Business Administration

Psychosocial Aspects of the Performance of Strategic Alliances: A Critical Review of the Literature - I

Louis Rinfret[1]

Abstract: This paper presents a critical review of the strategic alliance literature, with an emphasis on the psychosocial factors involved in strategic alliances' performance. I argue that these have been neglected in favor of macro and meso-level theories, which tend to ignore performance-effects of micro-level behavioral factors. The schools of thought and methodologies that have shaped the development of the strategic alliance literature are discussed along with the key success factors that have been related to strategic alliances' performance. In conclusion, I put forth a set of recommendations for future research.

Keywords: strategic alliances; performance; management

JEL Classification: M10; M12; M21

1. Introduction

Les alliances stratégiques sont généralement formées par des participants qui attendent d'elles qu'elles améliorent le positionnement concurrentiel de leur firme. Or plusieurs auteurs en viennent à la conclusion que la plupart des alliances ne suffisent pas à répondre aux espoirs suscités par leur création, cela montrant qu'il est nécessaire d'examiner de manière plus approfondie la gestion concrète des alliances (Bamford, Gomes-Casseres, & Robinson, 2003; Chao, 2011; de Rond, 2003; Doz, 1996; Doz & Hamel, 1998; Ernst & Bamford, 2005; Hamel, 1991; Hamel, Doz, & Prahalad, 1989; Schilke & Goerzen, 2010). Cependant, la plupart des recherches effectuées sur les alliances étudient ces dernières de façon macroscopique ou mésoscopique, et ignorent les aspects liés à l'agentivité humaine dans les alliances. En conséquence, l'application de la théorie actuelle des alliances ne conduit pas à une explication satisfaisante des prises de décision et des actions managériales menées dans le cadre d'alliances.

[1] Professor, Phd, University of Quebec, Trois-Rivieres, France, 3351, Boulevard Des Forges, QC G9A 5H7, Canada, Trois-Rivieres, tel: +1 800 365-0922, fax: +1 819 376-5210, Corresponding author: louis.rinfret@uqtr.ca.

Dans cet article, j'analyse la littérature existante sur les alliances, je mets en évidence ses lacunes et propose une orientation pour des travaux de recherche futurs. Les travaux les plus pertinents en matière de performance des alliances sont ceux portant (a) sur les motivations des alliances et (b) sur les facteurs clés de réussite (FCR, ou en anglais CSF, pour Critical Success Factors). J'aborde tout d'abord la possibilité d'appliquer la théorie des motivations des alliances, puis effectue une revue critique de la philosophie et de la méthodologie utilisées pour évaluer la réussite et l'échec d'une alliance. Cela pose le décor dans lequel on pourra réaliser une analyse informée des FCR des alliances. Je conclus par des réflexions et en proposant des recommandations pour des travaux de recherche futurs.

2. Pertinence de la théorie des motivations des alliances

Les motivations poussant les firmes à établir des accords de collaboration avec d'autres organisations ressortent de trois approches ayant été adoptées pour les étudier : le point de vue économique, le point de vue du comportement stratégique et la vue basée sur les ressources (VBR, ou en anglais RBV, pour Resource-Based View) (Kogut, 1988b). J'analyse rapidement ci-après ces trois approches.

Partant de l'économie des coûts de transaction (ECT, ou en anglais TCE, pour Transaction Cost Economics), de la théorie des contrats et de l'organisation, Williamson (1991) propose aux firmes de réaliser leurs transactions en cherchant à minimiser la somme des coûts de production et de transaction. L'auteur élargit le cadre des échanges économiques défini par Coase (1952) pour identifier trois formes de gouvernance – hiérarchie, marché et hybride, et fait valoir que chacune d'entre elles conduit à des coûts transactionnels et à des propriétés d'adaptation différents. L'un des éléments sur lesquels se fonde le paradigme de Williamson, ayant fait l'objet d'une attention considérable, est l'argument selon lequel les firmes se comportent de manière opportuniste afin de pousser au maximum leur avantage économique. Il considère par exemple”que l'un des avantages d'une hiérarchie par comparaison à la forme d'organisation hybride en ce qui concerne l'adaptation bilatérale est que les contrats internes peuvent être moins complets" (Williamson, 1991). Le point de vue de l'ECT concernant les alliances a été critiqué notamment en raison du fait qu'il ne voit que les coûts et les avantages économiques à court terme et qu'il n'analyse le problème du contrôle que d'un point de vue économique et financier relativement étroit (Larson, 1992). En se basant sur la théorie des jeux et l'économie des coûts de transaction, certains auteurs peuvent en toute logique tirer de telles conclusions, mais en réalité, il n'est pas nécessaire de fonder l'utilité d'une firme sur la seule optimisation immédiate des bénéfices économiques. Les deux autres points de vue présentés ci-après réduisent l'accent mis sur les aspects contractuel et financier et se concentrent sur certains éléments liés à la stratégie et aux ressources.

Une différence essentielle entre l'ECT et le point de vue du comportement stratégique est que dans ce dernier cas, les motivations d'une alliance inter-firmes ne sont pas appréciées au sens d'une minimisation des coûts ; elles sont au contraire vues comme une manière de maximiser les profits (Kogut, 1988a). Cette maximisation des profits résulte en fait surtout de l'amélioration du positionnement concurrentiel d'une firme. Par un effet de levier, les alliances permettent ainsi la mise en œuvre d'une panoplie de fonctions propres à la chaîne de valeur, un accès plus facile au marché, une prise en compte des incertitudes liées à l'environnement, une réduction de la dépendance à un marché ou à un ensemble de ressources, et une différenciation ou une amélioration des capacités dans le but de dégager un avantage concurrentiel (Bretherton, 2003; Tehrani, 2003). Les vues que l'on trouve dans la littérature sur le comportement stratégique ont un point commun central: les firmes voient l'alliance comme une stratégie permettant de limiter la concurrence ou de renforcer leur positionnement sur le marché. En retour, si l'on se place dans la perspective du comportement stratégique, cela favorise l'accroissement des profits.

Le troisième pilier de la littérature portant sur les motivations des alliances est la vue basée sur les ressources (VBR, ou en anglais RBV, pour Resource-Based View), selon laquelle le savoir-faire et l'apprentissage organisationnels revêtent un intérêt fondamental. Le partage des informations d'apprentissage occupe un rôle central dans cette école de pensée ; à tel point que certains vont jusqu'à dire que"la formation d'une alliance est la reconnaissance du fait qu'un partenaire de l'alliance possède un savoir utile" et que"si ce savoir n'était pas utile, il ne servirait à rien de créer une alliance" (Inkpen, 1998). La caractérisation des organisations sous forme de portefeuilles de compétences est au centre de cette approche. Selon cette démarche, les firmes profitent de leurs alliances pour bénéficier des compétences disponibles dans d'autres organisations, en améliorant et an faisant ainsi évoluer leurs propres compétences (Osland & Yaprak, 1995). Les alliances peuvent donc être vues comme un moyen permettant non seulement d'accéder aux compétences d'une entreprise partenaire, mais également de les acquérir (Hamel, 1991). Les partisans de la VBR font valoir que le fait de ne considérer les alliances que comme un mécanisme d'adaptation des coûts ou comme un mécanisme de sous-traitance - comme le suggèrent les approches fondées sur l'analyse des comportements stratégiques et sur l'économie des coûts de transaction - peut affecter défavorablement les ensembles de compétences internes. Pour ce qui concerne les deux autres approches, l'une des implications de la VBR est que les firmes recourant à cette logique peuvent ne plus"pouvoir acquérir les nouvelles compétences et technologies indispensables à leur participation aux évolutions de l'industrie" (Lei & Slocum, 1992).

En résumé, les façons de voir une alliance qui sont fondées sur l'économie, sur le comportement stratégique et sur la VBR sont des cadres d'analyse utiles se focalisant sur des questions importantes. Mais aucune d'elles ne permet d'appréhender l'ensemble complet et diversifié des facteurs pris en compte par les dirigeants d'entreprises lorsqu'ils décident de créer et de développer des alliances stratégiques. Cela entraîne un certain nombre de problèmes. Par exemple, lorsque des alliances sont formées par choix (cela n'est pas nécessairement toujours le cas - par exemple dans des industries ou des pays fortement régulés), ces options peuvent se fonder sur des motivations qui recouvrent les trois écoles de pensée. Chacune des parties prenantes a un ensemble de motivations et des niveaux d'intérêts qui lui sont propres pour une relation particulière. Toutes ces approches n'accordent que peu ou pas d'importance aux aspects psychosociologiques ou décisionnels managériaux des alliances lorsqu'elles décrivent et analysent les motivations des alliances. Si l'accent n'est pas mis sur ces questions, l'ensemble des théories traitant des motivations des alliances restera incomplet puisqu'elles négligeront certains facteurs de contingence propres à chaque organisation et ayant une incidence sur les activités décisionnelles des responsables de la création et de la gestion des alliances stratégiques (de Rond, 2003). C'est ainsi par exemple que bien que la tendance soit à l'augmentation du nombre des partenariats, plusieurs entreprises réalisent encore un grand nombre d'activités de manière indépendante - même dans les cas où un partenariat conduirait de toute évidence à l'abaissement des coûts, à l'accroissement des revenus ou de ressources telles qu'un savoir-faire. Dans ces cas, d'autres éléments entrent en jeu. Certaines entreprises tirent publiquement une certaine fierté à travailler”en interne", alors que des entreprises comparables se disent tout à fait prêtes à nouer des partenariats ou à réaliser des acquisitions afin d'accélérer la mise en œuvre de leur stratégie (e.g. Ricadela, 2007). Cela semble indiquer que certains facteurs tels que les caractéristiques et les préférences des équipes dirigeantes, les processus sur lesquels ils fondent leurs stratégies et certaines traditions, peuvent exercer une grande influence sur les activités de partenariat d'une firme.

Il apparaît clairement que des motifs poussant à former des alliances peuvent être présents au niveau d'analyse d'un dirigeant individuel puisque les alliances sont le résultat du raisonnement et de l'action d'individus (ou d'équipes) (Pansiri, 2005). Il est donc vraisemblable qu'en pratique certains éléments psychosociologiques aient une influence sur les décisions relatives aux alliances, l'agentivité humaine ayant un effet sur la création de ces dernières au travers de facteurs tels que la confiance et l'expérience antérieure, dont on a pu montrer qu'ils avaient un impact significatif sur les décisions managériales dans le contexte des alliances (Gulati, 1995, 1998). De tels facteurs peuvent par exemple amener une équipe stratégie à décider de nouer un partenariat plutôt que de suivre une démarche indépendante, ou conduire une équipe partenariat à sélectionner une firme plutôt qu'une autre pour former une alliance. Les normes sociales, les engagements et divers imbroglios peuvent également être à l'origine de la formation ou de l'élargissement d'alliances qui autrement auraient pu ne pas voir le jour (Ring & Van De Ven, 1994). Les ambitions et les intérêts privés (Delios, Inkpen, & Ross, 2004; Inkpen & Ross, 2001), le capital social (Duysters & Lemmens, 2003) et le népotisme peuvent eux aussi fortement influencer et accroître la complexité des décisions en matière d'alliances. Enfin, certaines alliances peuvent être établies sur la base de présomptions, d'une certaine curiosité ou d'intuitions (Adobor, 2002). Ainsi, bien que l'on se soit peu intéressé aux questions managériales dans la littérature portant sur les motivations des alliances, il est utile de les prendre en compte tant du point de vue de l'élaboration d'une théorie que pour mieux aider les praticiens dans leurs prises de décision.

3. Comment construire et mesurer la performance des alliances

Avant de présenter dans la partie suivante de cet article les facteurs qui ont été associés à la réussite et à l'échec des alliances, je passe en revue la façon dont la littérature définit et mesure la performance d'une alliance pour faire ressortir les hypothèses concernant la nature des alliances et comment elles peuvent être étudiées.

