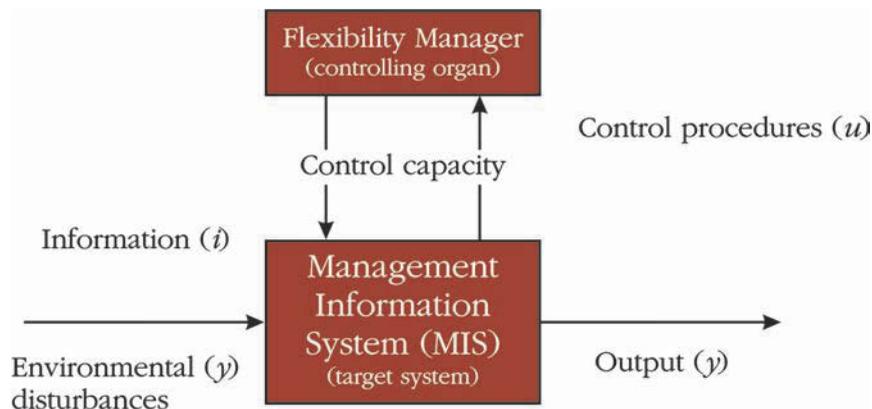


Figure 1 – A basic model of MIS flexibility. Source: Adapted from De Leeuw (2000)

The factor determining the behavior of a target system is MIS controllability – the possibility of reaching the goals from \mathbf{G} set, irrespective of disturbances \mathbf{e} from the environment \mathbf{E} . The target system is controllable if for every \mathbf{e} there is a control procedure \mathbf{u} from the available set $\mathbf{D}(\mathbf{u})$ so that the output \mathbf{y} belongs to a goal set \mathbf{G} . Extended version of this factor will take into account additional elements:

- time of change (MIS state transition);
- set of beginning states \mathbf{S} , from which a desired state can be reached;
- specified set of internal requirements and limits of MIS change implementation.

CO activity describes the control capacity – the ability of Flexibility Manager to get the maximum of TS – really using a system to its full controllability potential.

The MIS flexibility will be our principal mechanism for optimal system maintenance and development. The process for his control must be suitable and organized. For sustainable MIS development we need efficient MIS flexibility management.

MIS FLEXIBILITY MANAGEMENT FOUNDATIONS

Literature studies and active observation of current IT practice confirm that current

proflexibility efforts are chaotic and fragmentary. Usually they use an intuition and experiences of individual IS decision-makers (Sikorski, 2000, Skwarnik, 2002, 2003). But it is necessary a conscious, active and organized impact on enterprise MIS flexibility. We postulate an activity improvement, which should substantially modernize the present flexibility approach. There will be implemented two general directives of organized operation mode:

1. complete preparation for MIS change;
2. efficient MIS change execution.

In such a context, MIS flexibility realization must consist two general phases – management and execution. Management will be the superstructure compatible with flexibility execution.

This execution should be examined as a series of adjustment (changing) processes realized at different times, on different system elements by different participants. System adjustment is usually treated as an application of software change. But this

may be a more complex transformation of MIS as technical – social system. In this situation, an adjustment process won't be a chaotic, unprepared activity. We have to plan, organize, monitor, evaluate and – in necessary cases – correct any MIS modification.

For precise and detailed flexibility management we propose the usage of a specific framework. This framework contains extended an MIS flexibility environment model. The proposed model – based on the MIS flexibility concept (Figure 1) – focuses on individual MIS adjustment process. Every process:

1. Has specified goals – e.g. the transition from the initial to the desired system state;
2. Concerns to concrete system elements;
3. Consists of several steps, which demand adequate procedures; those procedures in turn:
 - use adequate methods and specialized flexibility skills;
 - affect end user skills;
 - utilize built-in MIS flexibility resources;
 - may be supported by external IT personnel.

Every adjustment process can be divided in 4 general steps:

1. Problem definition/change initiation;
2. Generation of potential procedural variants;
3. Choice of the optimal solution;
4. Solution implementation and testing.

In Figure 2 we present basic elements of adjustment process environment. The UML notation enable their relations demonstration.

As other management processes, the discussed activity will be divided into 3 essential phases. Decisions must be made at three distinct levels: strategic, tactical and operational. (Shi and Daniels 2003, p. 415).





strategy definition process. In actual models of IS/IT management strategy the decisions about MIS flexibility environment (when any) are distributed between diverse dimensions and areas of IS creation and implementation strategy. For example, system flexibility related IS/ IT strategy dimensions identified by Ball *et al.*, (Ball *et al.*, 2003) will probably be at least: IS/IT market, IS application and solutions delivery, IS implementation, IS/IT operations and post – implementation service. The consistency and completeness of these separated, fragmentary and unordered flexibility propositions and outlines is very disputable (Skwarnik, 2003). Additionally, the quality of MIS flexibility decisions may be decreased if general and subordinated strategies are separately prepared for diverse SBU (Strategic Business Unit).

As it was shown in there exists correlation between organization flexibility and MIS flexibility (Golden, 2004), Byrd, 2001, Gebauer, 2005). It will be analysed the impact of business change prediction and evaluation effects and change management standards and procedures on MIS flexibility processes During a corporate strategy planning phase. Actually in observed IT practice there are some weakness of their primary decision processes:

- improper use of IS/ IT, lack of the long-term approach to making decisions about IS/ IT;

- development in the full context of strategic management;
- lack of interest and support on the part of top-management during realization of IS/IT projects, poor communication with experts;
- failure to involve direct users, failure to exploit the opportunities/potential to the full;
- insufficient attention to „human factors”.

In our opinion, the MIS flexibility concept will be separately stated and documented during IS/ IT strategy preparation phase. It is necessary to build a consistent, long-term MIS flexibility strategy. General decisions will be made on basis of following strategic information:

- MIS implementation method;
- IT personnel functions and capabilities;
- Basic information and communication technologies (ICT);
- Target MIS functionality and structure (in context on long – term planned enterprise improvement directions – particularly business vision and model change, organizational culture evolution, market repositioning);
- Technologies and tools for MIS construction, design and maintenance (especially usage of Component based Development technologies, advanced CASE tools, EAI (Enterprise Application Integration) technologies, methods and toolkits for MIS monitoring (Linthicum, 1999; Sawyer, 2000; Fan *et al.*, 2000).

As an outline for MIS flexibility strategy presentation we propose a simple enumerative model, which is a matrix of basic elements and description forms. Among MIS adjustment process elements, presented on Figure 2, one must appreciate as basic components: resources, tools, skills, methods.

As different strategic decision description forms we propose: standard, architecture, policy and principles, plans.

In Table 1 framework for MIS flexibility strategy description is presented. The importance of presented elements may be evaluated as high, moderate (medium) or low; naturally high elements are essential for MIS flexibility strategy.

Any of presented elements of flexibility environment is independent, all of them must be prepared intentionally and used by flexibility actors, generally defined here as flexibility manager.

Table 1 – *MIS flexibility strategy framework*

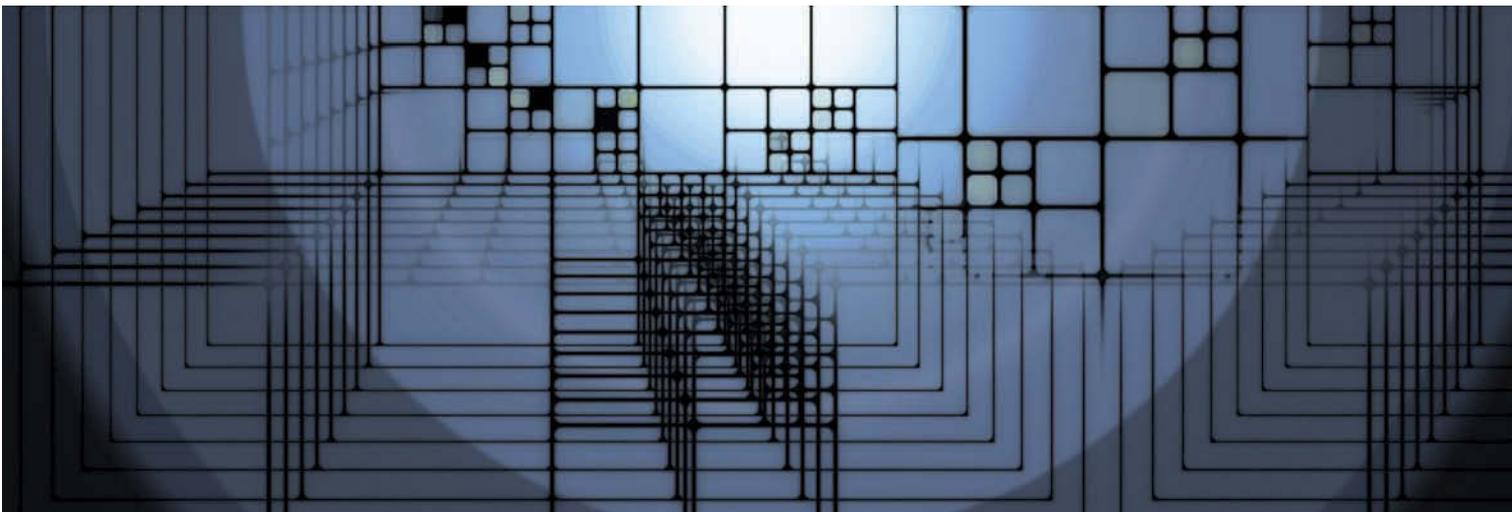
Process component Decision form	Resources	Tools	Skills	Methods
Standard	High	High	Moderate	High
Architecture	High	Moderate	Low	Low
Policy	Moderate	Moderate	High	Moderate
Plan	Moderate	High	High	Low

Additional aspects of system flexibility

MIS flexibility management problem is relatively homogenous, when we address it for single, ordered business unit. Even if this is functionally and geographically distributed organization, we may effectively control MIS changes. The book of Perechuda (2005) presents a (relatively) new organization form - network organization (also called inter-organizational network or inter-firm network). This organization

type has the following attributes:

- Activity coordination and fit of procedures, technologies and infrastructure;
- Common decision making about resources allocation;
- Periodic collaboration and long-term cooperation (common project realization oriented);
- Extension of strategic choice capacities;
- Intensive information exchange with network partners.





There are two basic versions of the presented organization:

- Symmetric network, in which a firm – integrator doesn't exist, and an operating strategy is commonly stated;
- Asymmetric network, in which exists dominant object (firm – integrator), enforcing an operating strategy and coordinating co-operation.

When network organizations are stable, MIS flexibility management may be performed with rules presented above. But they are insufficient for unstable networks. Network configuration changes (particularly a new firm – integrator) or frequent functional network reorientation may cause deep and sudden organization management paradigms, forms and procedures. The dynamic transformations of the network organizations make their IS/IT management really difficult. In this situation the following basic effects should be anticipated:

- Coordination difficulties during MIS change decision making,
- Decrease time limits of MIS changes execution,
- Increased complexity of MIS change chains (external transition propagation).

During flexibility strategy definition the following questions should be asked (and scenarios):

- What to do when the company leaves the network?
- What to do when new company joins the network?
- What is the range of MIS modifications when the company modifies its role in a network (particularly if this company becomes a integrator firm) and what are the modifications to the nature of network activity?

For MIS structure and function protection in this dynamic situation we have to:

- develop flexibility methods, resources and tools, responding to negative effects presented above;
- MIS flexibility environment standardization for selected object roles in network and functionally domains;
- Individual system implementation, tailored for flexibility management in specific network organization;
- Form, method and content unification in MIS flexibility communication;
- Adjustment process knowledge management (particularly distribution).

Concluding remarks

In this paper we focus on the role and importance of information system flexibility management. As a problem outline we propose some basic ideas for practical flexibility approach – framework for MIS adjustment processes description, and a

model for flexibility strategy presentation. Only the outline is presented, which should be further detailed and operationalized. We are going to construct and implement tools for documenting the flexibility strategy. Framework for MIS adjustment description may be used to really performed processes monitoring and analysis.