La mesure de la performance a soulevé des problèmes considérables dans les travaux de recherche sur les alliances (Adegbesan & Higgins, 2011; Ariño, 2003; Glaister & Buckley, 1998; Park & Ungson, 2001; Parkhe, 1993; Perkmann, Neely, & Walsh, 2011; Zollo, Reuer, & Singh, 2002). Dans sa revue de la littérature, Gulati (1998) rapporte que”la performance des alliances reste l'une des questions les plus intéressantes mais également les plus épineuses". Il convient de noter que les difficultés liées à la mesure de la performance ne sont pas limitées aux alliances stratégiques et que l'on peut considérer que le problème de la mesure de la performances des alliances est un sous-ensemble du débat plus général sur la performance organisationnelle (Glaister & Buckley, 1998). Ce débat porte principalement sur le bien-fondé de diverses mesures visant à estimer la performance dans des contextes différents. La partie suivante fournit un aperçu général des mesures objectives et perceptuelles ayant été utilisées pour évaluer la performance d'alliances, accompagné de plusieurs réflexions associées.

En cherchant à établir un lien entre l'activité coopérative et les résultats financiers (ce terme étant synonyme de la performance d'une alliance), les chercheurs utilisent des variables telles que la profitabilité, la croissance, l'efficacité des actifs, les liquidités et le risque financier (Hagedoorn & Schakenraad, 1994; Luo, 1996). En utilisant une méthodologie d'étude des événements[1], certains auteurs ont également

[1] La méthodologie de l'étude d'événements consiste à mesurer l'impact de certains événements sur la valeur d'une firme.

eu recours aux effets de valorisation liés aux annonces d'alliances entre firmes comme mesure de la performance (Gleason, Mathur, & Wiggins III, 2003; Koh & Venkatraman, 1991). Bien que les mesures financières aient l'avantage d'être objectives, ce sont des critères autonomes insuffisamment robustes pour évaluer la performance d'une alliance. A titre d'exemple, les alliances peuvent servir de mesures défensives et leur réussite peut ne pas nécessairement conduire à une croissance des revenus ou des profits. De telles alliances peuvent avoir pour but d'empêcher un concurrent de pénétrer un marché afin de se protéger d'une perte de revenus potentielle ou d'un rachat indésirable, comme cela a récemment été le cas lorsque les géants de l'Internet Yahoo! et Google ont cherché à s'associer et ont découvert que Microsoft avait l'intention d'acquérir Yahoo! (Karnitschnig, 2008). Des alliances peuvent également être formées pour répondre à un ensemble de motivations allant au-delà des buts économiques classiques qui visent à maximiser les profits (Glaister & Buckley, 1998), ces motivations ne conduisant pas nécessairement à un ensemble immédiatement mesurable de résultats financiers. Ces motivations peuvent inclure l'acquisition de savoir ou l'amélioration du positionnement stratégique d'une entreprise vis-à-vis de ses concurrents (Kogut, 1988a).

Un autre type d'approche destinée à évaluer la performance des alliances consiste à utiliser leur continuité (ou l'absence de celle-ci) et leur durée ou leur stabilité comme autres mesures de la réussite (Barkema, Shenkar, Vermeulen, & Bell, 1997; Frankel & Schmitz Whipple, 1999; Nakamura, Shaver, & Yeung, 1996). L'une des faiblisses de cette approche est que la plupart des alliances finissent par se dissoudre, y compris celles qui ont réussi (Bleeke & Ernst, 1991) ; comme l'explique Kogut (1988a) ,”l'imitation est souvent le but d'une co-entreprise et lorsque l'imitation est complète, le signe de la réussite est la rupture du partenariat". Inversement, il peut arriver que certaines alliances se maintiennent alors qu'elles auraient dû être dissoutes. Dans des environnements évoluant rapidement, certaines alliances peuvent devenir caduques immédiatement après leur formation (Pangarkar, 2003). Bien que certaines de ces ruptures puissent être vues comme des échecs, dans de telles circonstances, le maintien des alliances n'est que faiblement représentatif d'une réussite. La théorie de l'escalade, qui s'intéresse aux organisations et aux individus persistant à suivre des voies conduisant à l'échec, a également été utilisée pour expliquer pourquoi certaines alliances continuent d'exister malgré le fait qu'elles ne produisent plus les résultats attendus. Ces escalades s'expliquent par les coûts de la dissolution, les conflits sur la façon de dissoudre une alliance, les valeurs des firmes, un haut niveau de visibilité et l'implication des cadres supérieurs qui s'étaient”socialement liés à leurs alliances" (Delios et al., 2004; Inkpen & Ross, 2001).

Des mesures financières et objectives de la performance des alliances ne permettent donc pas de bien savoir si une alliance a atteint ses buts à court et à long terme (Geringer & Herbert, 1991). Cette insuffisance a conduit certains chercheurs à se tourner vers des mesures plus qualitatives de la performance des alliances. Une mesure subjective couramment utilisée est l'évaluation managériale de la performance d'une alliance. Les évaluations globales des performances réalisées par les acteurs d'une alliance offrent l'avantage de bénéficier d'un point de vue interne à l'entreprise ; cependant, on ne sait pas toujours très bien quels facteurs ont été pris en compte dans l'évaluation. Des approches utilisant des mesures perceptuelles multifactorielles ont donc été suivies pour mesurer de manière plus structurée la performance des alliances (Draulans, deMan, & Volberda, 2003; Leek, Turnbull, & Naudé, 2006; Nielsen, 2007). Draulans et al. (2003) ont par exemple mesuré la réussite d'une alliance en utilisant les quatre critères suivants: (1) les performances économiques/financières[1], (2) le degré d'atteinte des objectifs, (3) la relation entre partenaires, et (4) la performance globale. Bien que les mesures perceptuelles offrent davantage d'informations sur le degré d'atteinte des objectifs d'une alliance (Glaister & Buckley, 1998) obtenues à partir des perceptions des intervenants d'une alliance, les mesures utilisées jusqu'à maintenant ont leurs propres limitations. Par mi ces limitations on peut citer le biais du point de vue du répondant puisque les points de vue vont dépendre de la personne répondant aux questions. Sans une bonne compréhension du raisonnement des répondants, il est impossible d'établir une distinction entre les facteurs et l'argumentaire sur lequel se fondent la formation d'une alliance et sa performance. En outre, les mesures perceptuelles”structurées" peuvent ne pas correspondre à l'évaluation réelle que le répondant peut effectuer de manière naturelle dans un environnement dépendant du contexte. Comme pour toute mesure prédéfinie appliquée à de grands échantillons d'organisations hétérogènes, on risque de ne pas saisir l'importance relative de chacun des éléments mesurés et d'en manquer certains qui peuvent être importants et affecter de façon plus prononcée chaque cas idiosyncratique étudié.

Une approche utilisée pour tenter de remédier aux faiblesses des mesures objectives et subjectives consiste à utiliser ces deux types de mesures dans l'évaluation de la performance d'une alliance. Par exemple, Kale et ses collègues ont combiné l'évaluation managériale à la réaction des marchés boursiers pour évaluer la performance d'une alliance. Leur étude incluait les rendements boursiers anormaux et utilisait les critères suivants pour mesurer la performance d'une alliance: (1) harmonie entre les partenaires de l'alliance, (2) le fait que la société mère a ou non atteint ses objectifs dans l'alliance, (3) le degré de renforcement du positionnement concurrentiel de la société mère, (4) le niveau des compétences ou des capacités clés acquises auprès de son partenaire dans l'alliance. Il est intéressant de noter que cette étude a”mis en évidence une corrélation positive entre la réponse des marchés boursiers à l'annonce d'une alliance et la performance à long terme de l'alliance" évaluée par les mesures subjectives (Kale, Dyer, &

[1] Mesure perceptuelle des performances financières/économiques.

Singh, 2002). Cela semble indiquer un certain niveau de comptabilité entre les mesures subjectives et objectives utilisées dans ces recherches. Le caractère interchangeable des mesures objectives et subjectives n'a cependant pas été étudié de façon très poussée et n'a reçu qu'un accueil mitigé. Certaines études ont abouti à des observations différentes sur des échantillons différents (Ariño, 2003; Geringer & Herbert, 1991; Glaister & Buckley, 1998), les résultats variant notamment selon les types de mesures utilisés et le contexte culturel (Glaister & Buckley, 1998).

Cet intérêt croissant pour l'analyse de la mesure de la performance des alliances fait apparaître un grand nombre de questions et de défis restant à étudier. On citera principalement les hypothèses importantes utilisées sur la nature des alliances et la façon dont elles peuvent être étudiées. La première hypothèse est que la performance des alliances peut être évaluée au travers de mesures génériques portant sur de grands échantillons de firmes, comme cela est fait dans des domaines tels que les finances où on évalue le prix des actions et les actifs financiers des firmes. Dans une rare étude d'évaluation pratique des alliances, Ariño (2003) souligne que l'établissement d'un lien entre mesures opérationnelles et performances exige"une certaine connaissance des objectifs temporels des alliances stratégiques" et"qu'il serait trompeur d'utiliser (des mesures opérationnelles) comme mesures de performance sans cette connaissance préalable". Les études mesurant l'atteinte d'ensemble d'objectifs initiaux que se sont fixés les alliances peuvent donc donner une fausse idée de la nature de la performance des alliances puisque celles-ci n'atteignent pas toujours les objectifs initialement fixés, bien que l'on considère encore qu'elles ont réussi en raison de certains résultats positifs inattendus (de Rond, 2003), comme c'est notamment le cas dans de secteurs fluides tels que celui des hautes technologies. Dans le même ordre d'idée, Inckpen et Beamish soulignent que les motivations et les facteurs coopératifs associés à l'instabilité ne sont pas nécessairement les mêmes pour tous les types d'alliances et préviennent que"les généralités sur l'instabilité des alliances doivent être interprétées avec précaution" (Inkpen & Beamish, 1997). Les alliances présentent bien sûr de nombreuses formes différentes, avec des finalités et des dimensions temporelles diverses, et l'utilisation du plus petit commun dénominateur pour déterminer leurs performances sans prise en compte des particularités des diverses alliances étudiées semble pour le moins risquée. Cela soulève des doutes sérieux sur les mesures génériques portant sur de grands échantillons, et met en évidence le besoin d'études de la performance des alliances utilisant des approches contextuelles plus approfondies.

La seconde hypothèse repose sur l'idée que la performance des alliances est analogue à une variable binaire pour laquelle il n'existe"qu'une seule version de la vérité". Cherchant à évaluer la validité structurelle de plusieurs mesures de performances des alliances, Ariño (2003) établit une distinction entre résultat et performance d'un processus. Elle observe que"lorsqu'on demande à des partenaires d'évaluer la performance globale d'une alliance stratégique - et plus particulièrement, lorsqu'on leur demande d'indiquer leur niveau de satisfaction vis-à-vis de l'alliance stratégique - ils peuvent non seulement évaluer les résultats de l'alliance stratégique, mais également l'alliance stratégique en tant que”*processus*" [italiques ajoutées). Cette étude montre la voie en soulignant l'importance de la compréhension des facteurs sous-jacents mis en évidence par diverses mesures perceptuelles. Ces résultats sont corroborés par Leek et al. (2006) dans une étude classant les relations comme ayant”réussi" ou comme étant”sujettes à problèmes" et déterminant que les alliances ayant réussi ne sont pas toujours simples à gérer. Les perceptions sont aussi basées sur les orientations cognitives des individus qui peuvent être influencées, entre autres, par le niveau d'instruction, l'âge et l'expérience professionnelle (Tyler & Steensma, 1998). En réalité, il peut y avoir autant de perspectives qu'il y a de parties prenantes à une alliance et ces perspectives peuvent être définies de façon bien tranchée ou être plus nuancées. Par conséquent, la performance des alliances présente un caractère subjectif dépendant de critères propres à l'individu, qu'il s'agisse du PDG d'un partenaire, d'un acteur départemental, de l'une des entreprises partenaires ou d'un client de l'alliance. Tous ces acteurs ont des points de vue et des ensembles de critères valables mais néanmoins différents lorsqu'ils évaluent la performance d'une alliance.

Avec pour toile de fond cette analyse critique de l'analyse des alliances, je décris dans la partie suivante de cet article, les principaux résultats du passage en revue des principaux facteurs ayant été liés aux performances des alliances.