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Trends in the Automotive Industry

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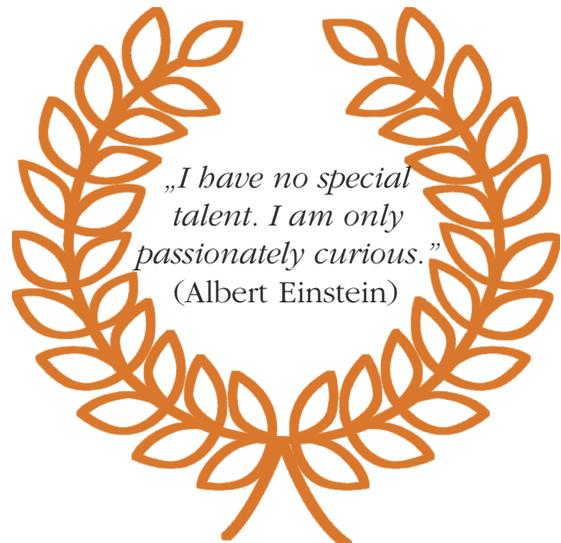
Abstract

The last century can be associated with the triumph of the automobile industry. At the beginning of the 21st century the automotive industry has experienced one of the largest shifts in automotive history. The new CO₂ regulations on global level have determined the automotive industry to adopt new and original technologies faster than anticipated. The emerging tendency of car sharing in larger cities added to the media information related to the negative environmental effects of car mobility generate concerns that customers were seeking a replacement to the traditional, individual car ownership. The automotive industry will face challenging years ahead taking into consideration the shifting paradigm in auto-mobility. In this context, the study aims to provide o general perspective of the trends in the automotive sector.

Keywords: e-mobility, energy-efficiency, mobility-as-a-service

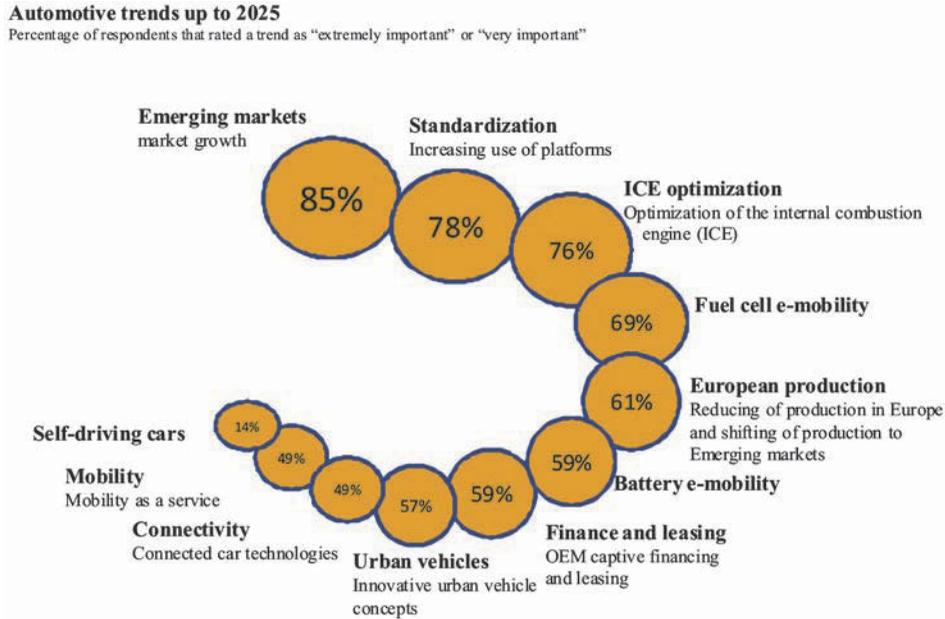
1. INTRODUCTION

There are many key trends which will impact automotive manufacturers, wholesalers, retailers, customers and drivers over the next years. According to KPMG's 2014 Global Automotive Executive Survey, the rising economic power of the emerging markets (especially the so called BRIC states – Brazil, Russia, India and China) remains the central growth force for the next 10 years, the industry become more global and automakers are obliged to use flexible, modular platforms in order to adapt to the new, changing preferences of the customers and to find resources to invest in powertrain technology imposed by global environmental regulations. In



the same time, the macro-scale factors responsible for the success of the automobile industry in the traditional, developed countries are moving now in the opposite direction. A socio-technical tran-

sition perspective stresses how declining industrial influence, stagnating wages together with a changing demographic landscape are influencing the automotive industry (Figure 1):



Source: KPMG's Global Automotive Executive Survey 2014

Figure 1 – Automotive trends up to 2025

If we want to analyze potential future trends, we can observe the roadmaps of some of the OEM's. The next image shows

the social economic drivers and technology roadmap of Daimler:



Source: Mercedes-Benz International Website

Figure 2 – Daimler's Technology Portfolio for a Sustainable Mobility

2. INFLUENTIAL FACTORS IN THE AUTOMOTIVE INDUSTRY

The automotive industry is adapting to the new fast-changing competitive landscape. CO₂ emissions are a major concern due to the important pollution, combined with rising fuel prices determine that ICE downsizing is becoming a higher priority as electric battery technology has so far failed to offer a reasonable cost-effective alternative. Digitalization has a powerful impact on the vehicles, these becoming more dependent upon software. Silicon Valley Innovation will dominate every industry. Self-driving cars become a probability. The impact of this trend is that it will also shift control from any particular industry – insurance, healthcare, banking, automotive – to the technology companies.

Also the manufacturing techniques are in a rapid change process. Modularization and platform technology reduce the cost and time of assembly, rolling out models that reflect also changing customer needs and tastes. What will be the future of retail? Dealers are trying to transform their business models to manage the transition to online buying and to find opportunities where they can build margins. Urbanization determines changes in the road infrastructure and influences not only the dimensions of new vehicles but a new perspective on car ownership. Mobility as a service is a reality. The BRIC states include a larger part of global market and the decision makers in the automotive field are searching ways to expand and new strategic partnerships (Figure 3):

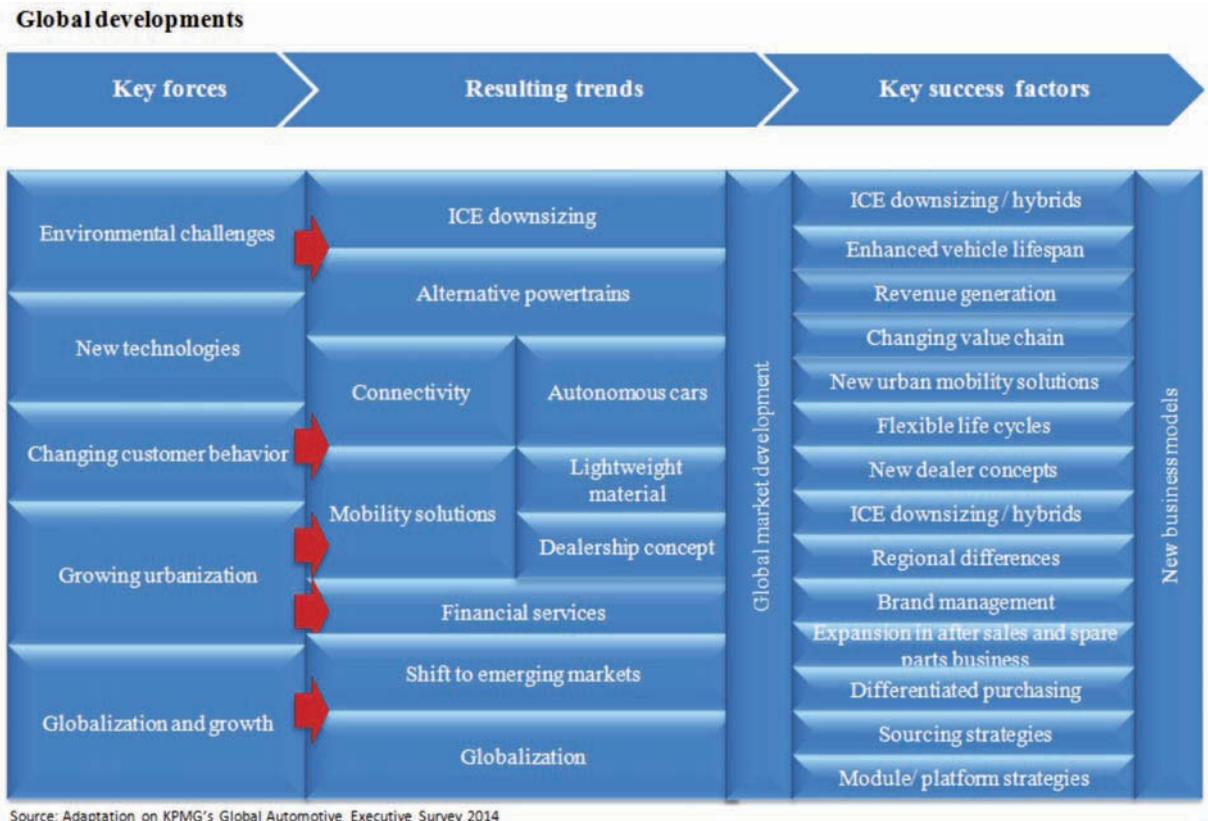


Figure 3 – Global development in the automotive industry

The future belongs to those who are fast. Tech companies and tech based innovators are the winners. And the key issue is speed. Apple, for example, could innovate much faster with new credit card financial systems than any bank could. Google and the tests of automatic car navigation technology will certainly evolve faster than any auto company in Detroit, Japan or Germany could. Leaders in those organizations will learn to focus on speed as a metric, and fast-innovation as a core capability.

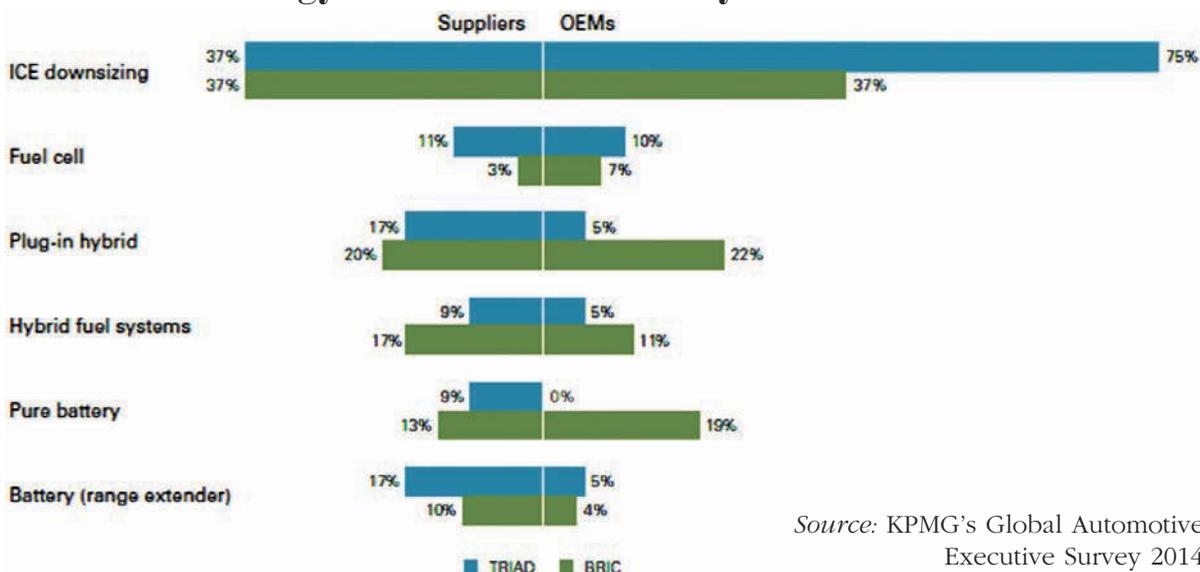
3. TECHNOLOGY

The current engine and transmission line up is changing rapidly: hybridization, electrification, downsizing, down speeding are just a couple of technology paths being introduced in the last decade. This leads to parallel development of used technologies. The problem with this multiple engineering tracks is that it is straining resources at the OEM's and suppliers. The economic crisis that struck the world

in 2008 and from which we are slowly recovering, did not help the financial situation in the automotive industry either. It is expected that this differentiation will continue for the next decade. One primary driver for the increase in development and differentiation in the powertrain area is legislation. Both in the truck industry and the passenger car industry technical challenges are driven by legislation: legislation in emissions of hydrocarbons (THC), Carbon monoxide (CO), Carbon dioxide (CO₂ = linked to fuel consumption) and Nitro oxides (NO_x) and Particular Mass (Pm) being either voluntary or enforced are pushing the technology envelop.