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Tourism Value Chain Management as a Tool for Effective Tourism Destination Development The Case of Pécs ECoC 2010

Márta Bakucz[1]

Abstract: Pécs, a European Capital of Culture for 2010, and generating a series of cultural events, had a unique opportunity to place itself on the map of Europe and to re-align its development strategy. To follow the ECoC project year, a specific research exercise is planned by the writer with a Tourism Value Chain Analysis [VCA] of Pécs. This study is a prologue to further research planned and which aims to describe the meaning of 'value chain' in the tourism sector and how multi-stakeholder participation can best be coordinated. For this, the author defines the characteristics of the tourism product for the purpose of successful marketing, synthesizing the role of tourism management organizations in general, and their process of establishment in Hungary, on the basis of an earlier own research (2007). The importance of tourism DMOs is highlighted by the special event relating to Pécs in 2010, prior to which a preparatory phase had helped to formulate a local tourism management organization. This local DMO contributed greatly to the success achieved by the ECoC project - which helped to transform the city image from that of an earlier mining-industry town into a cultural tourism destination, although other by-products of the year were less successful.

Keywords: Value Chain Analysis; Tourism Destination Development; Tourism Destination Management; Multi-stakeholder Cooperation; Sustainable Pro-city Tourism

JEL Classification: F10; M20; O18

1 Introduction

1.1 The Rationale of Value Creation

Competitiveness cannot exist without value being created. It is possible that some exotic novelty may attract attention for a while and generate a return, but it is inevitable that, unless value can replace novelty, the 'while' will prove not to be very long. This basic principle applies whether we have in mind a manufactured product or a service. Created value is a term relating to price and the two aspects of value creation are the basic cost itself and the value of the product (or, of course, service). Porter (1985) suggests that value creation may be understood by breaking down the operating company and showing it as a series of activities. Value creation

[1] Associate Professor, PhD, University of Pecs, Hungary, Address: H-7622 Pécs, 4 Vasvári Pál Street, Hungary, tel: +36 72 501-500, Corresponding author: bakuczster@gmail.com

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is then seen as the process of transforming raw materials into final products and delivering them to the consumer.

Emphasizing the process character of value creation, Porter refers to his model as the ‘value chain’. However, this concept is challenged by Stabell and Fjeldstad (1998) who suggest that the ‘value chain’ approach is not suitable if we aim at analyzing service-type value creation, as the basic processes are different in these cases. In their view the more appropriate view would be of the ‘value shop’. This concept, they say, better depicts companies which marry a range of problems with problem-solving resources. According to Thomson (1967, cited in Stabell and Fjeldstad, 1998 p. 420), ‘value shops’ rely on intensive technology to solve a client’s problem. In contrast to value chains, the value shops schedule activities according to the client’s needs and so their activities are not fixed, but, in fact, unique, since they extract the maximum from their problem-solving resources in respect of the nature of the problems. Tourism, of course, would seem to be a fine example of the latter.

Stabell and Fjeldstad identify five primary activities in the value shop (*Chart 1*):

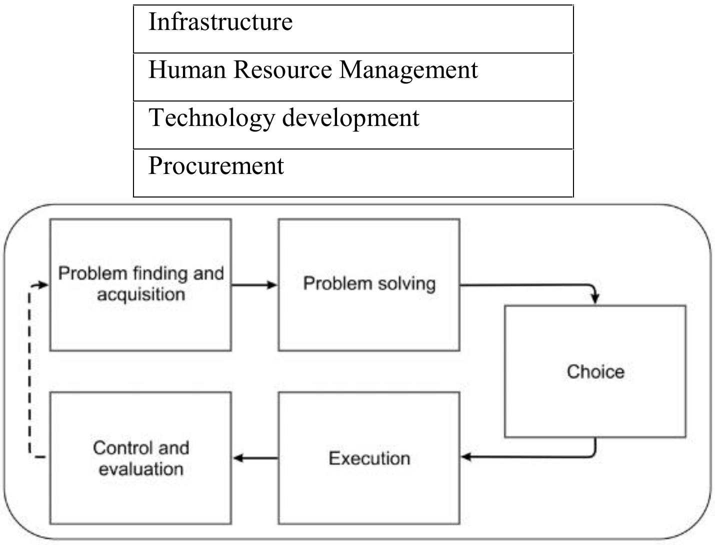

Chart 1. The general Value Shop diagram

Source: Formádi, K. and Mayer P. (2010) p. 302

The concept – the image – of the ‘value shop’ is well-known and used in the context of tourism and so does require mention. However, it is the author’s conviction that any advantages which the concept may offer are overshadowed by the strength and clarity of the basic ‘Value Chain’ metaphor - and so a distraction. In consequence, the term Value Chain will be used in this article and should be read as incorporating any relevant meanings pertaining to the Value Shop concept.

1.2 Designing a Tourism Product

Developing sustainable tourism demands a clear understanding of the complex nature of tourism and of its position and relationships within the broader economy and society. Individual elements of the whole tourism process are visible at different points (locations), in a form very much akin to the links in a chain, and all need to be strong. For example, the customer's home country will often influence his choice of destination by provoking a desire for something totally different, although most mass-market customers wish to know precisely what they are buying and often demand more than they are accustomed to or should reasonably expect. Planning needs to be wide-ranging and thorough - both when elaborating the basic concept and when attending to the fine detail.

Tourism, perhaps, can be regarded as a market extreme, and so sensitivity on the part of the developer or investor is of paramount importance. Tourism may well be good for you, but it is, basically, a luxury and so subject to the vagaries of the luxury market. As people have increasing personal disposable income (PDI), more will aspire to go on holiday, to take more or longer holidays, to travel greater distances to more exotic places and so on. In some cases, of course, these new arrivals on the scene will replace others who move on to other sectors. In other words, the market may change internally as new waves or new strata from different social groups of different nationalities travel to older, established destinations – which, otherwise, might have felt the effects of market saturation or ageing. Likewise, deteriorating economic conditions and declining PDI have other effects – usually in clear contrast to these.

Mass-tourism in general is concentrated in relatively few areas and in most of these is well-established, having grown over many years. New such destinations do not appear overnight. This sector relies heavily on a wide range of services and activities, but in the traditional areas these, and their provision, have become a part of the local way of life, whether tourism in a particular location is year-round or seasonal. Existing facilities are geared to the market and employment is focused on the visitor in many different ways.

However, when tourism, on almost any scale, is first being introduced to a new locality – for example, when a spa is being developed in an environment totally unaccustomed to the tourist, a new approach is needed. It is especially important in such destinations to forge partnerships and encourage participation from all concerned, whether public, private or the local population. This new dimension to the community must be encouraged to grow naturally and organically – new businesses wholly or partly serving the tourist traffic but growing within a community with reason to welcome the arrival in town of an attractive new entity.

The question is one of balance. The scale of the project should be rational, with prices set to create a certain level of demand, and with the overall ability on the part of management to guarantee customer satisfaction. The acknowledgement of value is of paramount importance. This will secure a sensible return on the initial investment. The natural and cultural heritage basis of the project should be safeguarded and the local population should be able to enjoy the benefits brought by tourism through an improved environment and better living standards deriving from an enhanced local employment situation.

Tourism development must therefore be founded on the three pillars of sustainability (economic, environmental and social) and all related action should be calculated in ways which encourage an equitable distribution of the benefits.[1]

In such a lengthy and complex process, management is of paramount importance and the critical issue is of how to set up and operate the optimal form of management in a field which is so clearly an area of common interest for the public and private sectors.

2 The Operation of Destination Management and the Value Chain

The destination according to Carter, R. – Fabricius, M. 2007 involves many actors, such as the local authority, the attractions, the service providers, local touristic consortia or partnerships civil organizations, institutions, supporting businesses, tourism development institutions and organizations etc The cooperation of these actors is similar to the links in a chain: if they are not linked together then the chain is broken. Should the participants constituting the key and supplementary functions of the destination are not connected, or, even if they are connected, but some provide a lower quality of service than others, this might well influence the evaluation of the whole destination in a negative way. The quality of the key factors, as well as the supporting infrastructure of the destination (or its lack) can essentially formulate the experience of the tourist at different levels: the tourist in this way can judge the quality of the destination and perceive the value of the journey.

[1] Using natural and cultural heritage for the development of sustainable tourism in non-traditional tourism destinations. Key success factors: Designing a tourism offer, 2002, www.europa.eu/enterprise

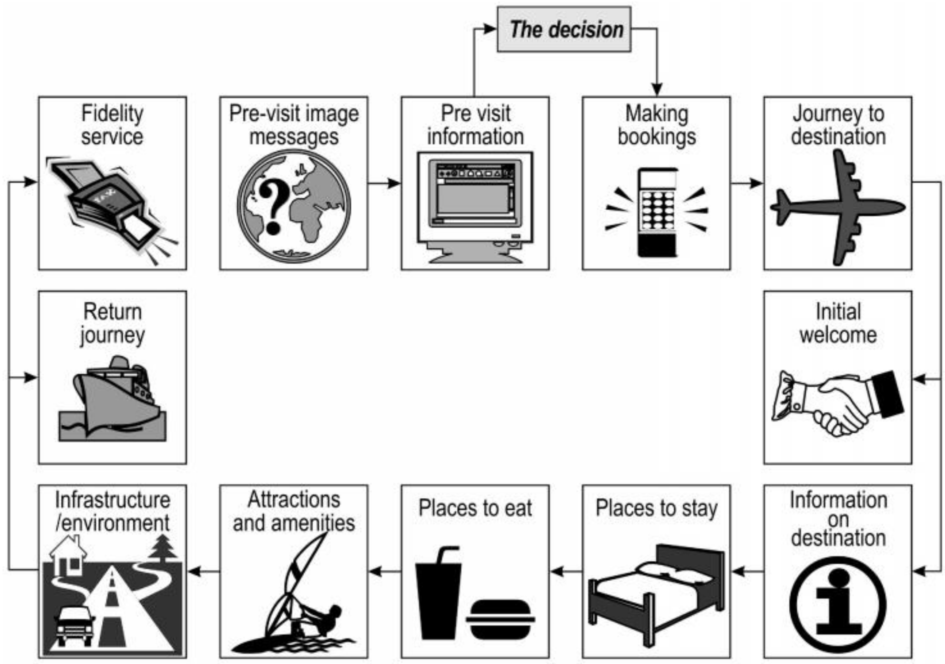

Chart 2. The Tourism Chain

Source: Using natural and cultural heritage for the development of sustainable tourism in non-traditional tourism destinations (2002). Key success factors: Designing a tourism offer, 28.p. www.europa.eu/enterprise

The following factors are the elements of the value chain system (Carter & Fabricius, 2006):

- Image and its creation: creating the design and prices etc.;
- Preparation for the journey; simplifying booking, providing information etc.;
- Travel to the destination: transport facilities, easy access to information etc.;
- Arrival: transport, transfer, easy access to information etc.;
- Experiences related to the destination: totality of the tourism background services such as attractions, the complex tourism product, accommodation and catering opportunities etc.;
- Return journey: transport and access to information.

To operate the destination as a touristic value chain, there is a vital need for an organization which establishes the link between the tourist and the receiving area in general - one which has independent and appropriate competences and tools, and which is capable of coordinating the actors and synthesizing activities (Tőzsér, A.

2006). These multi-stakeholder activities can best be directed by Destination Management Organizations.

2.1 The Role of Destination Management Organizations

Destination Management Organizations (DMOs) are – as destinations themselves – varied in both character and size. Destinations are generally complex entities and depend upon the provision of a wide range of facilities by an equally wide range of entrepreneurs. These interests are generally so diverse or fragmented that any hope of appropriate maintenance and development being provided or emerging is unrealistic. 'Appropriate' in this context must include the interests of all stakeholders – not simply those of the investors who (legitimately) seek profit, but also of the community, the residents of the destination. It is self-evident that such sustainable interests – overriding in their importance – can only be provided by a delicately shaped and sensitively run cooperation between the democratically elected representatives of the population and private business. To flourish, a local authority needs revenue, which can only come from productive economic activity within its boundaries. Local taxes on residential and business property values, to say nothing of a Tourist Tax, are sought for on the one hand. Restraints on development are likely to come from residents who may object to their settlement becoming a noisy, violent centre for alcohol and drug abuse, gambling and other activities which are illegal, potentially so or socially unacceptable. A local authority in most jurisdictions has restrictive powers in the fields of planning permission, business licensing and taxation. Cooperation in the common interest is clearly vitally important.

DMOs are organizations responsible for the performance and development of the industry over the widest possible range of territories in terms of size – that is, from village to country. Changing and increasing with the potential for the industry to thrive amid huge competition. They should, in reality, be the engine of the tourism industry, irrespective of the size of territory under their control.

The issue of who – which stakeholder - should control or dominate a DMO, however, should rarely be a problem, since it is only some form of PPP (Public-Private-Partnership) which can lock the interested parties into the operation which can have a serious potential to succeed – a factor which has especial relevance to the country examined – Hungary.

It must be accepted that, as asserted by Beritelli et al (2007), in centrally managed destinations (usually owned by one company) reactions to a changing market situation can be expected to be more decisive, more innovative, more rapidly and effectively implemented. However, it is difficult to conceive that such an unbalanced structure could serve the public interest, especially in the longer-term. It must also be accepted that a DMO which is purely a branch of public administration is equally unlikely to fulfill its task at all adequately. A total lack of experience in a competitive market situation could only be disastrous, and it is not merely in a country such as Hungary that this would be true. Since the constraints deriving from the involvement of some form of central authority (central, regional or local government-derived) must be present to balance the interests of the various stakeholders, the solution most likely to succeed must be a fully cooperative partnership. Such a body has all the necessary potential to introduce rational policies and principles of governance with the security of understanding and support from all interested parties.

From different earlier theories (Coase, 1960; Jensen and Meckling, 1976; Williamson, 1979; Powell, 1990; Richter, 1994; Gulatti, 1998;) we can conclude that, for tourist destinations, destination management operated by the community is heavily dependent on networks which bring together a wide spectrum of relationships – essentially those which arise through practical or business considerations (transactional is an appropriate term now used) and others of a more personal nature. On the other hand, where we have a company-dominated situation, hierarchical relationships emerge more or less naturally, underlining, as Beritelli et al. put it, ‘the dyadic perspective’. In destinations where the community (in one form or another) is the driving force, serious progress in the effective strengthening of the network depends upon relatively informal links, together with relevant knowledge and a degree of mutual respect and trust.

As we attempt to construct a ‘best practice’ model for a DMO (purely for domestic use, we should stress), it might be appropriate to evaluate the characteristics – the advantages and disadvantages – of the alternative, and for this exercise we would again acknowledge the thoughtful construction of Beritelli et al. 2007 and the terms used by them.

In terms of *transaction costs* it is only to be expected that the corporate model proves more economical than the community model. However, the former is likely to come about due to the dominance of one or two entities which will bear the bulk together with their business partners whose interest coincides with theirs. There are likely to be more players in a community example and less focused operations. In the area of *power asymmetries* much the same can be expected – more diffuse on the part of the community model and more likely to be directed by a dominant firm or firms in the corporate sector. *Interdependence,* possibly diffuse in a community model, is likely to be strong in a corporate example where the two main participants – community and company – recognize their need for each other and operate accordingly. In respect of the dual *trust and control* field the corporate model is likely to appear stronger since it is more likely that various corporate interests will be underpinned by clear agreements, formal or informal. With the community, public affirmation will be both necessary and decisive.

Differences between the two in terms of knowledge are likely to be quite strong, with the community model displaying a wide spectrum, often historical, which may or may not be relevant to the aims and needs of tourism. On the other hand, in the corporate model, knowledge is almost certain to be hard and detailed, although relatively narrow in being restricted to specific commercial interests of the parties concerned. *Informal or personal connections* are also likely to appear very different in that the community model will show a wide range of network-style connections with varying degrees of relevance or usefulness, whereas the corporate example would show few, although these would be much more likely to be highly relevant.

The essential feature, however, continues to be that the main function of the DMO should not be that of a relatively passive supervisor; the accumulated experience and the direct interests of the members qualify them perfectly to be the *guardians of the value chain* and so the best guarantors of sustainability for their destination

2.2 National Survey Summary Regarding Hungarian DMOs

The writer prepared a short, narrowly focused survey on Destination Management Organizations in Hungary. This related to ROP-related assistance promised for late-Spring 2008 to help tourism in Hungary foster such organizations – which are to be devoted exclusively to the coherent and organized development of the industry. The questionnaire was based upon a World Tourism Organization survey (2004) in which Hungary did not take part. The results were intended to assist our understanding of the current situation regarding tourism DMOs in Hungary, to map their current structure and help to find ways for future improvement. The nomination of Pécs as an ECoC for 2010 also increased the interest since little seemed to be understood at that time within Pécs circles of the potential benefits of a serious DMO – even one devoted exclusively to the 2010 project. Of the 35 DMOs approached, 34% responded, mostly through an on-line survey; providing a sample of organizations at Regional, County or City/Settlement level. This report, therefore, examined in outline the profile of these three types of organization. (For unknown reasons, National Tourism Authority or National Tourism Organization representatives did not respond)

The structure and governance of tourism management organizations in Hungary *did not show a high level of consistency* – there were a profit-driven commercial company, an agency accountable to a regional government organization, a national government department and one 'other' - each representing 8% of the sample; 15% respectively apply to a department of regional, provincial, state or local government organization or to a non-profit association of tourism businesses. There was a much higher level of private sector involvement (38%) through some form of public-private partnership, particularly at city/settlement level.

All the organizations surveyed were small in size (up to 10 full -time equivalent staff) and in spending power. 50 % of the total sample had operational budgets of more than HUF 25 million, and 63% had marketing budgets above HUF 10 million. The survey showed that higher (regional) level organizations had a substantially higher overall budget than those at lower (county and city/settlement) level. More than 70% of this came from national/regional or local government sources as opposed to 30% of tourism-related or advertising income from businesses in the sector. This included surprisingly low revenue from tourist tax (1.64%) and membership fees from tourism businesses (2%). The map below *(Figure 1)* shows the tourism bed capacity of those regional-, county- and settlement-level organizations which responded. This shows that, proportionately, regions have higher numbers than micro-regions or settlements.

The map also shows that those tourism DMOs which responded to the questionnaire were either already innovative, having completed a 'flagship' project in Hungary – the Balaton Tourism Project Office, the host association of a pilot project and the first"pattern" settlement Gyenesdiás – or were willing to become innovative and make reforms to introduce tourism DMOs in the near future (the North Hungary Region, the Tisza Region and the Southern Great Plain Region – the last having already completed a training project in this connection). Unfortunately, the traditional tourism regions of Budapest, also incorporating the highest level national tourism organizations, and West Transdanubia, which has the benefit of physical proximity to the biggest 'tourist sending' countries) did not respond.

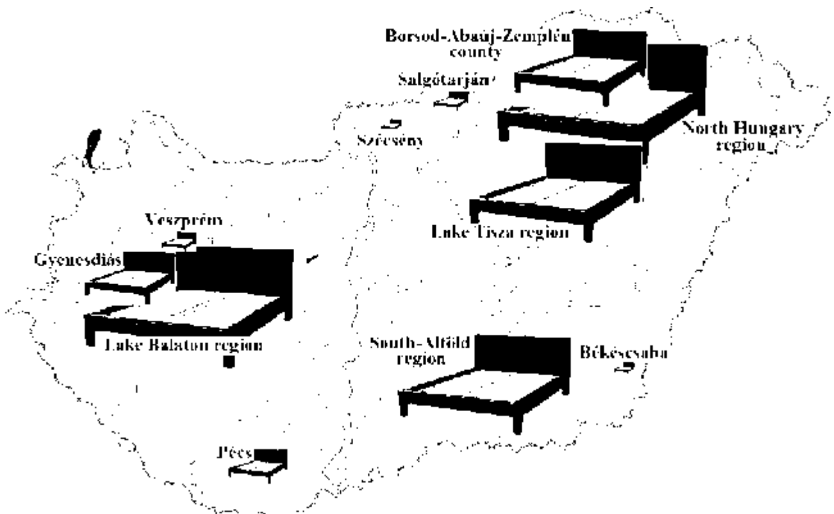

Figure 1. Availability of tourism beds in the Hungarian regions/micro-regions/ settlements participating in the survey

Source: The author's own survey. Designed by Molnár, Cs. (2007)

Core marketing and product development activities, information collection and reservations roles were undertaken by each type of DMO. DMOs engaged in a wide range of marketing activities, and that range of activities did not necessarily decrease where budgets were lower. It was clear that, in the majority of smaller DMOs, resources were thinly spread, in attempts to meet the needs of different groups of stakeholders.

For all types of Hungarian DMOs surveyed, the use of 'new media' activities will represent an increasingly important aspect of their marketing. These anticipated growth areas for the following 3 years include:

- CRM (Customer relationship management) - a 25% increase planned,
- E-marketing - a 33% increase forecast;
- The use of IT systems facilitating the input of information and content to be handled on a distributed basis – i.e. not having to be channelled through a central department – a 17% increase forecast;
- Real-time Web reservations services – a 16% increase in planning is expected.

The study asked DMOs for their opinions on both the way tourism structures worked in their own country and the role of the public sector in promoting tourism. The sample showed that 50% of the respondents thought that the tourism structure in Hungary sometimes did not work well and 17% thought that it worked badly.

59% of all surveyed organizations supported a continuing important role for the public sector in destination management and marketing, but all (100%) agreed that"A *public private partnership* is the best way to promote and organize destinations". There was also a very high level of agreement (92%) that tourism development, management, marketing and promotion should be managed within an *integrated structure*.

A key lesson of this survey was that, in order to promote a high response rate, the questionnaire should be whenever possible in the native tongue. The writer's first attempt was to provide the questions in English, but a significantly higher response was provided to the Hungarian version, even though one could expect greater familiarity with English in the tourism industry.

This research was not intended to constitute an isolated 'one-off' survey in Hungary, but to establish a source of knowledge about Hungarian DMOs. Now, as the North Balaton Agency demonstrated, the writer would like to stress the importance of joining the WTO initiative, which is Web-based and continuously updated. This would facilitate tracking trends in the country and in the whole tourism market.

The Hungarian pilot project (the creation of the Balaton Partnership, to whom great credit should be paid for a thoughtful initiative) suggested the setting-up of tourism organizations at settlement-level (*Chart 3*) incorporating all stakeholders (civil or legal entities) interested in tourism, together with the local authority. Each member of the organization should have voting rights.

The most important tasks of these organisations are to create information and service-providing facilities for tourists - including relaying tourism services information and accommodation reservations. They have the responsibility to transmit bookings and information but they do not have the authority to organize services for incoming tourists. They support and complement programmes and other initiatives, which might have a positive influence on tourism traffic. Their tasks are to initiate marketing projects and to preserve and increase the value of the natural, artistic and historical heritage of the settlement. They should assist in the operation of those establishments and services which directly serve the tourism industry, maintaining continuous connections with the service-providers. They are also expected to handle customer complaints and to help guests with information. One if the most important tasks is to assist a settlement with its physical development and an appearance appropriate for a holiday resort. All in all, the creation and co-ordination of a complex but unified tourism supply for the settlement is crucial.

Finance for the organizations is provided by membership fees, a subsidy from the local authority or authorities, standard, regular contributions from the county (assuming that the county's strategy allows this), from sponsorship, from business activities and from community-owned assets.

The local authorities give the organisations that proportion of their resources which they then allocated to tourism-related marketing activity, but they retained that proportion scheduled for tourism development. In this way, settlement marketing was outsourced to settlement tourism organisations. For the successful operation of the organisation it is vital to employ at least one tourism specialist who is trained in destination management. In larger settlements and cities it is advisable to establish a tourism marketing office operated not by the local authority but by the settlement's own tourism organisation (or an association created with the co-operation of several settlements).