In the chart below we can observe that the competition to produce cleaner, more efficient vehicles have taken another turn, as optimization of the traditional ICE remains the clear priority for automotive companies, BRIC OEMs (Original Equipment Manufacturers) are more determined to invest in alternate power technologies than their TRIAD (USA, Canada, Mexico, Europe, Asia Pacific) counterparts.

Areas for technology investment in the next years



Source: KPMG's Global Automotive Executive Survey 2014

Figure 4 – Areas for technology investment



It is an important difference between TRIAD and BRIC OEMs: the former intend to invest in ICE downsizing, whereas the latter are oriented versus various forms of e-mobility – plug-in hybrids and pure battery electrified vehicles. The BRIC OEMs have a more balanced portfolio, planning to invest across all e-technologies. This trend could signal a shift in technological leadership. Plug-in hybrids are forecast to be the leading e-car, with fuel cell-powered models growing in popularity.

Materials production can aid the energy-efficiency of vehicles. Lightweight materials will be available for mass market production within 5-10 years, with models such as Audi e-tron leading the way.

BMW just started the production of the carbon-fiber-bodied i3 – a vehicle that makes some major advances in the way lightweight, mass-produced vehicles will be made. For Audi, which was a leader in the development of aluminum-bodied cars 20 years ago with the original Audi A8, the future will follow a more diversified approach, according to Dr. Ulrich Hackenberg, the Audi AG board member in charge of technical development „To make an area

of a car in carbon fiber is very expensive. We are looking at the cost aspects and the aspects of strength as a starting point.” Hinting at what materials we’re likely to see in future Audi models to reduce weight, Hackenberg explained that flexibility is crucial and that using different materials in different places in a car might be the way to do it. For instance, high-strength steel could provide safety protection around the A-pillar, while an aluminum space frame could underpin the vehicle and surfaces could be done in laminated steel, plastics, or carbon fiber. The next step, he says, may be working on the methods of efficiently welding composites to aluminum and steel, or adding inserts such that plastic or carbon fiber might be welded against steel. „I think you need the right material at the right place in the car, and the challenge is how to bring it together,” said Hackenberg. „You need different machinery, different robots, and everything to do that.”

Reports from earlier in the year suggest that the next-generation Audi Q7 due next year might be employing some of those techniques. The process with the slowest speed is defining the frequency of production, Hackenberg explained, so the solution is to bring in production methods that



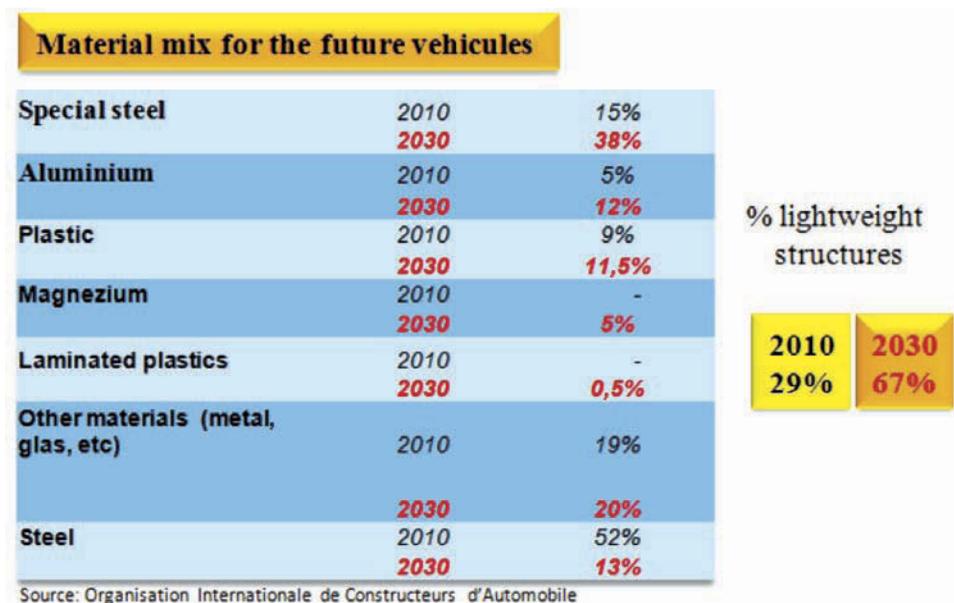


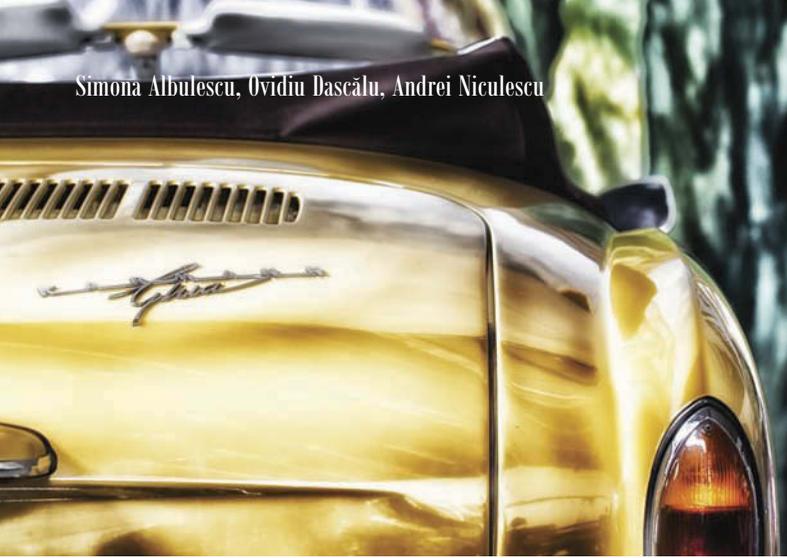
Figure 5 – *Material mix for future vehicles*

allow lighter materials to be used selectively in combination with others that can keep costs down. So even if the cost and strength aspects and benefits of such a hybrid structure look great for a lighter-weight vehicle, the rest of the manufacturing realities would need to make sense as well.

Electric vehicles are one of the most important ways to reduce motoring costs, reduce carbon use in transport, improve air quality and reduce global warming. Battery-powered vehicles are estimated to reach 10% of the market by 2020. Models like Nissan's Leaf and Chevrolet's Volt have led the way. Electric cars can produce much lower emissions than burning fuel in mobile engines, but it all depends on how the electricity is generated. Burning petrol or diesel in a small, mobile engine can be inefficient compared to the most efficient coal-fired power generators. When petrol is used to power a vehicle, only 15-20% of the energy is usually captured to drive the car forward, compared to 40% in making electricity in an efficient

coal power station. A small amount of power is lost between power station and battery, and 20% of electricity put into the car is lost in heat (batteries and other components). But even when we include these things, we can see that „coal-powered” electric cars are likely to be better users of fossil fuels than diesel or petrol vehicles. Where wind, solar, waves, tide or nuclear power is used to charge batteries, electric cars have zero emissions. Air quality improves dramatically in cities as the use of electric vehicles increases. Owners can also save a huge amount of vehicle tax on petrol or diesel since taxation is far lower on electricity. If half a million people are driving electric cars across a nation, oil consumption will fall dramatically, while coal or gas power consumption will rise in the short term.

Batteries are going to be one of the biggest green tech businesses – powering not only phones and other small devices, but also cars, trucks, buses and just about any large piece of equipment that does not have a permanent electricity connection.



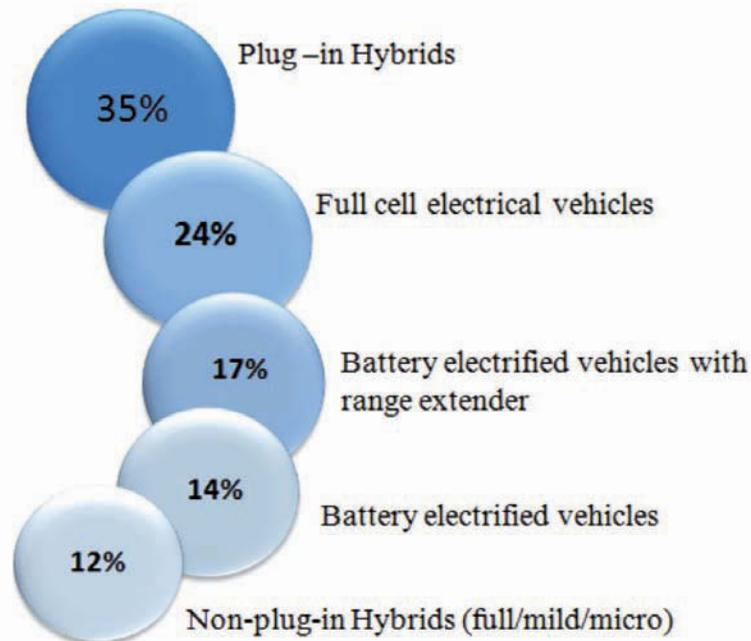
This means expected sales of hundreds of billions Euro. Many governments will give important incentives to people who want to buy electric cars. Israel and Denmark are leading the way.

Hydrogen and Fuel Cells could be the answer to battery problems. Many specialists in the industry are talking about the so-called hydrogen economy or water-pow-

ered cars. Making hydrogen requires electricity to split water into hydrogen and oxygen, and in an area where most power comes from coal, these hydrogen cars are running on coal power.

It is difficult to store and transport hydrogen. It is a very „thin” gas which seeps through microscopic cracks, so gas can be lost when piped under pressure over long distances. Total energy per cubic liter (liquid hydrogen) is less than carbon-based liquid fuels, so tanks also have to be larger. Filling a normal sized fuel tank of 75 litres (20 US gallons) with hydrogen at room temperature and pressure will only take a car 1 kilometer. Hydrogen could be used in fuel cells, which make electricity at the same time as making water from hydrogen and oxygen. Less heat is lost than burning hydrogen, but they cost thousands of dollars per kilowatt hour to build.

Electric vehicle technology attracting the most consumer demand by 2019



Source: KPMG's GlobalAutomotive Executive Survey 2014

Figure 6 – *Electric vehicle technology attracting most consumer demand by 2019*

For all these reasons, it seems unlikely that tomorrow's global auto industry is going to switch to hydrogen soon.

According to KPMG's report, in the near future, plug-in hybrids are forecasted to be the most attractive solution of e-vehicles. Many premium OEMs decided to introduce hybrid engines in higher-end models (Mercedes S500, BMWi8, Lexus CT200h and GS450h) which signals an image transformation away from the more utilitarian look of most hybrids.