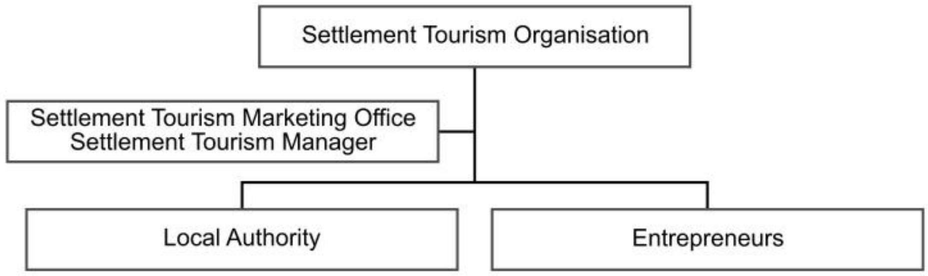

Chart 3. The establishment of settlement level organisations

Source: Based on Balaton Partnership Programme. (www.balatonregion.hu)

In relation to Pécs, in 2007 the writer was unable to obtain a clear picture of what was then being formulated as a DMO system, but, from the only interview granted (by the county organization manager) it was claimed that the planning process had started with the participation of all local stakeholders in tourism and economic development. (Bakucz, 2008) [1]

3 A Development Strategy for Pécs

Briefly, Pécs is a medium-sized town or city with a historic centre and a cultural and intellectual atmosphere, although with little remaining of a normal industrial background. It is a centre providing services for its region (education, technology, R&D), a minor tourist destination, an administrative centre, a regional hub with national and international connections and a religious centre. It is located less than 30 km from the southern border of Hungary (with Croatia) and also in the southern part of its region – South Transdanubia. It should also be mentioned that the city has lived for many years beset by a huge financial crisis

In the new millennium Hungary, a heavily mono-centric country introduced a National Development Policy Pole Programme, which, together with the European Capital of Culture (hereafter ECoC) 2010 programme, generated high expectations. In Hungary there are few serious provincial centers and the Pole Programme.intended these to be the driving forces of development in their region. Others focused on industrial development, but Pécs does not have the capacity to compete in this and so chose an alternative direction, dubbing itself the 'Quality of Life Pole'. The city targeted the relevant industries and services, such as the Health and Environmental industries and the Culture industry. 'Health" includes medical treatment, the production of food and sports facilities, together with medicinal and wellness tourism. The 'Environmental' cluster involves the creation of an eco-city

[1] Based on research results, 2007.

highlighting energy, waste- management, landscape protection etc. 'Culture' had, as its prime component, the 'European Capital of Culture - Pécs 2010' programme.

For this last, Pécs strategy talked of complementary sub-programmes, but each depended on National Strategic Reference Funds (2007-2013). Other demands on these funds offered little hope of success. The"own resources" needed would swallow all the available funds of a hugely debt-burdened local authority, leaving the private sphere as the only source.

The ECoC project is certainly important – extremely so as the potential creator of an image for the city as a world-class centre of culture, education and intellectual resources. However, expectations had to be lowered and the event re-evaluated as no more than one single tool (among many) if Pécs is to become a dynamic regional centre.

3.1 European Capital of Culture – the Pécs 2010 Programme

Due to its cultural traditions and artistic life, to its functions as a festival and education centre, the city, together with Essen and Istanbul, was a European Capital of Culture in 2010.

The programme for the year was to be serious but would leave a legacy for future generations of first-class, purpose-built facilities and a good basis for future cultural offerings.

The main elements of the Pécs programme were to be five in number - of widely varying types. The history of the planning process has, however, been very poor, and the enforced changes and numerous delays can largely be attributed to the human factor in the sense of management being in the hands of people lacking experience, foresight, business acumen and the ability to cooperate. Ad hoc appointments involving no thought of coordination or future use and viability were the norm. The five were:

1. *A Music and Conference Centre*: the building of a modern, international-class concert hall, which could be used for other high quality events. This was completed many months late but is now operating – and a government declaration of this Kodály Centre as being of national value suggests that some at least of the funding needed to maintain the Centre will be provided by central government.

2. *The Zsolnay Cultural Quarter*: the restoration of the site of the Zsolnay porcelain factory with its historic symbolic values, relocation of production, renovation of the park and memorial buildings, dedicated to cultural functions. Again there have been serious delays to add to many reconsiderations of the future use of the various elements of the quarter. There are currently (early 2011) a private (Zsolnay) collection on exhibition (although with limited access) and a Puppet Theatre; other

occupants including, most significantly perhaps, the Faculty of Music and Visual Arts, are expected to occupy the complex late in 2011. The University, therefore, will be responsible to some extent for the maintenance of this project.

3. *A Grand Exhibition Centre*: the establishment of an exhibition area as an extension of the rich and varied range of museums and galleries, able to accommodate major exhibitions. This is a slowly appearing centre, much reduced from early concepts, which is being accommodated in what were previously County Council buildings; Art exhibitions will be featured, although there are other established centres in the locality.

4. *A Regional Library and Information Centre*: providing modern multifunctional information services to student, residents of the city and region. The concept, location and design are not (to express the matter politely) universally admired. This is a joint project with the university, who will have to bear a great deal of future financial responsibility.

5. *The Renovation of Public Areas*: Preparations for the Programme were accompanied by wide-ranging social and professional debate. Even today there is still much dispute surrounding the choice of premises and locations for the key projects. The revitalisation and consequent increase in value of the slum areas lying close to the inner city are important factors, but, at the same time, a busy highway (which means good transport connections) and a railway line passing through the area stand in the way of the smooth realization of these aims. Currently, most of the cultural functions (libraries, museums, galleries etc.) are located in the historic inner city area. If some of these functions or institutions – as with trade – were to move away, a risk emerges of further devaluation of the historic centre. It would be especially so if they were followed by restaurants and cafes, which bring a specific atmosphere into the streets of the inner city. At best, the Eastern periphery of the inner city, in a bad state of repair and with its bad social structure, might benefit, with the inner city extending further in this direction.

In theory, the government has guaranteed to provide more than €12 million, but in current conditions these programmes have to compete, as any other programmes, within the framework of the Application Rules for the EU's Operative Programmes. It is a problem that the EU does not support individual cultural projects from Structural Funds, and, unfortunately, the ECoC project has not been given any priority status. An issue which needs to be addressed is that, should the demand for these functions not be maintained at an adequately high level after the ECoC year, then who will maintain these new institutions - and how? Can their market-based maintenance be underwritten?

3.2 The Tourism Organizational System and Pécs

Tourism has always been a key factor in both South Transdanubia and Pécs, and the role played by tourism in Pécs and its micro-region constantly exceeded the national average. This made it possible in 1997 to establish a medium-term development plan for the sector, to which a city-marketing programme was later added. These two development-action plans functioned as guide-lines for tourism specialists, but, as the attraction supply in Pécs expanded, the plans were heavily affected and this concept had to be considerably revised. The expansion referred to was due to the early Christian burial chambers in the heart of the city - for which, following their excavation and renovation, Pécs was awarded the UNESCO World Heritage title in 2000. This might be considered as the foundation of"quality tourism organization management" in the city. At the same time the Pécs/Sopianae Heritage Non-profit Limited Company started to operate, an organization which is, in some respects, similar to the current operating TÉDÉEM Pécs Tourism Non-profit Limited Company. The former had the special task of formulating the image of the World Heritage Sites - essentially *to preserve values.* For this a well-managed visitor centre was created which complied with EU norms and requirements. There is an obvious need for the company to cooperate with the EU as this is the only way to put the site on the European cultural and world heritage market. The company is also tasked with creating a *touristic value chain* linked to the Site, and promoting these attractions is its most important activity.[1] The basic approach to service-providing management issues and the operation of this company can be regarded as a 'best practice' example of the newly established tourism DMO in Pécs, concentrating as it does not only on potential tourists but also on local residents. An established entity, still young in terms of operating experience, it is not the only tourism company of significance but it is considered to be most important together with the Regional Marketing Directorate of Hungarian Tourism Ltd. (The latter had, and still has, the task of marketing promotion for Pécs and its region and has led city promoting visits to Croatia, Slovenia, Austria and Germany, the main tourist sender countries). The relatively high increase (62%) in inbound (Austrian) tourism is due to their efforts. Also important is the fact that, in 2010, they published a representative tourism booklet on the city in 150,000 copies and in four foreign languages, and it is unarguable that the organization contributed to the higher number of visitor nights in Pécs by their different tourism product package offers.

In 2010 Pécs become a city in a very special situation since the ECoC title had already produced basic changes. Within the framework of this paper I do not aim to give a detailed description of the tourism organization system of the city and I intend to mention only those specific tasks which were taken over by the Pécs2010 Management Centre from the Pécs DMO – simply to give a better understanding of

[1] www.rop-pecs.hu/ A Pécs/Sopiane Örökség Nonprofit Kht.

city-tourism. Firstly, with the title, the city was given the opportunity to build a totally new image from that of the old mining industry town to that of a culture and knowledge-based economic centre. This new base provides an opportunity for business to attract further investment. Secondly, with this development direction, the local identity of the residents is also becoming stronger. Without the 'local patriotism' of the residents, it would be impossible for tourists to make them understand how important it is for them to live in a continuously improving environment.

As a total entity, the tourism organization structure in Pécs started to change in 2008 when, in November the Pécs Tourism Non-profit Organization was established with the cooperation of tourism professionals. This could provide a totally new organizational framework to the, so far uncoordinated, tourism management system in the city. The organization clearly followed the national (domestic) experiences surveyed and summarized earlier in this paper - such as being built on an earlier existing institutional system and integrating the individually operating units. The role playing by the local authority was vital in the professional life of the organization as this administrative body very much helped in giving birth to the organization. The local authority played an active role in providing the conditions which finally resulted in success in winning national project funds to support the local DMO formation. Finally, with the formation of the local DMO, all tourism-related tasks could be concentrated in one pair of hands. To provide the basis for this, a leader with high professional competence was chosen by the local authority and the organization itself. The management comprised expert professionals (the leader of the Tour-inform office, the tourism project manager, tourism organizers) and coordinated the operation of the office. Therefore the earlier county- and city-level local authority tasks were taken over by the newly formed local DMO.

The transformation of the successor company has been done in parallel with the formation of the Pécs Tourism Association. This parallel process provided the opportunity for TÉDÉEM PÉCS Non-profit Ltd. to become the main cooperating professional partner. This meant that the local DMO could comply with the concept laid down in the *basic DMO model*. The latter does, in fact, say that Tourism DMOs require the establishment of two organizations at the same time. On this ground the Pécs Tourism Association was founded, which is capable of fulfilling the requirements of partnership in a democratic way. Within the framework of such an organization, the members are given a forum in which to express their opinion, and in this way the basic aim of a bottom-up type DMO construction can be fulfilled: the interest protection of all stakeholders (representatives of service-providing management and attraction management) concerned in local tourism. One of the most important tasks of the limited company is to improve the conditions for tourist reception in the city. Therefore it manages some special tasks related to tourism attractions providing specific products and services, which have already proved to be popular with visitors to the city.

4. Conclusion

The operation of the local DMO seriously contributed to the fact that tourism in Pécs and its region was set on a totally new development route. The concept of possible city development was proved in 2010: according to a national survey [1] Pécs became the most visited city after the capital, Budapest. New hotels (Corso, Árkádia) with forecast high occupancy rates were built to receive the obviously higher number of visitors. On the basis of the preliminary data for the first half of 2010, issued by the Hungarian Central Statistical Office, this forecast high occupancy rate was reached. Not only did the *number of visitors* surge (a more then 56 % increase in the number of foreign visitors, 1.7 % in domestic, giving a total increase of 11.5% compared to the same period of the previous year), but also the *number of visitor-nights* increased considerably (foreign: 51%; domestic: 1.8%; total 12.6%) which is a very significant indicator of tourism in respect of any settlement. The indicated tourism-related results also provide great encouragement for the local authority as it is well-known that tourism-related investments provide the most rapid return, generating extra profit for the settlement involved. In the author's view the local hotel developments represented the first steps towards tourism development in Pécs as, without high quality accommodation facilities, the number of visitors simply would not have grown. On the other hand, without *maintaining the number of incoming visitors* to the city, it will be very difficult to provide the necessary resources for the further developments continuously and sustainably, and in this respect the Pécs TÉDÉEM organization has a great role to play as the main coordinating body of local service-providing management and attraction management. There are a number of hurdles to be overcome if effective Tourism Destination Management is to be encouraged – management, that is, which is responsible for the tourism value chain organization including service-providing management and attraction management. These include relative inexperience in the sector on the part of those employed (a problem which will resolve itself with professional education and the passage of time), a general lack of experience in cooperation (a cultural issue), a lack of resources and the view that only marketing is a worthwhile activity for partnership. Nevertheless, the author hopes to have shown that, with tourism, an effective DMO system is not only able to support the development of sustainable pro-city tourism (provided that the system is widely and rationally organized at the various relevant levels), but that it is absolutely essential. With the rapid development of communication methods and of professional, international networks, Hungary's relatively late appearance on the

[1] www.programturizmus.hu

stage need not have a permanent negative effect. ROP-related funding targeting the development of tourism DMOs was offered by the National Development Agency, demonstrating government acceptance of the economic importance of the issue.