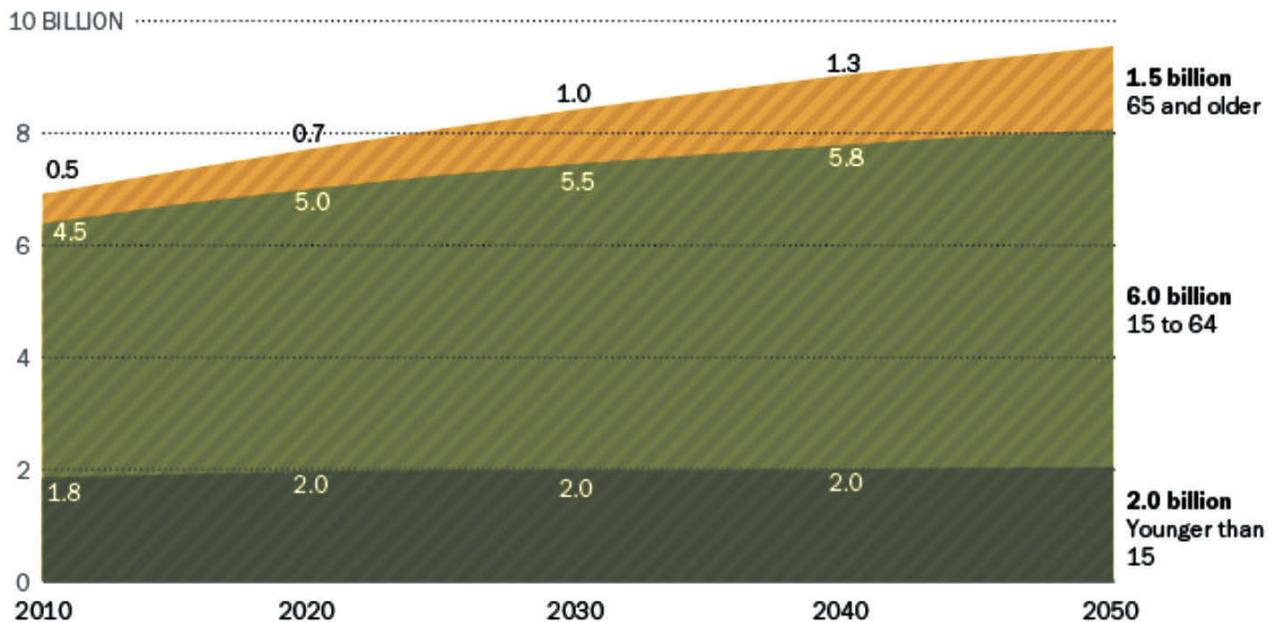
When we think of hybrid vehicles, we have in mind great fuel economy and limited performance. So the phrase „high-performance hybrids” may seem senseless. But cars like Porsche's Panamera E-Hybrid, the Audi R8 e-Tron, and the Tesla Model S offer high-performance driving fun combined with the benefits of an electric vehicle. This latest trend in hybrids offers consumers the performance they desire and

still allows drivers to be environmentally friendly. The hybrid's inherent complexity, and the fact and some of the best storage and conversion systems have yet to be fully developed is responsible for the varied opinions on a hybrid's energy efficiency, environmental benefits, and manufacturing costs. In addition to technical capability, enormous economic challenges also have to be overcome in order to produce a refined hybrid vehicle. Greening of the world car fleet is happening fast. JD Power Consultancy estimates that a third of emission cuts by 2020 will come from improving petrol and diesel engines, and 14% from miles driven in electric vehicles.

4. URBANIZATION

The global population is expected to increase by 38%, from 6.9 billion in 2010 to 9.6 billion in 2050.

Estimated global population by age, 2010-2050



Source: United Nations, Department of Economic and Social Affairs, *World Population Prospects: 2012 Revision*, June 2013,

Figure 7 – *Estimated global population by age*

In North America and Western Europe, the growth in automobile population is roughly equivalent to the growth in human population. But in the developing world, growth is almost exponential because of expanding economic growth. Cities will become more congested. In this context, traditional patterns of vehicle ownership are likely to change dramatically. This trend calls for wide scale mobility solutions in urban centers. The „millennial” generation of young adults appears less interested in traditional purchases (house or car) pre-

ferring alternatives such as mobile devices and clothes. The challenge for the main automobile producers is to come up with a new way to meet these needs. Mobility as a service is an idea that arrived via services such as car sharing or wider solutions regarding multiple modes of transport booked over a single provider. To evaluate the question of the mobility of the future, KPMG conducted a large market survey, focusing on the current and expected mobility needs and preferences in different countries:



Source: KPMG’s Global Automobile Executive Survey 2014

Figure 8 – *Expected share of new light vehicle registrations by 2025*

When we look at the entire picture, there are compelling reasons for a switch to more efficient transportation technologies. The economic ramifications of mounting

environmental problems, changing weather patterns, and future monopolies and instability in energy supplies could be enough to threaten the very foundations

of our industrialized societies. It's in our own interests to create a more energy efficient and sustainable system.

5. CONNECTIVITY

The connected car is one of the fastest growing technological devices after phones and tablets. As cars become more connected, manufacturers, dealers, technology companies etc. are gathering an enormous amount of data / information on users. How these „big data” will be used could determine their success in building brand loyalty and generating income. As more as software becomes embedded in vehicles, the self-driving car becomes more and more a real possibility. With the onset of new technologies like blind-spot detection, lane change departure, backup camera sensors, cross traffic alerts, active cruise control, and many other exciting innovations that allow you to be safer on the road, you're almost halfway there. Having someone else (even a robot) drive your car may not be a good fit for everyone, but consumers do want computers to help be safer on the road. Most manufacturers are stating that you won't see

totally autonomous vehicles on the road until 2020.

There are many hurdles to clear, including government regulations, consumer acceptance and legal issues. The announcement in October 2013 of Japanese electric motor manufacturer Nidec regarding the acquisition of a subsidiary of Honda, bring out the growing influence of electronic companies in the automotive market. Also Panasonic highlighted the intention to double its automotive business by 2018. As the computerization of the cars accelerates, there is to observe also increasingly moving in electronic devices, to the extent that almost half the cost of a hybrid vehicle goes on electronic parts. If drivers-free cars will be a reality, then many other conditions should be achieved. In this context, the relevant stakeholders need to make huge investments in vehicles –to –internet communication, additionally to cost effective sensors and radar based options. For such a transformation, the industry has to concert all their resources.

A survey made by the University of Baltimore identified to most desired applications by customers:

Desired applications on car			
Age	18 - 24 years	35 - 44 years	55 - 64 years
<input type="checkbox"/> Radar warning system	66%	49%	26%
<input type="checkbox"/> Search for hotels/restaurants	19%	28%	16%
<input type="checkbox"/> Weather information	45%	14%	19%
<input type="checkbox"/> Online maps	17%	24%	11%
<input type="checkbox"/> Business E-mails	12%	27%	8%
<input type="checkbox"/> Internet Radio	16%	23%	13%
<input type="checkbox"/> Private E-mails	21%	20%	11%
<input type="checkbox"/> Skype communication	16%	5%	3%
<input type="checkbox"/> Online films	10%	7%	2%
<input type="checkbox"/> Games	9%	5%	0%
<input type="checkbox"/> I don't need Internet in the car	13%	38%	69%

Figure 9 – Desired applications on cars

The customers want to take the entire digital world on the road, in the car. The latest infotainment products support human machine interface, information systems, diagnostics, entertainment and connectivity to meet the growing demand for in-vehicle interaction. We assist actually to a revolution on the roads.

Conclusions

Ongoing changes in the global automotive industry are profound, determining the production of energy-efficient vehicles that meet the requirements of megacities and embrace the technological evolution and revolution. The rapid growth of the emergent states adds fantastic opportunities but, in the same time, intensifies the competition. The duration and size of this change is uncertain at the moment.

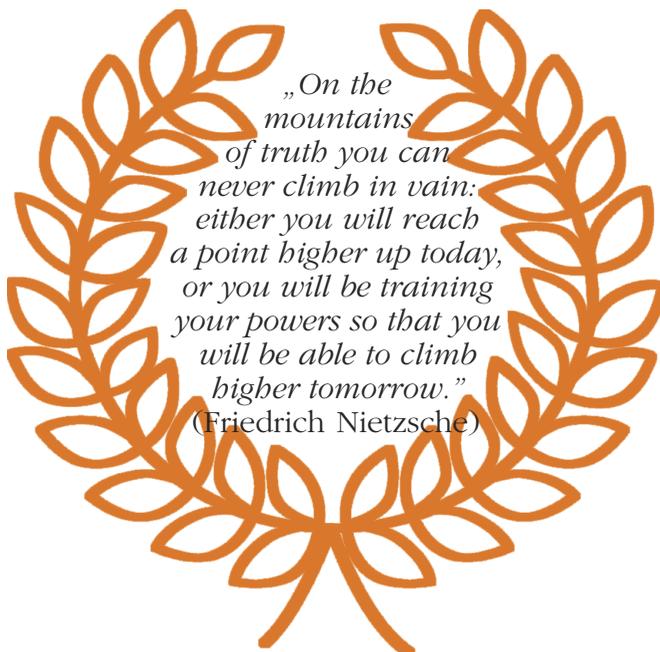
The automotive manufacturers will gradually lose their dominance in motor expertise, as suppliers take a more involved role in the process. The OEM will become pure mobility solution providers in order to satisfy evolving patterns of car ownership.

Daimler's car2go mobility concept is an example of this direction, where drivers can hire a car instantly from a range of cities in Europe and USA. The participants can locate available cars online and use the car as long as they want, leaving it then in any public parking space in the city zone.

New entrants from sectors such as technology or utilities are likely to become important players in the automotive industry.

The actual trends, the new efficient, environmental friendly, smart and connected e-vehicles, all the changes impacting the automotive industry will have a major influence also on the skills of the workforce employed in the industry at all levels. The training curriculums in the industry will change. Older functions and activities will disappear. New competences and abilities should be developed to accompany the evolutionary tendencies in order to ensure the technological survival of the automotive actors.

People being the core resource in the development of any business and a long term performance of any company impose a complete and comprehensive plan, well structured and framed in time and space, containing the implementation methodology and especially the competent resources, managers must undergo certain steps to successfully coordinate teams and business in the new global context.





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Techniques for Increasing the Enterprises' Efficiency

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Abstract

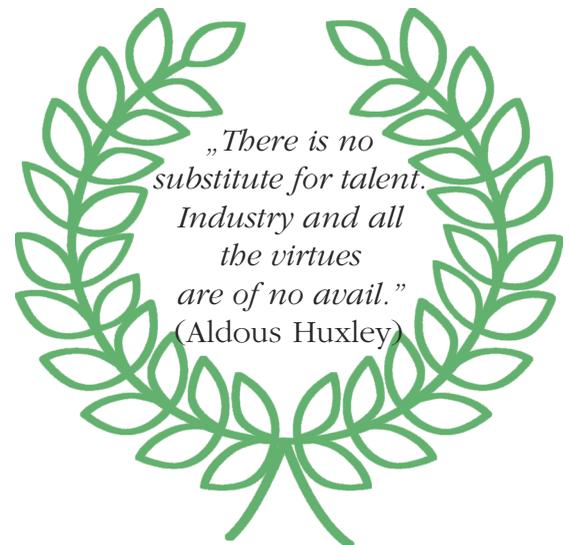
A company's efficiency represents a concept that joins a heterogeneous assembly of microeconomic and organizational elements, which can be approached by different points of view. The structural configuration and organizational efficiency of the company can be influenced by the following primary dimensions: training, standardization, formalization, configuration and traditionalism. Combining these primary dimensions leads towards different fundamental dimensions of the enterprise, among which: the structure of activities, the authority's involvement, controlling the work flow, etc. In this present paper, I tried to analyze the increasing of efficiency for a company and of its productive and competitive capacity, considering the point of view of financial managing and financial management. Therefore, the increasing of enterprises' efficiency can be carried out either by internal increasing (self-financing and attracting of loans), or external increasing (fusion, absorption, attracting of new shareholders, etc.).

Keywords: enterprise, efficiency, internal increasing, external increasing, financial management

INTRODUCTION

Depending upon the provenience of resources and upon their help, the capital of an enterprise is established and increased, one might differentiate two manners of financing: internal and external financing. Within the context of the two manners, many methods are available; using them, a diversity of resources that assure the financing processes can be found.

The internal financing is accomplished when calling the following resources: the net profit or the profit remained after the





dividends payment; the redemption of fix assets, amounts from the capitalization of fix assets taken from function or from selling those redundant; the funds assimilated to those own (Aglietta 2002).

The external financing includes the building, and subsequently the increase of enterprise's capital, with the help of contributions in kind or money of the future owners, to which amounts can be added from:

- contributions of the state, of some public collectivities and specialized bodies;
- the issuing or selling new shares;
- the issuing or selling of debentures, contracting the bank loans, practicing the trade credit or of the leasing credit.

The main methods of creating and then increasing the capital of the enterprises are: contribution in money and in kind, self-financing, crediting, and budgetary financing.

The contemporary economical practice also imposes other methods, among which the most frequent are: the fusion, the absorption or merging, the conversion of claims in shares, and embedment of reserves.

MATERIALS AND METHODS

The methods' content will be accomplished in accordance to the type of mobilized resources:

① *The method of contribution in money and in kind* allows the establishment of the corporate funds for an enterprise. Financing by means of capital contribution in cash and in kind confers to the contributor the title of associate or stockholder, meaning the co-owner of a share of the corporate funds (Halpern1998). This will recover the funds invested within the trading company, after its liquidation, from the share that remained after the paying to creditors. Recovering the invested capitals, before the company's liquidation is being performed by selling the shares or its activities to other persons.

Establishing the corporate funds is performed by the free association of owners of money or goods (areas, buildings, transport means, equipments, etc.) in a limited number, established by statute or by public subscription. Depending upon the capital



need, immediate or meeting the deadline, an enterprise uses a series of financial instruments and issues: shares, investment certificates or subscription bills.

2 When increasing the corporate funds, one might appeal to new contributions of new shares. Issuing new shares is a method that in general is not agreed by the stockholders, because once new stockholders appear, the older ones might lose control over the company. Because of this situation, the method represents a solution „*in extremis*”, which is used after finishing all the other financing possibilities. The new shares are firstly offered for subscription to the existing stockholders, proportionally to the number of shares that are owned, in a certain term. If they don't apply the right of preference within this deadline, the shares are put for sale by negotiation on the financial market, by public subscription. The manner of subscription of these new shares, meaning by the cash contribution or in kind, produces financial influences within the enterprise's activity.

In the situation cash contribution, an improvement of financial structure in the sense of increasing the report between the own funds and those loan, is accomplished in the favor of those first. By the increase of corporate funds, an increase of the net working capital and of enterprise's liquidity takes place.

When the contribution is in kind, both the working capital and the immobilized assets are increased; therefore the previous equilibrium remains unchanged at the beginning. The increase of production or trading capacity by embedding the new corporate immobilizations usually leads to the increase of floating assets – the necessary working capital (stocks, claims) – which involves the assurance of supplementary resources either by issuing other shares in cash, or by loan resources.

Capital increase by new contributions in cash can be accomplished by two financial techniques:

- Supplementary contribution, only from the old stockholders, when a new increase in price of the nominal value to already existing shares will be applied. This solution has certain obstacles given by the fact that is difficult for all the stockholders to consent and to bring their contribution in order to increase the corporate funds;
- Issuing new shares, to which both old and new stockholders can subscribe. This solution is practiced more often, because it imposes an issuing price, allowing the protection of old stockholders and investing shares.

3 *Embedding the reserves* represents another method of increasing corporate funds, which cannot bring new financial resources for an enterprise, because the

reserve funds have been established during years, from benefits not shared as dividends. When the method is applied, these financial resources already exist, operating within the economical processes of the enterprise. When the reserves become important, the enterprise often perform their embedment to corporate funds. The increase of corporate funds is carried out by reducing the same amount of reserves, results and own funds.

The method can be applied through two financial techniques (Burciu 2008): increasing the nominal value of the existing shares, and issuing stocks that are freely shared to the old stockholders. The financial influences are different from the two alternatives, meaning: if increasing the nominal value of shares, the installment of the dividend is modified per share, not per dividend.

4 *The consolidation of an enterprise's debts* represents a method by which the corporate funds increase by the embedment of the debts that a company has

towards the different partners. The method is also used when short term debts are transformed to middle or long term debts, thus the permanent capital is increased.

Increasing the corporate funds by embedding the debts is performed only through the acceptance of providers and of company's creditors, and of the already existing stockholders, which have to renounce at their preferential right of subscription. Applying the method results in the increase in working capital, due to the fact that increasing the corporate funds can be assimilated either to shares issuing in cash, or to the contribution in kind.

The established form of transformation of working capital debts is the conversion of bonds in shares, based on a proportion established when the convertible bonds are issued. The increase in shares number will determine the appearance of the „dilution effect”, decreasing the profit per share.

5 *The fusion and total or partial absorption* of enterprises represent methods often met within the contemporaneous economy,



characterized by global production and markets. The consequence of using these methods is represented by the accumulation of corporate funds (capital portions) of the companies merged or absorbed. Considering the perspective of using the capitals in the processes, the methods can lean to better results, rather than the results achieved individually by each enterprise.

⑥ *Self-financing* represents a method of increasing the own capital of an enterprise, and is characterized by retaining in the enterprises a share from the results achieved through the activity development. It is considered as a basic method on establishing the enterprise's capitals. In cases of significant enterprise development it might be not enough, thus requiring its use in conjunction with other methods.

The weight of self-financing participation on establishing the company's capitals mainly depends upon its ability of producing profit, the decision of owners for distributing certain parts or the totality of net profit in order to accumulate, in detriment of dividends, and the dimension of redemption fund, determined by the inventory value of the fixed means and the calculation system for the redemption used by the enterprise.

Considering the sphere of the mobilized resources for self-financing, many concepts are used in theory (Onofrei 2004):

- net self-financing, which assumes using a part of the net profit which remains after paying the dividends;
- maintenance self-financing, accomplished with the participation of the redemption of means;
- total (gross) self-financing, if the resources mentioned above are used;



- gross margin of self-financing (cash-flow), which expresses the ability of an enterprise to mobilize the redemption fund of the entire net profit for development.

Considering the moment of allocating and using own resources, self-financing can be:

- immediate, when an enterprise is able to use its own resources from the beginning;
- delayed, when a company does not have enough resources of its own, and it appeals to loans from the beginning of its activity. Subsequently, an enterprise replaces the loaned capital with its own, while paying also its loans, with the help of profit or redemption.

Some authors challenge the formulation of the „delayed” self-financing concept, arguing that the absence of own resources and their replacement with borrowed



7 Crediting represents the method by which the loan capitals are formed. These capitals have a reimbursable character and carry out debts which affect the enterprise's profit. Considering the capitals market, middle, long term or short term loans can be contracted.

Middle and long term loans are contracted on a payment period larger than one year, financing especially fixed assets. Permanent capitals are established from resources which are at enterprise's disposal for a long period of time. From this point of view, the own capital can be viewed as the centre among which the permanent capital is established. For this reason, the use of loans on middle and long term is considered a method of increasing permanent capitals.

In Romania the payment date of long term loans exceeds five years. Permanent capitals are preferable to those established upon short term loans, because they can be easily structured so that the date of payment coincides with the economical life of the assets that have to be financed. In this way, the positive monetary flows (the cash down) generated by the economical processes of using the assets created by investments (with the help of long and middle term loan capital) can serve towards the reimbursement of loan installments.

The increasing of permanent capital by contracting loans on long term can be therefore accomplished by: achieving the loan, after the immediate negotiation with a bank; bonds issuing; credit bail.

A. In the situation of loans contracted with a bank or with another financial institution (insurance company, mutual fund, etc.) there are three main factors that have to be taken into consideration: the cost by rate of interest, bonds asked

capital in the first stages of the investment process actually represents the application of another method for creating capitals, respectively *the crediting method*.

The self-financing assures the decisional independence and the financial autonomy of an enterprise. Still, using self-financing exclusively leads to the subordination of the enterprise development to its own results, decreasing its offensive flexibility.

This method is preferable to crediting when the interest rate is higher than the rate of the dividends required by the stockholders, as well as the interest of the economical profitability. The beneficial effects of the self-financing are obvious when the profitability of the new investment projects exceeds the remuneration requirements of the owners.

by the creditor, and the manner and terms of reimbursement.

In comparison to the bonds loan, the middle and long term bank loan offers three important advantages: promptitude, flexibility in utilization, and relatively reduced costs of achieving.

Because it negotiates directly with those offering the credit, the company supports small expenses of achieving and accomplishes relatively few official operations and documents.

Increasing the permanent capital by bank loan on middle and long term ensures a much faster access to the loan and higher flexibility in the future, because it allows an easier transmittance of conditions related to loan due to negotiating with a single loaner, instead of negotiating with a multitude of bonds owners who don't always have convergent interests.

Most of credits on middle and long term are assured, and the loan contracts foresee restrictive agreements (positive or negative) also, which can offer a higher certitude as concerning the loan recovery. Offering a loan is accomplished by means of warranties and upon a very well underlined technical-economical documentation.

The usual warranties are met under the form of:

1. mortgage over goods which are immobile by definition (buildings, constructions, areas, etc.) or by destination (fixed equipments, furnace, forge, ovens, etc.);
2. forfeit over mobile goods – without storage – (cars, devices) being in the loaner's property, capitalized on the market or – by storage (shares, bonds, precious metals);
3. assignment of debts concerning the rights of cashing, resulted from strict contracts of delivering the products towards partners with credit worthiness acknowledged by the bank, of the assignment related to indemnity rights from the insurances that establish a supplementary warranty of the bank for the mortgaged goods or forfeited;
4. letters of warranty issued by the banks or financial institutions and from abroad.

The technical-economical documentation includes justifying memoirs for the lists of equipment, a feasibility study based on the analysis of the activity and its perspectives, designing of resources and their using until the reimbursement of credit, the last balance sheet concluded, and the documents through which are attested the property over the goods established as warranties.

Increasing the permanent capital by loans on middle and long term is used firstly in order to finance the investments in fix assets, but also for financing the exploitation activity. In this way creating immobilizations of own resources will be avoided, if the exploitation activity of is restricted and financing is made only from these resources.



The returning of middle and long term loans on is carried out generally in equal periodical installments (Pasca 2005). In this way, the creditor's risk of recovering the loan is reduced. The middle and long term credit contract can include a grace period, when installments reimbursement is suspended, and only the rates of interest have to be reimbursed. If a grace period exists, the total rate of interest (D) is calculated by means of the relationship:

$$D = C \times t \times d \quad (1)$$

where: C represents the conferred loan, t the period of conferring, and d the yearly installment of the rate of interest.



- B.** The permanent capital can be increased by the help of bonds issuing. The bond is part of the long term mobile values category. It is offered to the investors for buying, together with the prospectus. The prospectus can be considered as a notification of or invitation by which the possibility of subscription or buying new shares or bonds issued by the company is conferred to the public.
- C.** The bail credit (the leasing) represents a way of increasing the permanent capital on middle (mobile goods leasing) or long (real goods leasing) term, which allows for an enterprise to exploit goods without having to appeal to a bank or bond loan, or spending own capital. The bail credit represents a contract of renting a good for a middle or long term, as for instance: cars equipments – up to seven years; terrains or buildings equipments – up to twenty or twenty five years. The company rents the good from a specialized financial institution. In turn, it will buy the good upon a strong request, for which during

the contract a certain rent is taken. The rent includes; the redemption of the certain asset, the remuneration of the invested capital, the risk bonus (for the institution that supports the financing) and the administrative expenses.

The bail credit presents a series of both advantages and disadvantages as a mean of increasing permanent capital. Among these advantages, the following facts can be emphasized:

- the rent is progressive, giving the possibility for a user to accomplish profitability;
- the rent is deductible by the dutiable profit, and the enterprise supports only the difference towards the excise tax quota;
- it represents a financing resource which will not increase the liabilities of the company;
- it presents an achieving technique which is much easier than the bank or bond loan.



The disadvantages of the bail credit mainly consist of:

- the financing cost, which is higher than the indebtedness cost (with 1-2% towards the bond credit), due to including into the rent of the risk bonus;
- the equipment received does not belong to the enterprise that uses it until its entire acquisition.

The enterprise's capitals can also be increased by the help of short term loans, which have a term of up to one year. Appealing to a short term loan is carried out in order to finance the part of necessity capital not yet covered by permanent capitals. The short term resources can be achieved from bank loans or from not banking loans. Among the bank loans on short term, most used ones are: treasury credits; credits for stocking; credits for mobilization.