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Without Economic Rebalancing, There Will Be No Healthy Recovery in EU Countries or in Global Economy

Octavian-Liviu Olaru[1], **Livia –Irina Olaru**[2]

Abstract: The global economic recovery is advancing. However, the recovery remains uneven, with downside risks in advanced economies remaining elevated, while overheating risks are growing in emerging economies. Rebalancing, internal and external, continues to be crucial. Without this economic rebalancing, there will be no healthy recovery. The argument is very simple: before the crisis, growth in many countries came from excessive domestic demand, be it consumption, or housing investment. This could not go on. Those countries must rely on other sources of demand. Until now, they have used fiscal policy to prop up domestic demand. This was needed, but it is not sustainable. Rebalancing is a complex process. No single measure, no one country holds the solution on its own. In other words, despite the overall global growth rebound, substantial shifts will be needed in order to secure the intended goals of strong, sustainable, and balanced global growth. Moreover, the critical role for enhanced global economic and financial policy cooperation is self-evident.

Keywords: economic recovery; rebalancing; cooperation

JEL Classification: A10; F01; G0

1. Introduction

2010 year was one of substantial accomplishments. Global economic growth staged a clear-cut recovery. Last year's estimated 5 percent annual global growth was above the 3.6 percent average rate of the previous decade—although the expansion remains uneven and incomplete**.** Financial sector reform efforts began to bear fruit**.** Significant reforms were agreed for the international financial institutions, including the International Monetary Fund. Within both groups of countries, advanced economy countries, as well as emerging and developing economies countries, growth performance, fragile for this moment, is expected to

[1] Professor, PhD, Christian University „Dimitrie Cantemir", International Economic Relations Faculty, Romania, Address: 176 Splaiul Unirii Street, Sector 4, Bucharest, Romania, Tel: +4(021)330.79.00, Corresponding author: livolaru@yahoo.com.

[2] PhD, Christian University „Dimitrie Cantemir", International Economic Relations Faculty, Romania, Address: 176 Splaiul Unirii Street, Sector 4, Bucharest, Romania, Tel: +4(021)330.79.00, e-mail: livia_irina@yahoo.com.

AUDŒ, Vol 7, no 3, pp. 64-76

vary considerably across countries and regions, reflecting different initial conditions, external shocks, and policy responses.

2. Global Economy Trend in 2011

In accordance with the last IMF outlook, world economy growth is projected to reach a level of 4.4 per cent, in 2011 year (**Table No.1**, **Figure No.1**). Recovery in advanced economies is still expected to be weak by historical standards, with real output remaining below its pre-crisis level until late 2011. Moreover, high unemployment rates and public debt, as well as not-fully-healed financial systems in some countries are presenting further challenges to the recovery in these economies. World trade in goods and services volume is expected to grow by 7.1 per cent, in 2011.

There are still significant risks to the outlook.

On the upside:

- The reversal of the confidence crisis and the reduction in uncertainty may continue to foster a stronger-than-expected improvement in financial market sentiment and prompt a larger-than-expected rebound in capital flows, trade, and private demand;
- New policy initiatives in the United States to reduce unemployment could provide a further impetus to both U.S. and global growth.

On the downside:

- A key risk is that a premature and incoherent exit from supportive policies may undermine global growth and its rebalancing.
- Another important risk is that impaired financial systems and housing markets or rising unemployment in key advanced economies may hold back the recovery.
- Yet another downside risk is that rallying commodity prices may constrain the recovery in advanced economies.

Policymakers now face a difficult balancing act in judging the timing and sequencing of exit policies, both from the monetary and financial policies, as well as starting implementation of a medium term strategy for fiscal consolidation.

Table No.1 IMF – World Economic Outlook Projections (Percent change)

	Year over Year			
	2009	2010	Projections	
			2011	2012
WORLD OUTPUT	**-0.6**	**5.0**	**4.4**	**4.5**
Advanced economies	**-3.4**	**3.0**	**2.5**	**2.5**
United States	-2.6	2.8	3.0	2.7
Euro area	-4.1	1.8	1.6	1.7
Germany	-4.7	3.6	2.4	2.0
France	-2.5	1.6	1.7	1.8
Italy	-5.0	1.0	1.0	1.3
Spain	-3.7	-0.2	0.8	1.5
UK	-4.9	1.7	2.0	2.3
Japan	-6.3	4.3	1.6	1.8
Canada	-2.5	2.9	2.3	2.7
Other advanced economies	-1.2	5.6	3.8	3.7
Newly industrialized Asian economies	**-0.9**	**8.2**	**4.7**	**4.3**
Emerging and developing economies	**2.6**	**7.1**	**6.5**	**6.5**
Middle East and North Africa	1.8	3.9	4.6	4.7
Sub-Sahara Africa	2.8	5.0	5.5	5.8
Central and Eastern Europe	-3.6	4.2	3.6	4.0
Commonwealth of Independent States	-6.5	4.2	3.6	4.0
Russia	-7.9	3.7	4.5	4.4
Developing Asia	7.0	9.3	8.4	8.4
China	9.2	10.3	9.6	9.5
India	5.7	9.7	8.4	8.0
Latin America and the Caribbean	-1.8	5.9	4.3	4.1
Brazil	-0.6	7.5	4.5	4.1
Mexico	-6.1	6.2	4.2	4.8
WORLD TRADE VOLUME (GOODS AND SERVICES)	**-10.7**	**12.0**	**7.1**	**6.8**
Imports				
Advanced economies	-12.4	11.1	5.5	5.2
Emerging and developing economies	-8.0	13.8	9.3	9.2
Exports				
Advanced economies	-11.9	11.1	5.5	5.2
Emerging and developing economies	-7.5	12.8	9.2	8.8

COMMODITY PRICES (US dollars)				
Oil	-36.3	27.8	13.4	0.3
Non-fuel (average based on world commodity export weights)	-18.7	23.0	11.0	-5.0
CONSUMER PRICES				
Advanced economies	0.1	1.5	1.6	1.6
Emerging and developing economies	5.2	6.3	8.0	4.8

Source: IMF World Economic Outlook Update, January 2011
EU Commission – Interim Forecast, February 2011

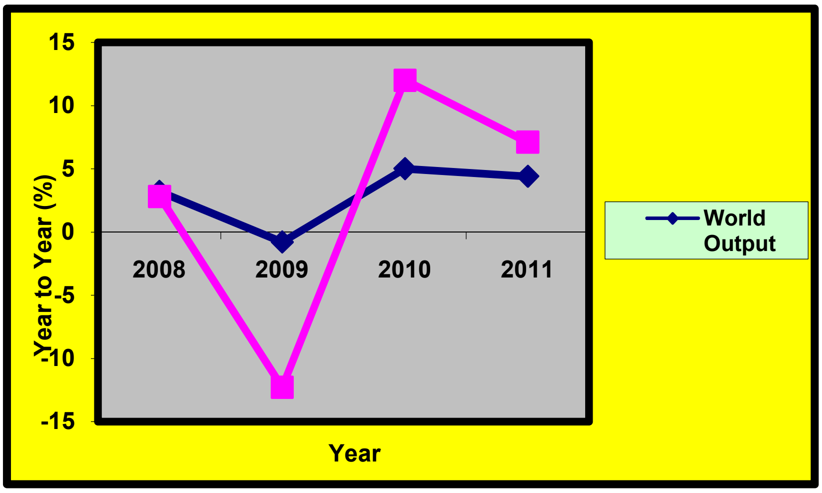

Figure 1 World Output and International Trade Indices in 2008 – 2010, 2011 Outlook Projections

Source: IMF World Economic Outlook Update, January 2011

The two-speed global economic recovery is likely to dominate 2011 and beyond, with:

- Weak growth in advanced economies barely enough to bring down unemployment. In G-20 advanced economies, the pace of growth in the second half of 2010 was somewhat stronger than expected, but insufficient to appreciably lower unemployment. The recovery in many advanced economies continues to be slow and sluggish, amid persistently high unemployment, significant excess capacity, and subdued private demand. In the United States, this has prompted further monetary and fiscal stimulus, notwithstanding an already challenging fiscal outlook. Meanwhile, in the euro area periphery, austerity measures prompted by market pressures continue to hamper growth in the short term.

In the *United States*, data showed some strengthening of the recovery in the fourth quarter of 2010, owing to robust growth in private consumption and exports, and a sizable drop in imports. Consumer durables posted particularly strong growth in the quarter, a tentative sign that households are becoming more positive about the economic outlook. However, looking ahead, continued weaknesses in employment and income growth, a sizable overhang in housing markets, and balance sheet repair are expected to remain a drag on private demand.

In Japan, after a strong third quarter, the recovery likely hit a temporary soft patch at the end of the 2010 year, reflecting mainly the withdrawal of policy stimulus. Recent indicators point to a resumption of the recovery this year supported by growing exports, especially to the rest of the region. Private demand is expected to recover gradually due to the sluggish labor market and subdued business sentiment.

Growth performance has varied substantially in the *euro area*, both within the core and across the countries in the periphery. Data suggest that output in the euro area as a whole expanded at about 1½ percent annualized in the second half of 2010. However, while growth in Germany has remained robust, recoveries in other core economies, including France and Italy, have been more subdued, reflecting limited bounce-back in investment and sluggish export growth. In peripheral euro area economies most affected by financial market strains, austerity measures continue to weigh on domestic demand. So far, intra-regional trade has provided limited impetus to growth in these countries due to sluggish activity in trading partners and slow progress being made towards restoring competitiveness.

In several key *G-20 advanced economies*, unemployment rates have persisted, in 2010, at high levels, paralleling their subdued recoveries. Persistent weakness in labor markets is a concern not only due to the economic impact, but also for the large human and social costs of high long-term unemployment. In the United States, the unemployment rate dropped to 9 percent in January 2011, but businesses remain reluctant to hire, given uncertainties about the strength and sustainability of the recovery. Labor markets in the euro area are mixed, reflecting the size, nature, and persistence of crisis-related shocks and divergences in paths of recovery. The unemployment rate has fallen to its lowest level in nearly two decades in Germany, while it has persisted at high levels in other countries (e.g., Ireland and Spain).

While core inflation has generally remained low in *G-20 advanced economies*, reflecting still-large output gaps and moderate recoveries, headline inflation rates have been edging up recently in response to rising commodity prices.

- Growth in G-20 emerging economies remains robust, but signs of overheating are emerging in some economies. Robust domestic demand and the recovery of global production continue to power the expansion in emerging economies. Strong growth in key *emerging economies*—China, India, Indonesia, and Turkey—and growing intra-regional trade, particularly in Asia, is offsetting weaker demand from advanced economies. Among *G-20 emerging economies*, with some exceptions (e.g., Mexico and South Africa), unemployment has been trending downward as the expansions have gathered momentum. Output gaps have been closing rapidly, and some countries have begun to experience excess demand. This, combined with rising food and commodity prices, and in some cases strong capital flows, is fueling inflationary pressures in many emerging economies, including Brazil, China, India, Indonesia, and Russia.

The global economic recovery is advancing. However, the recovery remains uneven, with downside risks in advanced economies remaining elevated, while overheating risks are growing in emerging economies. Financial sector strains resulting from sovereign and banking sector fragilities in the euro area periphery represent a significant risk to recovery in the region and possibly beyond. Another downside risk stems from insufficient progress in developing medium-term fiscal consolidation plans in the United States and Japan. Rising overheating pressures in some emerging economies, exacerbated by large capital flows and rising commodity prices, and a potentially steep correction in property prices in China have also surfaced as pertinent concerns.

3. EU Recovery Making Headway

The economic recovery in the EU continues to make headway. After a strong performance in the first half of 2010, real GDP growth for both the EU and the euro area slowed down in the second half of last year. The deceleration was expected and in line with a soft patch in global growth and trade, which reflected the withdrawal of stimulus measures and the fading away of positive impulses from the inventory cycle. EU GDP growth in 2011 is set to be somewhat stronger than expected in the Commission's autumn 2010 forecast, despite lingering vulnerabilities in financial markets. This improved outlook is supported, inter alia, by better prospects for the global economy and upbeat EU business sentiment.