The treasury credits are used to assure the treasury equilibrium when the current payments exceed the cashing determined by the character of the exploitation cycle (the seasonable character of it), or of some „accidents”, which the company confronts with (delaying in delivering, perturbations of the cashing, etc).

The credits for stocking are established by the company after knowing the motivation of request, assuring the

warranty and their control. The banks prefers such credits, also named „credits of self-liquidation”, because they are automatically reimbursed simultaneous to liquidation of the objective for which they were conferred.

The credits for mobilization refer to the use of trading credits, which a company has upon its customers, emphasized in stocks. This fact represents the transformation of claims in liquidities when meeting the deadline. The credits for mobilization are achieved in accordance to the operations of discounting the financial goods, as well as the drafting the bills.

8 Subsidization represents a method of establishing the capitals of certain enterprises, especially of the autonomous management of trading companies of certain branches or sectors carrying out activities considered to be essential for the national economy. This method is also met in situations where certain enterprises benefit of different facilitations, fiscal exemptions or bonuses for export, resulted from the human activity, and the amount of financial value owned by a certain person, in order to be used for achieving revenue.



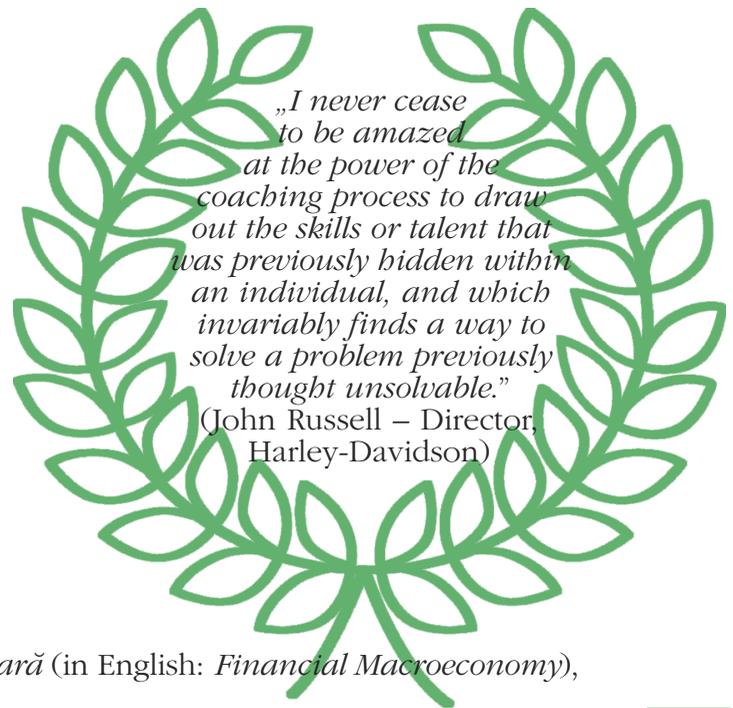
Conclusions

The efficiency of the activity developed within the company is not related to the estimation of profit, having a higher content. In general, the efficiency reflects the quality of an activity in order to produce the estimated effect.

Considering the economical point of view, the efficiency represents the report between the assembly of practical effects (results) and efforts (inputs) produced by the development of an economical activity. The components of the enterprise's efficiency – the economical efficiency and social efficiency – cannot be dissociated, representing a unity that concerns the global diagnosis of activities. The existing interdependency between these two component parts is emphasized within the commercial enterprise, due to direct contact with the consumers.

The structure of capital refers to the provenience of establishing sources of company's capitals. Simultaneously, the amount of capitals achieved from different sources has to correspond to company's needs. Accomplishing the programmed volume of assets or services imposes that the company establishes the capitals, so

that it disposes of material and monetary means which are enough for the normal developing of the economic activities. Because these means are materialized within the context of exploitation in outgoings, the efficiency of the process of establishing the capitals denotes their dimensioning to what is strictly required. The objective of obtaining profit forces the managers to select those capital sources that have a smaller associated cost than the investments' profitability. The optimal structure responds to the requirement of maximizing the profit, manifesting the option for the cheapest sources of capital.



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The Attractiveness of Emerging Tourism Markets

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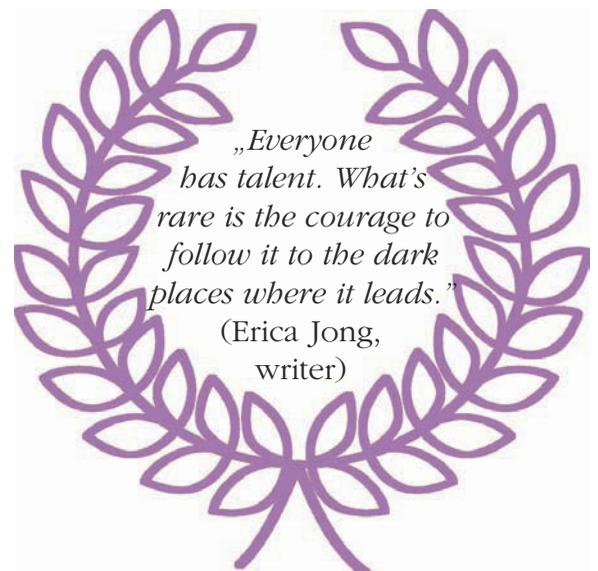
Abstract

The tourism and hospitality industry are among the most dynamic industries in today's economy. However, the tourism potential is not entirely valued in new emerging economies – as Romania and Malaysia. Based on Tourism & Travel Competitiveness (TTC) index, the tourism attractiveness of the Romanian and Malaysian markets is analyzed. Although complementary, the international tourism might generate clashes between the global character of tourism and local cultural heritage – enclosed in services provided locally by hospitality industry. The global use of similar marketing methods and instruments – and even promotion messages – is tricky, because, amid the commonality, different people have their own specificity. Concerted with government policies, the solution is in professional consulting services and training.

Keywords: tourism, hospitality industry, tourism & travel competitiveness index, tourism attractiveness, emergent markets, Romania, Malaysia

INTRODUCTION: TOURISM – A DYNAMIC INDUSTRY

The tourism and hospitality industry are currently among the most dynamic industries in the world economy. In spite of natural disasters, terrorism, and economic and politic uncertainties, the international tourism – measured both as number of international tourist arrivals and international tourist receipts value – reports continuous increase. In 2005, the worldwide tourism exceeded 800 million arrivals, achieving an all-time record (UNWTO, 2006). According to the same source, the increase represents 42 million additional



arrivals, compared to 2004, the champions being Europe (17 million) and Asia & Pacific region (11 million). By purpose, most of the tourists (two thirds) are travelling for leisure, recreation and holidays (402 million) and business (125 million). Therefore the local hospitality industry should consider the flow of incoming global tourists. Between the tourism and hospitality industry is a positive feedback loop: the dynamic incoming tourism stimulates the local hospitality industry (Lothian, E., Siler, P., 2003; Miller, R., 2007) and the quality of local traditional food is an attraction pole for global tourists (Chua, S. et al., 2003; Evangelides, M., 2003; Skinner, P., 2003).

According to the UNWTO World Tourism Barometer quoted by Carlson Nelson

(Carlson Nelson, M., 2007), it is estimated that 2007 will be the fourth year of sustainable growth for the global tourism industry. United Nations World Tourism Organization (UNWTO) has prospected the tourism market and developed long-term quantitative forecasts, covering a 25 years period (1995 as a year of base). The forecasts figure around *1 billion tourist arrivals by 2010 and 1.6 billion by 2020*, which is twice as compared to 2005. Europe, East Asia & Pacific region, and Americas will continue to have the largest market shares: 717 million, 397 million, and 282 million, respectively – but the gap between them will diminish (UNWTO, 2001).

The forecasts for Romania and Malaysia are optimistic as well.



Although Romania is not ranked among top 20 European destinations, it is estimated that in 10 years its tourism market will double, accounting for a global market share of 0.2% (up from 0.15%). At present, Malaysia reports spectacular growth: in 2005 it was ranked as the 13th tourist destination in the world, and second largest in Asia-Pacific (Lipman, G., Kester, J., 2007). As market share in Asia-Pacific region,

Malaysia accounts for 10.6% as number of arrivals (second place) but only 6.2% as receipts (the sixth) according to UNWTO *Tourism Highlights* (UNWTO, 2006). Both Romania and Malaysia are emerging economies; however, in terms of tourism development, Malaysia displays better results (*Table 1*). Their competitiveness and potential will be further discussed.

Table 1 – *Tourism development in Romania and Malaysia (2005)*

Country	General data		International tourist		
	Area [sq.km]	Population [million]	Arrivals [million]	Receipts [US\$ billion]	Spending index [US\$ / tourist]
Romania	238,400	21.6	1.43	1.05	734
Malaysia	329,700	25.3	16.43	8.54	520

Source: adapted from World Economic Forum (2007) – Country profiles: Romania, Malaysia

Potential for local development in the global context

Even if the global tourism is soaring, the tourism and hospitality industry potential is not fully valued in emerging economies – as Romania and Malaysia. The World Economic Forum (WEF) has published *The Travel & Tourism Competitiveness Report*, which contains the global ranking of tourism and travel potential, for 124 countries

(World Economic Forum, 2007), concluded according to the *Travel & Tourism Competitiveness Index* – a composite index that aggregates three sub-indexes (Blanke, J., Chiesa, T., 2007):

- Travel and tourism regulatory framework (as result of local government policy);
- Travel and tourism business environment and infrastructure;
- Travel and tourism human, cultural and natural resources (local resources).

Table 2 – *The criteria used to assess the country tourism potential by TTC index*

Sub-indexes	Criteria	
	No.	Description
Travel and tourism regulatory framework	1	Travel and tourism policy, rules and regulations
	2	Environmental regulations
	3	Safety and security
	4	Health and hygiene
	5	Prioritization of travel and tourism strategies
Travel and tourism business environment and infrastructure	6	Air transport infrastructure
	7	Ground transport infrastructure
	8	Tourism infrastructure
	9	IT and communication infrastructure
	10	Price competitiveness in the travel and tourism industry
Travel and tourism human, cultural and natural resources	11	Human resource
	12	National tourism perception
	13	Natural and cultural resources

Source: adapted from WEF (2007)

Each sub-index is calculated as average of other criteria (called „pillars”), 13 as a total (*Table 2*). Each of these criteria depends on a number of factors, and each factor is valued on 1-to-7 scale. The *Travel & Tourism Competitiveness (TTC) Index* aims at measuring the factors and policies that make a country more attractive (more competitive) than other countries in travel and tourism sector. Even though the TTC index is a picture of the current state, it does not show the level of tourism

activity in that specific country but the country attractiveness and potential for further development. Analysis of the TTC index structure reveals that the potential for tourism development depends, expectedly, on: consistent and coherent, specific legal framework; solid investments in tourism and hospitality infrastructure; financial, communication and IT services, but largely (about 25%) on the *availability of local natural and cultural resources* (human resource included).

Table 3 – Differences in top 10 countries rankings in international tourism (2005)

Rank	Top 10 countries by TTC index		Top 10 tourist destinations		Rank
	Country	TTC index	Arrivals [milln.]	Country	
1.	Switzerland	5.66	76.0	France	1.
2.	Austria	5.54	55.6	Spain	2.
3.	Germany	5.48	49.4	United States	3.
4.	Iceland	5.45	46.8	China	4.
5.	United States	5.43	36.5	Italy	5.
6.	Hong Kong	5.33	30.0	United Kingdom	6.
7.	Canada	5.31	21.9	Mexico	7.
8.	Singapore	5.31	21.5	Germany	8.
9.	Luxemburg	5.31	20.3	Turkey	9.
10.	United Kingdom	5.28	20.0	Austria	10.

Source: adapted from WEF (2007) and UNWTO (2006)

To explain the difference between the TTC index and tourist activity index, *Table 3* displays significant dissimilarity in top 10 rankings. None country in top 3, only United States in top 5, and only four countries in top 10 make the both. Overall, it seems that:

- More developed countries are more attractive – according to the TTC index.
- Bigger countries are preferred as tourist destination compared to the small ones.