Based on an update for the seven largest EU Member States, growth prospects for this year have been revised slightly up in the Commission's February 2011 interim forecast. GDP growth in 2011 is now projected at 1.8% in the EU and 1.6% in the euro area, both 0.1 pp. higher than in the autumn. Germany continues to benefit from the robust external environment and strong domestic demand dynamics, whereas significant adjustment challenges still weigh on activity in several other countries.

The inflation projection has been revised up more markedly. A surge in energy and commodity prices in the last few months has led to an uptick in headline inflation. The inflation forecasts for 2011 are thus revised up, with consumer prices indices now projected at 2.5% and 2.2% in the EU and the euro area respectively. Nevertheless, the remaining economic slack, subdued wage growth and overall well-anchored inflation expectations should keep underlying inflationary pressures in check, with inflation expected to end the year at close to 2% in both regions.

While exports should continue supporting the recovery going forward, rebalancing of growth towards domestic demand is expected for 2011, driven by growth in private investment. A better export outlook should translate into a stronger impetus for equipment investment, which will increasingly contribute to growth. In addition to this impetus from the export-led industrial rebound, equipment investment should benefit from the continued improvement in corporate profits, stronger order inflows and the low level of stocks, as well as from higher capacity utilization rates, now close to their long-term averages. This view is supported by the strong business confidence and the latest Commission's investment survey, which suggests robust investment plans for 2011. Construction investment is, however, projected to remain relatively subdued this year due to ongoing adjustment in this sector.

However, the above aggregate picture masks uneven developments across Member States. In the euro area, Germany is expected to lead the ongoing recovery, with GDP growth projected at 2.4%, followed by France (1.7%) while Spain's recovery remains muted (0.8%). Outside the euro area, growth in Poland and the UK is respectively projected at 4.1% and 2.0%. All these developments confirm the Commission's expectation of a multi-speed recovery within the EU. This is not surprising given differences in the scale of adjustment challenges and ongoing rebalancing within the EU and euro area.

Amid still high uncertainty, risks to the EU growth outlook at the current conjuncture appear broadly balanced for 2011.

On the upside, stronger global growth – beyond that allowed for in the baseline – would further benefit EU export growth. Also, the impetus from exported industrial rebound to domestic demand could prove stronger than assumed. Moreover, the strong business confidence could translate into stronger domestic demand than currently projected. A further upside risk relates to the spill-over from stronger activity in Germany to other Member States, which could materialize to a greater extent than expected at present.

On the downside, the still relatively fragile financial-market situation remains a concern. Tensions in some segments of the financial markets, though easing, remain, and potential spillover to other market segments and to the real economy cannot be ruled out. These concerns would be aggravated in case of further increases in long-term government bond yields. Significant fiscal sustainability issues are yet to be tackled in key countries outside the EU. Another downside risk relates to renewed increases in commodity prices, negatively affecting disposable incomes and thereby private consumption. Finally, the fiscal consolidation in a number of Member States may weigh more on domestic demand than currently envisaged.

Over the past two decades, increasing economic integration in the EU has been one of the main drivers of growth and job creation in the bloc. Even so, the EU economy has still not fully exploited the opportunities opened up as barriers have come down. The Commission has identified 12 priority measures to improve mobility for workers and businesses. These are measures most likely to foster growth and employment by helping people, goods, services and capital to move more freely throughout the EU.

The priorities are:

- Helping **small- and medium businesses** get easier access to financing by allowing venture capital funds to invest in any EU country.
- Revising laws so professional **qualifications are recognized** throughout the EU - reducing the barriers to employment in another country.
- Creating a **single European patent** for intellectual property and inventions - cutting costs and red tape for businesses.
- Establishing procedures to **resolve disputes out of court** when consumers encounter a problem after buying goods or services in another EU country, including on the internet.
- Introducing Europe-wide standards for the **services** sector.
- Improving **energy, transport and communications** infrastructure by identifying strategic networks for targeted investment.
- Legislating the mutual recognition of electronic identification and authentication methods to boost **internet use** between individuals, businesses and public administrations.
- Encouraging **social entrepreneurship** by developing investment funds for companies pursuing social, ethical or environmental goals.
- Adapting taxes on the energy industry to meet the EU's **climate and energy** goals.
- Strengthening the rules for **workers posted** by their companies to another EU country.
- Simplifying **accounting guidelines** for companies and cutting red tape - with a focus on small businesses.

- Making it easier for small firms to compete for **government contracts** in other EU countries.

4. Actual and Prospective Trends of Foreign Direct Investment

Developed countries. The short- and medium-term prospects for FDI inflows have improved during the first half of 2010, in line with developed countries' economic recovery – reflected in growing production and foreign trade. FDI inflows are expected also to increase due to a new round of privatizations in European countries with large public debts. In the medium term, inward FDI to developed countries could recover to the levels seen in the first half of the past decade, provided no major economic shocks hit these economies. The further integration of developed countries' markets, competitive pressures and the ongoing liberalization process in several areas – such as the European energy and information technology network industries – are also fostering inward FDI to these countries. A further stimulus could be expected from developing economies' TNCs, which are increasingly interested in expanding their presence in developed countries.

Africa. Provisional figures and prospects for FDI inflows to Africa, in 2010 and 2011, suggest a slow recovery, as global economic and financial conditions are expected to improve and commodity prices to rebound from the lows reached in early 2009. The region's largest economies are relatively well positioned: South Africa ranked 20th among the top priority economies for FDI in the world, while Egypt ranked 31st in the UNCTAD's World Investment Prospects Survey.

The strong performance of emerging Asian economies that are important sources of FDI in Africa will support a revival of FDI inflows to Africa, and sustained intraregional investment will help small and low-income African countries ease their dependence on flows from traditional economies.

South, East and South-East Asia. FDI inflows figures were improving in 2010 and the prospects for 2011 are very good, as the region has been leading the recovery of the global economy, and TNCs continue to give priority to the region in their FDI plans. The timing and strength of the economic recovery vary across countries, thus affecting FDI performance: inflows to China and India have picked up since mid-2009 and are rapidly expanding (inflows to the two countries in the second half of 2009 rose both by 18 per cent from the same period of 2008); inflows to the Republic of Korea, Singapore and Taiwan Province of China, on the other hand, are expected to bottom out in 2010 and 2011.

Latin America and the Caribbean. Prospects for FDI inflows to Latin America and the Caribbean were improving in 2010, as the region is recovering relatively rapidly from the global financial and economic crisis. Flows are expected to recover faster, in 2010 and 2011, in South America, given the resilience and growth potential of Latin American economies, a sub-region more reliant on commodities and exports to emerging markets, where demand is picking up strongly.

FDI inflows to the region are likely to continue increasing in the medium term, given the resilience and growth potential of Latin American economies. Brazil and Mexico, in particular, remain among the top 10 FDI destinations for TNCs.

South East Europe and CIS Prospects for inward FDI remain positive in the medium term, on the back of stronger commodity prices, a faster economic recovery in large commodity exporting countries, and a new round of privatization.

5. Short and Medium Time Strategic Ways for Global Economic Recovery

Short and medium time strategic ways for economic recovery of the main groups of countries are as follows:

In many **advanced economies**, the crisis damage was much deeper. The financial system was badly broken. In many of these countries, markets are still uncertain about the true health of banks and financial intermediation is not working well. Combine this with the need to correct past excesses, from low saving to excess housing investment and the result is a slow recovery, barely strong enough to decrease unemployment.

Rebalancing, internal and external, continues to be crucial. Without this economic rebalancing, there will be no healthy recovery. The argument is very simple: before the crisis, growth in many advanced countries came from excessive domestic demand, be it consumption, or housing investment. This could not go on. Those countries must rely on other sources of demand. Until now, they have used fiscal policy to prop up domestic demand. This was needed, but it is not sustainable. The deficit countries must rely more on external demand, on exports. And, by symmetry, surplus countries must do the reverse, shift from external demand to domestic demand and reduce their dependence on exports.

This is not to say that without rebalancing, the recovery cannot continue. Continued fiscal expansion, or a return by U.S. consumers to their old, low-saving ways can sustain demand and growth for some time. But they will recreate many of the problems that were at the root of the crisis.

Rebalancing is a complex process. No single measure, no one country holds the solution on its own. Structural measures are required: for example, in Asia, measures to improve financial intermediation or provide more social insurance, in the United States, reforms of the financial intermediation system. The exchange rate adjustment is an integral part of the process.

Emerging market countries were affected by the crisis through both trade and financial channels. The turnaround in trade has been nearly as sharp as the earlier collapse. But while trade has not yet fully recovered, most emerging market countries have been able to increase domestic demand so as to return to high growth. In turn, their good performance has led capital flows to come back, in some cases, with much force.

Because of their more limited financial integration with the world economy, **low-income countries** were mostly affected by the crisis through the trade channel. As trade has largely recovered, and as strong growth in emerging market countries has pushed up commodity prices, many of them are doing well. Sub-Saharan Africa, for example, grew at more than 5 percent in 2010, and it is forecasted roughly the same for next year. Their performance, however, is not only due to exports. Previous sound policies allowed many to use fiscal measures to support their economies. And private domestic demand typically has also been quite strong.

A number of countries from **Central and South East Europe** face a tough and long macroeconomic adjustment. In most cases, they would have had to do so whether or not the global crisis had taken place. The global crisis only makes it tougher.

After 1989, they had increased domestic demand excessively, and some had run very large current account deficits. Like others, they must shift from domestic demand to external demand. Stronger growth in core Europe, if it comes, will strengthen their exports and help the adjustment. But, based on past experience, a full return to health will likely take a long time. Social programs are essential, both for their own sake and to maintain broad political support.

The countries of the region are more or less reluctant to a joint program from the European Union and the IMF. But such programs can help, in two ways: First, by putting a ceiling on the interest rate at which governments can borrow on the international financial markets. Second, even if the programs do not ask for more than the country intended to do on its own, they reinforce the credibility of these commitments, and reassure markets about the medium run.

In other words, despite the overall global growth rebound, substantial shifts will be needed in order to secure the intended goals of strong, sustainable, and balanced global growth. Moreover, the critical role for enhanced global economic and financial policy cooperation is self-evident.

6. Consolidating Cooperation within G-20

Cooperative and well-timed policy initiatives across the G-20 are critical to sustain the global recovery, while reducing global imbalances, through:

- In *G-20 advanced economies*, the most urgent requirements are for comprehensive and rapid actions to overcome sovereign and financial stresses in the euro area and accelerate progress in developing medium-term fiscal consolidation plans. Rapid progress in the repair and reform of financial systems—critical to the normalization of credit conditions—would help reduce the burden on monetary and fiscal policy to support the recovery, and potentially help stem volatile capital flows to emerging economies.
- In *G-20 emerging economies*, the key policy challenge is to keep overheating pressures in check and respond appropriately to capital inflows. In key surplus economies, overheating pressures can be alleviated by permitting currency appreciation, facilitating a healthy rebalancing from external to internal demand.

The G-20 Leaders' cooperation process has been developed since late 2008 in response to the recognized need for more effective global cooperation on economic and financial policies. Each of the five Leaders' Summits has produced an agreement to broaden and deepen the mechanism for such cooperation. The recent Seoul Summit was no exception. In the immediate aftermath of the crisis, concerted policy action helped to limit the economic downturn and to set the stage for recovery. At that time, of course, policy prescriptions generally were similar across all economies.

The increased incentives for policy cooperation—together with the need to adjust policy programs to fit the disparate circumstances of the G-20 economies—has been anticipated in the decisions made by Leaders at their recent Seoul Summit. The Mutual Assessment Process (or G-20"MAP") has been ratified as an ongoing initiative, to be guided by an agreed set of"indicative guidelines," with progress toward the underlying goals of strong sustainable and balanced global growth to be assessed at an individual economy level and reviewed by the Leaders at their next Summit. The Seoul Leaders' Declaration contained an extensive—but widely overlooked—list of each G-20 economy's proposed policy adjustments as part of the MAP.