A further research is to be conducted aiming at identifying possible correlations

between different tourism indexes, in their dynamics, and considering all or most of countries.

According to the TTC index, Romania and Malaysia have quite different tourism attractiveness and potential. A thorough BCG-type analysis was completed based on WEF data (Miller, R., 2007, pag. 54) and the conclusion is different for Romania and Malaysia: the tourism in Malaysia is definitely a „star” while Romanian tourism is still a „question mark”.

Romania scores 3.9 overall – which means ranking on the 76th place globally, in the middle tier, between Azerbaijan and El Salvador, behind India (65th) and China (71st) but ahead of Peru (81st) or Ukraine (89th). Detailed analysis by sub-indexes reveals average potential as well (*Table 4*). However, Romania scores and ranks bet-

ter as far as human, cultural and natural resources. More detailed analysis, by criteria, emphasizes that upper middle positions are reported for (*Table 5*): tourism and IT&C infrastructure, tourism policy and regulations, and natural and cultural resources.

Table 4 – Ranking of Romania as tourism potential, by sub-indexes (2005)

Sub-index used for ranking	Romania		Malaysia	
	Score	Ranking	Score	Ranking
Travel & tourism regulatory framework	3.9	87	5.1	27
Travel & tourism business environment & infrastructure	3.2	74	4.4	27
Travel & tourism human, cultural & natural resources	4.7	71	4.8	57
Overall (TTC index)	3.9	76	4.8	31

Source: adapted from WEF (2007)

Table 5 – Better ranking of Romania as tourism potential, by some criteria (2005)

No.	Impact criteria used for better ranking	Romania	
		Score	Ranking
1	Tourism policy, rules and regulations	4.6	67
8	Tourism infrastructure	3.5	50
9	IT&C infrastructure	2,8	56
13	Natural and cultural resources	4.6	46
Overall (TTC index)		3.9	76

Source: adapted from WEF (2007)

Further analysis, by factors, reveals uneven influence. *Romania ranks the first globally* as a number of factors (visa requirements, primary education enrolment, HIV prevalence, malaria incidence, risk of malaria and yellow fever) while tourism fair attendance (ranked 23rd), number of world heritage sites (30th), and presence of major car rental companies (35th) are other definite country strengths. Some major disadvantages have to be signalled as well: effectiveness of marketing and branding, road infrastructure (both on 111th), government prioritization of sustainable tourism (115th place). Recently, Vaughan (Vaughan,

R.D. (2007) completed a survey in four urban areas of Europe in order to explore the Romania's tourism potential. Unfortunately but as expected, the conclusion is that Romania has „much to do in terms of developing and presenting an attractive image to potential visitors” – mostly in terms of building an attractive image, using adequate marketing and promotion means.

Malaysia shows a better picture, ranking in first tier (TTC index = 4.8 corresponding to the 31st place globally), right after Taiwan, equal to Israel and just ahead of Italy; while Tunisia, Korea or Thailand are left behind. Detailed analysis by sub-indexes



underlines strong commitment of the government to support the tourism industry by providing a sound regulatory framework for sustainable development, (Table 6), which proves to be the driving force. By far, the price competitiveness in tourism industry is the most important pillar (corresponding to 5.9 points that place Malaysia on the second place across the world). Other criteria demonstrate the government willingness: environmental regulations, prioritized strategies for tourism development, ground transport infrastructure.

As far as factor analysis, even though Malaysia ranks the first at none globally,

its strengths are significant: the government efforts to reduce risks from pandemics and prioritize sustainable development of tourism industry are all ranked on 8th place; Malaysia presents a similar but stronger point than Romania as far as tourism fair attendance (ranked 2nd); and effectiveness of marketing and branding is a lot better than in Romania (ranked 6th).

Reversely, the two Malaysian weakest points correspond to the absolute advantages of Romania: primary education enrolment (112th) and risk of malaria and yellow fever (103rd). In addition, another element that underlines the understanding of the

Table 6 – Better ranking of Malaysia as tourism potential, by some criteria (2005)

No.	Impact criteria for better ranking	Malaysia	
		Score	Ranking
2	Environmental regulations	5.3	20
5	Prioritization of travel and tourism strategies	5.0	21
7	Ground transport infrastructure	5.6	15
10	Price competitiveness in the travel & tourism industry	5.9	2
Overall (TTC index)		4.8	31

Source: adapted from WEF (2007)



role the government should play: in spite of remarkable effort of Malaysian government to support the tourism industry, the government expenditure is very low – which determines low ranking (94th). The government is a national strategist and referee, not a player in the business game.

In countries with strong tourism and hospitality tradition, the natural resources are sources of competitive advantage in business (Ordonez, P. et al., 2005). The natural resources are a necessary condition but not sufficient. Romania and Malaysia, both emerging economies having comparable human, cultural and natural resources, present different tourism attractiveness because of different regulatory frameworks, and business environment and infrastructures. In other words, the simple existence of natural and cultural resources is not enough for developing a sustainable tourism and hospitality industry. Kasim and Scarlat have shown that „the attainment of sustainable tourism needs to be viewed as a progressive process ... in the context of developing countries this can not be attained without the governmental and policy support for sustainable tourism in the first place” (Kasim, A., Scarlat, C., 2005, pag. 215).

As such, there is no wonder then that Malaysia has reported spectacular growth of incoming tourism over the last years:

50% up in 2004 compared to 2003 (UNWTO, 2006) and ranking the 13th global market as international tourist arrivals.

Other amazing examples of successful public-private partnerships, at national scale, are Dubai and Singapore (Corodi, B., 2007).

Global tourism and local culture

In developing countries, when the pace of tourism development is high and use of resources accordingly, development crisis might appear (for different reasons as shortage of resources or pollution). In this case, the intervention of government is also important: adequate legal framework and mechanisms for the sustainable development of natural reserves should be designed and implemented – in order to avoid this type of crisis (Li, C. et al., 2006). Hence, besides the original conflict between private business and public administration (conciliated by public-private partnership):

Conflict no. 1: local tourism business’s interest to make profit (on short term) vs. global interest for natural resources, environment and sustainable development.

As presented, the development of global economy, in general, and, particularly, tourism industry stimulate the hospitality potential and have snowball effect. As the demand for these services increases, new hotel and restaurant businesses are created by entrepreneurs that follow the opportunities by all means (Scarlat, C., 2001, Scarlat, C., 2003).

These new firms are better or worse managed, according to the business owners’ level of business understanding or even business ethics and social responsibility. Therefore, the side effects of the

development are not always beneficial (Kasim, A., 2007). The slow response towards integrating responsible environmental considerations into tourism planning and development indicates the need for a collective and conscious effort of all tourism businesses, governmental policymakers and planners as well as the key stakeholders (Kasim, A., Scarlat, C., 2005 pp. 207-208).

Conflict no. 2: local entrepreneur's interest to make profit (on short term, frequently) vs. global interest of the society (on long run, generally).

As a rule, in hospitality industry, large H&R (Hotel and Restaurant) companies are global and small hotels and restaurants are local. The globalisation tendency is present in tourism and hospitality industry as well:

Conflict no. 3: local SMEs in hospitality industry vs. general globalization trend in tourism industry.

While dealing with international tourists, large companies and SMEs behave differently. SMEs constitute over 90% of Europe's tourism enterprises (UNWTO, 2002). Their particular interest is on impact of globalization, new technology, and – in case of transition economies (as Romania) – efforts under way to build an enterprise culture.

Conflict no. 4: poor business culture of local SMEs vs. global business culture – including advanced business management and marketing methods used in global tourism industry.

By its nature, the incoming tourism is global and small businesses in hospitality industry are local. Hence:

Conflict no. 5: local small business in hospitality industry (as service provider) vs. global tourism (as client). This conflict is

not business conflict (as they are service provider and client) but cultural.

The competition in global market is so fierce that new entrepreneurs in hospitality industry have to cope with, adapt, and sometimes try to literally copy (or even steal – when under intellectual property rights) fragmented bits and pieces of methods, instruments or practice. Incomplete information, understanding or use might have hilarious or devastating results. The globalization process makes the marketing and promotion key-factors for H&R businesses to succeed, while the budgets are larger and larger. The use of similar marketing methods and instruments and even promotion messages is tricky – because, amid the commonality, different people have their own specificity.

Conflict no. 6: local country culture vs. mix of foreign cultures associated to global tourism (languages included).

In addition to all above, in food and beverage business:

Conflict no. 7: local culinary tradition vs. other culinary practices and consumer behaviours present in global tourism industry.



Even they are not at war, each of the above conflicts requires thoroughful analysis and case-by case conflict solving. Many times, they are principle-conflicts and the solution is in people only.

The conflict resolution, at a given time – in a given cultural environment and legal framework – may not be „one size fits all” cases. Anyhow, in all cases, concerted with government policies, the solution is enlarged business culture – by building up a sound education system in tourism and hospitality industry and developing specialized professional business services as consulting and training.

Limits and extensions

This paper is part of larger study on tourism and hospitality industry – conducted in Malaysia and Romania. Further development is expected on tourist spending structure, correlations between different tourism indexes – in their dynamics, and conflicts in hospitality industry and the corresponding solutions – sustained by cases and examples from Malaysian and

Romanian businesses active in hospitality industry. Such positive and negative examples in hotel and restaurant businesses might be developed and become best practice.

Conclusions

The development of the global economy, in general, and, particularly, tourism, stimulate the potential of local hospitality industry. As emerging economies, Romania and Malaysia have significant potential for the development of tourism industry but the international tourism is better developed in Malaysia – measured both as number of international tourist arrivals and international tourist receipts value.

According to the TTC index, Romania and Malaysia have significant potential for developing their tourism and hospitality industry, thanked to their natural resources and cultural heritage. However, the natural and cultural resources are not enough; clear national strategies are needed, associated with coherent legal framework, solid investments in tourism infrastructure, IT&C, and financial services. Romania and Malaysia, both emerging economies having comparable human, cultural and natural resources, present different tourism attractiveness because of different regulatory framework, and business environment and infrastructure. Malaysia is more competitive and its market more attractive for foreign tourists.

As far as factor analysis, Malaysia’s strengths are significant: government efforts to reduce risks from pandemics and prioritize sustainable development of tourism industry.

Malaysia presents a similar but stronger point than Romania as far as tourism fair attendance and effectiveness of marketing and branding is a lot better than in Romania. Reversely, the two Malaysian weakest points



correspond to the absolute advantages of Romania: primary education enrolment and risk of malaria and yellow fever.

The side effects of the development are not always beneficial. This is why the emerging economies need strong national strategies to stimulate and boost their tourism and H&R sectors, sustainably.

Development of the hospitality industry in emerging countries evolves between global tourism and local culture, and may generate clashes between global and local forces. Each of the above conflicts requires thorough analysis and case-by case conflict solving. Therefore, there is a strong need to develop a thorough business management and marketing culture in this sector. Concerted with government policies, building up a sound education system in tourism and hospitality industry, the specialized professional business services, as consulting and training, should play a major role.



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Development of Competencies

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Abstract

The aim of the study is to explore the development of 12 management-related competencies and individual qualities through the participation at the „General Management II” Business Simulation Game from Topsisim, organized by the author in the last 8 years with students from two master programs from the Faculty of Engineering in Foreign Languages. The chosen competencies are proactive thinking, communication, intuitive thinking, responsibility, argumentation, creativity, delegation, diplomacy, conflict management, flexibility, courage and self esteem, being difficult to tackle with classical approaches.

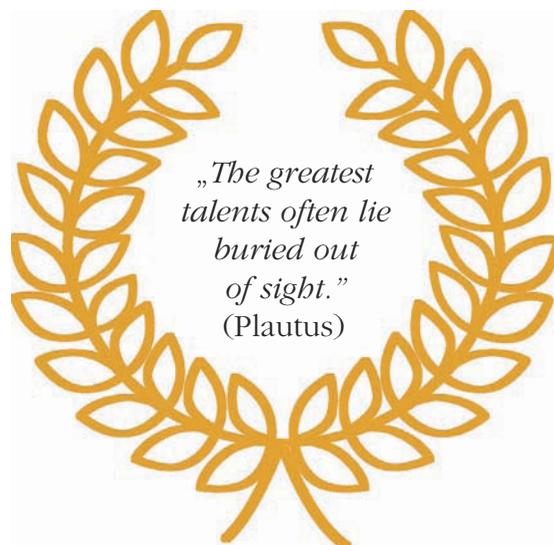
Keywords: Business Simulation Games, Competence Development, Games Based Learning

INTRODUCTION

The paper relies on the 8 years lasting experience of the author with the implementation of the „General Management II” Business Simulation Game from Topsisim in the Master program „Geschaefts-und Industrieverwaltung” and subsequently also in the master program „Business Administration and Engineering” both organized by the Faculty of Engineering in Foreign Languages from Politehnica University of Bucharest. The aim current paper is to identify and explore the possibilities of developing management competencies of participants to the mentioned Business Simulation Game.

According to Riedel and Hauge, games build a good support for learning by

challenging student’s creativity and by increased visualization (Riedel, C. K. H. J. Hauge, J.B., 2011), which is also the case





with business simulation games as a particular case of serious games. They can successfully deliver useful learning content relying on known educational material, according to representatives from the academic area, for example Pivek (Pivek, M., 2007). Business Simulation Games are also linked with E-Learning and have as such a great potential to be a modern tool in entrepreneurship education (Popescu, C.A. et al., 2011). Of special interest for this research there were 12 important management-related competencies and individual qualities that are difficult to train within classic curricula and forms of learning: proactive thinking, communication, intuitive thinking, responsibility, argumentation, creativity, delegation, diplomacy, conflict management, flexibility, courage and self esteem.

Previous published parts of the author's research showed that 86% of the surveyed subjects regarded the potential of e-learning to develop business competencies and abilities as good or outstanding, while only 14% regarded it as moderate or low (Mustața, C., 2014). From the

12 chosen competencies and qualities proactive thinking was included in previous publications and ranked among the top ten fields of development through the „General Management II” business simulation game, with 63% of the participants perceiving the development of their proactive thinking as outstanding or substantial. (Mustața, C., 2014).

RESEARCH METHODOLOGY

The research has an exploratory nature thus it has to satisfy the requirements of qualitative research (Berekoven, L. et al., 2009). An exploratory survey took place in order to answer to these requirements, being prepared between December 2013 and February 2014. Data collection was conducted in February 2014, while data analysis extended later during 2014, some parts being analyzed in February 2014 and other parts of the analysis being finalized at the end of the year. In the following sections the methodology will be explained in more details regarding the research sample and data collection and analysis methodology.

Sample requirements

The central criterion required that all respondents had to have graduated the „General Management II” Business Simulation Game. This criterion is met by the entire research sample: 100%, meaning all 44 respondents of the survey graduated the „General Management II” Business Simulation Game. Their age varied between 23 and 39 years, while their occupation covered a wide, diversified area, from entrepreneurs, managers to programmers, IT – consultants, IT Engineers and even professors. Another important aspect that supports the fact that the respondent’s perception is a good mirror of management reality is that 27 respondents (63%) declared that their job involves management responsibilities. Thus the sample proves to be balanced for the research purposes and is assessed as valid for a qualitative research.

Data collection and analysis

The research focused on three major requirements for data collection as follows: the information should be up-to-date, adequate instruments should be used, and data collection should be unbiased. All the answers were submitted during the month of February 2014 in order to meet the first requirement, that information is up-to-date. The used instrument was an electronic survey, with anonymous responses, that was filled in after finalized grading. This way distortions and bias were minimized, by avoiding the collection in presence of the professor or the possibility of the participants to be identified by the professor or to influence their grading.

The electronic survey instrument made data analysis much easier: the answers could be inserted automatic into an elec-

tronic format that could be analyzed, thus reducing human errors in the process. The Google survey tool form also provided limited but easy to perform analysis of each single researched variable.

RESULTS AND DISCUSSION

Proactive thinking is improved the most in the view of the participants to the „General Management II” Business Simulation Game summarizing 63% of the participants sensing a substantial or even an outstanding improvement (Mustață, C., 2014). This is easy to explain, because the participants had to make decisions the whole game, solving the problem of how to differentiate from their competitors while keeping a good profit, learning the lesson that action is better than just reaction. Reacting to problems can reduce the damage, while foreseeing it, sometimes prevents the damage completely in real business life as well as in the business simulation.

While a lot of decisions had clear calculations behind, some were of a more intuitive type, like guessing the reaction of the competitors in order to use it to its own advantage, which explained why the development of intuitive thinking was



ranked by 57% of the participants as substantial or outstanding.

The „General Management II” Business Simulation Game works as a competition between 2-5 companies, each company consisting of a management team of 5, 6 or 7 participants, depending of their total number. This is why decision making is a team work throughout the whole game, which implies specialization and a good communication for the team to become

effective and efficient. So it is not a surprise that 54% of the participants regarded the development of their communication skills as substantial or outstanding during the whole game.

For the other analyzed management-related competencies and individual qualities, less then 50% of the participants perceived the development as outstanding or substantial. An overview of the results is represented in Figure 1:

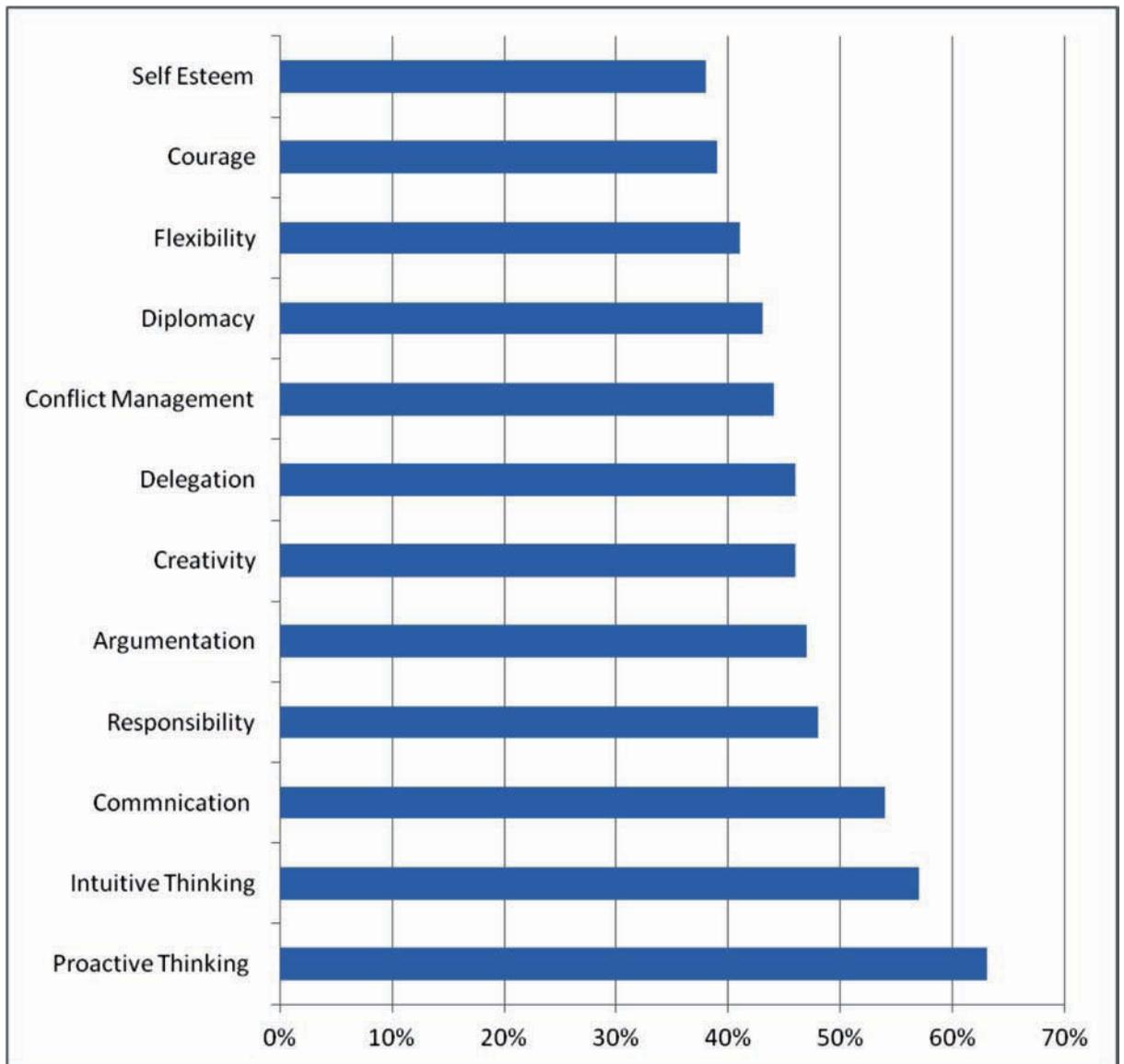


Figure 1 – *Management-related competencies and individual qualities*

Percentage of respondents assessed the development of each competence or individual quality as outstanding or sustainable through the participation at the business simulation game.

As a consequence of team work, competencies as argumentation, delegation, diplomacy and conflict management, as well as flexibility were implicitly required, thus having a potential to be improved. They were confirmed by the participants as registering substantial or outstanding improvements as follows: argumentation 47%, delegation 46%, conflict management 44%, diplomacy 43%, and flexibility 41%.

An even better improvement had the quality of responsibility. Despite the fact that the whole competition was a simulation, the teams fought at their best, 48% of them feeling that their responsibility developed in a substantial or outstanding way. They learned that a small difference in some decisions, for example the price, could produce great consequences.

The whole game also developed their creativity – 46% of them thought it developed either substantial or outstanding.

Only the development of courage and self esteem was regarded as less than 40% substantial or outstanding: 39%, and 38% respectively. If we take courage, the simulation comes close to reality – when „too much” courage determines a team to make sudden moves that are not linked with the evolution of the business, losses can



be spectacular, while on the other hand innovation and evolution can be blocked by too much caution. It is also interesting that in contrast with theory, the business simulation helps master students to use all they have learn, leading them to trust more in their ability to act as managers and supporting their self esteem.

Conclusions

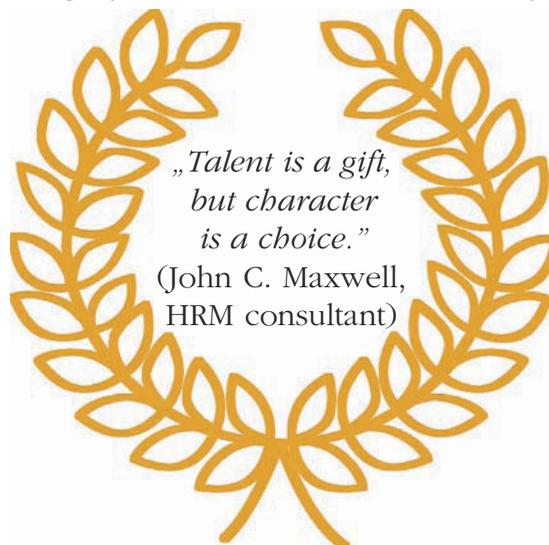
The analyzed competencies and individual qualities could be developed in a very good manner by the „General Management II” Business Simulation Game. A significant percent of 38%-63% of the participants regarded their development as substantial or even outstanding. Belonging to a category that is important in managing a business, but in contrast difficult to grasp by classical learning approaches, the analyzed competencies and individual qualities developed by the business simulation game emphasize the importance and positive impact of it in the framework of master programs in the field of engineering and management. Many participants were even so excited to say that the business simulation game was the best part of the whole master program and that they learned a lot from it.

The research results encourage a recommendation to insert good quality business simulation games like „General Management II” from Topsim in the curricula of Master programs belonging to the field of engineering and management, in order to increase the value of the programs by stimulating the development of proactive thinking, communication, intuitive thinking, responsibility, argumentation, creativity, delegation, diplomacy, conflict management, flexibility, courage and self esteem.



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