The principal uncertainty is whether such an approach will be adhered to by the entire G-20. The MAP is a G-20-led exercise, but the Leaders have requested significant Fund support for the MAP process. For example, the G-20 Leaders asked the IMF to"provide an assessment as part of the MAP on the progress toward external sustainability and the consistency of fiscal, monetary, financial sector, structural, exchange rate and other policies." More broadly, the latest challenges and IMF reforms have both enhanced the Fund's role and responsibilities and increased the importance of the Fund producing analysis of the highest technical quality.

Therefore, 2011 will be a year in which advancements in IMF economic surveillance come to the fore. The Fund's Triennial Surveillance Review will take place this year, providing an opportunity for IMF members to assess the progress that has been made in this area, as well as to set priorities for the coming triennial period. In this regard, the Fund has begun to better integrate assessments of financial stability into regular country reviews. In particular, Financial Sector Assessment Programs—conducted jointly by the IMF and the World Bank—henceforth will be mandatory for all Fund members with systemically important financial sectors. Fund support for the G-20 MAP will constitute a challenging but potentially uniquely productive assignment, and it will help to deepen the surveillance dialogue with Fund members.

Like a conclusion: 2011 will be a pivotal year for the global economic recovery, for international policy cooperation, and for the Fund's role in dealing with both of these challenges.

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GSM Marketing Service Providers Operations and Customers Satisfaction in Nigeria: An Empirical Investigation

Adebisi Sunday Abayomi[1]

Abstract: This study has been carried out on the GSM arm of the Nigerian Telecomunication sector to primarily investigate the level of satisfaction that the subscribers of GSM service providers have enjoyed in the seven years of operations in Nigeria. In testing this empirically, MTN, GLOBACOM and ZAIN were selected as case studies. 600 questionnaires were administered on the subscribers of these GSM service providers in the Six States of the South-Western Nigeria using the purposive sampling technique. In analyzing the collated data, three hypotheses were tested with the use of Percentages, T-test, F-test, [at 95% confidence limit], Cross-tabulation [using the 'Eta' Directional measure] and statistical charts. The results from the SPSS 16 output rejected the Null hypotheses. This further indicated that, the various factors that determined the level of subscribers' satisfaction were statistically significant. The study therefore concluded that, subscribers in Nigeria are dissatisfied with the services of their service providers hence, the need for the regulatory body; NCC to ensure that subscribers interests are protected. The study then suggested that,, the GSM service providers should reposition themselves to give adequate value to subscribers money in commensuration with their own gains from the Nigeria Telecommunications market.

Keywords: Telecommunication; Global System for Mobile Telecommunication; GSM Service Providers; Growth Factors; Customer Satisfaction; NCC.

JEL Classification: M10; M19; M31

1. Introduction

The growth witnessed by telecoms industry today in Nigeria is as a result of the liberalization and the implementation of the private sector participation policy of the Obasanjo led civilian government between 1999 and 2003; and the licensing of the GSM operators in 2001. The nation moved from a monopolistic telecommunication market towards a fully liberalized telecommunication market, where players engaged in stiff competition. The Global System for Mobile Telecommunication (GSM) was birth in Nigeria because of the inability of Nigerian Telecommunication Limited (NITEL) to meet the telecommunication needs of the country.

[1] PhD, University of Ado-Ekiti, Nigeria, Address: PMB 5363, Ado-Ekiti, Nigeria, Tel: +234 (30) 250026, Coresponding author: yommysun@yahoo.com.

Telecommunications facilities were first established in Nigeria in 1886 by the colonial administration through the introduction of public telegraph services linking Lagos by submarine cable along the west coast of Africa, Ghana, Sierra Leone, Gambia and unto England. [RDC, AIAE, UNILAG consult 2006]. Performances in this sector were moribund and static for more than 100 years without any significant impact and improvement where comparison was made with the nations of the world. Even the establishment of NITEL in 1985 (which was meant to re-write the telecommunication story of Nigeria) could not salvage the decay in the nation's telecommunication sector. Instead, it grew worst. The monopoly solely enjoyed by NITEL between 1985-1999 could not be converted to any viable opportunity to cover the ground in terms of telecoms services provision. Instead, it left many Nigerians with no hope of having access to telecommunication facilities until the advent of GSM which was launched in the nation in August 2001.

2. Literature Review

The Global System of Mobile telecommunication (GSM) started its life cycle in Nigeria in July 2001 when the Nigeria digital Mobile license auction ended in Abuja with three of the five bidders for GSM/Digital Mobile Services successfully winning license each for themselves at the cost of $285 million. The five bidders were:

(a) Econet Wireless Nigeria Limited;
(b) Chrited Networks Mobile Limited;
(c) MSI-Celtel Nigeria Limited;
(d) Communication Investments Limited;
(e) MTN Nigeria Communication Limited.

Out of these five that bided, only three of them were successfully licensed to operate GSM services in Nigeria. They were:

- Communication Investments Limited;
- Econet Wireless Nigeria Limited;
- MTN Nigeria Communication Limited.

However, Communication Investments Limited which was sponsored by Dr Mike Adenuga Jr., Devcom Merchant Bank, Equitorial Bank and Detcon of Germany was later denied the license and could not lunch its network in 2001 like the other two successful bidders. But it was afforded another golden opportunity in August 12, 2002 when the company metamorphosed into Globacom. The company was granted the license to operate National Carrier Services, Digital/Mobile Services, Long Distance Communication and Fixed Wireless Access Service. NCC equally provided a license for NITEL to operate GSM/Digital Mobile Services which it operated under the aegis of M-tel. These four players played a very significant role in the history of GSM/Digital Mobile Services in Nigeria [NBI.Com 2008].

3. GSM Growth Factors in Nigeria

Contribution by NCC Acts 2003

The adoption of the National Telecommunication policy in the mid 2000 actually created the way for the passing of a new legislation that metamorphosised into the Communication Act 2003 that became effective in July 2003. The new act was enacted to address regulatory issues comprehensively. The regulatory issues include licensing, general competition principles, investigation and appeals, dispute resolution, interconnection, access facilities, universal service, spectrum management, numbering and technical standards (Moshiro 2004).

However, the enactment of this act marked the beginning of sporadic growth in the telecommunication sector in Nigeria especially the GSM sector. The primary objective of the act was to create and provide a regulatory framework for the Nigerian Communications industry and all matters related thereto and for that purpose and without detracting from the generality of the foregoing:

- establish a regulatory framework for the Nigerian communication industry and for this purpose to create an effective impartial and independent regulatory authority;
- promote the provision of modern, universal, efficient, reliable, affordable and easily accessible communication services and the widest range thereof throughout Nigeria;
- encourage local and foreign investments in the Nigeria communication industry and the introduction of innovative services and practices in the industry in accordance with international best practices and trends;
- ensure fair competition in all sectors of the Nigeria communications industry and also encourage participation of Nigerians in the ownership, control and management of communications companies and organization;
- encourage the development of communications manufacturing and supply sector within the Nigeria economy and also encourage effective research and development efforts by all communications industry practitioners;
- protect the right and interest of service providers and consumers within Nigeria;
- ensure an efficient management including planning, coordination, allocation, assignment, registration, monitoring and use of scarce national resources in the communication sub sector, including but not limited to frequency spectrum, numbers and electronic addresses, and also promote

and safeguard national interests, safety and security in the use of the said scarce national resources [Sec.1 Sub sec 1 NCC Act 2003].

The functions of the commission as equally established by Sect.1 Sub Sect.4 NCC Act 2003 include:

1) The facilitation of investments in and entry into the Nigeria market for provision and supply of communications services, equipment and facilities;
2) The protection and promotion of the consumers against unfair practices including but not limited to matters relating to tariffs and charges for and the availability and quality of communications services, equipment and facilities;
3) Ensuring that licenses implement and operate at all times the most efficient and accurate billing system;
4) The promotion of fair competition in the communication in the communications industry and protection of communications services and facilities providers from misuse of market power or anti-competitive and unfair practices by other services of facilities providers or equipment suppliers;
5) Granting and renewing communications licenses whether or not the licenses themselves provide for renewal in accordance with the provisions of this Act and monitoring and enforcing compliance with license terms and conditions by licenses;
6) Proposing and effecting amendment to license conditions in accordance with the objectives and provisions of this Act;
7) Fixing and collecting fees for grant of communications licenses and other regulatory services provided by the Commission;
8) The development and monitoring of performance standards and indices relating to the quality of telephone and other communications services and facilities supplied to consumers in Nigeria having regard to the best international performance indicators;
9) Making and enforcement of such regulations as may be necessary under this Act to give full force and effect to the provisions of this Act;
10) Management and administration of frequency spectrum for the communications sector and assisting the National Frequency Management (NFM) Council in developing a national frequency plan;
11) Development, management and administration of national numbering plan and electronic addresses plan and the assignment of numbers and electronic addresses there from to licensees;
12) Proposing, adopting, publishing and enforcing technical specifications and standard for the importation and use of communications equipment in Nigeria and for connecting or interconnecting communications equipment and system;

13) The formulation and management of Nigeria's inputs into the setting of international technical standards for communication services and equipment;
14) Carrying out the approval tests on communications equipment and issuing certificates therefore on the basis of technical specifications and standards prescribed from time to time by the Commission;
15) Encouraging and promoting infrastructure sharing amongst licenses and providing regulatory guidelines thereon;
16) Examining and resolving complaints and objections filed by and disputes between licensed operators, subscribers or any other person involved in the communications industry, using such dispute-resolution methods as the Commission may determine from time to time including mediation and arbitration;
17) Preparation and implementation of programmes and plans that promote and ensure the development of the communications industry and the provision of communications services in Nigeria;
18) Designing the minister on the formulation of the general policies for the communications industry and generally on matters relating to the communications industry in the exercise of the Minister's functions and responsibilities under this Act;
19) Implementation of the government's general policies on communications industry and the execution of all such other functions and responsibilities as are given to the commission under this Act or are incidental or related thereto;
20) Generally advising and assisting communications industry stakeholders and practitioners with a view to the development of the industry and attaining the objectives of this Act and its subsidiary legislation;
21) Representation of Nigeria at proceedings of international organizations and for a on matters relating to regulation of communications and matters ancillary and connected thereto; and
22) General responsibility for economic and technical regulation of the communications industry.

4. Operator and GSM Service Providers Contributions

Following the liberalization of the telecommunication sector as earlier mentioned, the GSM era began and service providers were licensed to operate GSM/Digital Mobile Services in compliance with the adoption of the National Telecommunication Policy of year 2000 with the basic objectives of:

- enhancing national economic and social development and integrated Nigeria internally and into the global telecommunications environment and

- making telecommunication services efficient, affordable, reliable and available to all.

Leading in fulfilling these objectives today in Nigeria are the three biggest GSM service providers in Nigeria namely, MTN, Globacom and Zain which are the primary focus of this study. Before the advent of GSM in 2001, the total functional lines in Nigeria were just about 458,619 lines. But the moment GSM services began; there came a significant growth in the telecoms market in Nigeria. The GSM license authorizes the providers to operate and provide a"*National Second Generation Digital Mobile Radio Telephony Services in900 and 1,800MHz bands"*. The license permits the operators to install their own transmission network as well as lease transmission capacity from NITEL or any authorized long distance or multi-access operators and service providers to international destination. There is no doubt that, the GSM/Digital Mobile providers have provided a strong platform that is responsible for the present growth in the Nigeria telecoms market. Initially, the roll-out target of each of the operators in 2001 for Econet and MTN and 2002 for Globacom were 100,000 lines within 12 months of lunching operations, 750,000 lines within 36 months and 1.2 million lines within 60 months. But surprisingly, each of the operators exceeded this target within a few months of lunching their services. Within 3 months of lunching in 2001, the two networks, (MTN and Econet) already had 266,461 lines. Less than $2^1/_2$ years of operation the four operators then (including M-tel) had had over and above 7 million lines (in mid 2004) surpassing all the targets earlier set in less than one year.

The following analysis therefore explains the significant growth in the Nigerian telecoms market that continued at a geometrical proportion between 2001 and 2008. In 2001, the GSM added 266,461 lines in less that 3 months of operation. By 2002, there was about 488.86% increase in the number of subscribers for the functional lines to stand at 1,569,050. 2003 recorded another huge significant growth of 100.73% over that of 2002 for the nation to have 3,149,472 functional GSM lines. By 2004, it was already a spectacular performance that became noticeable in the world for there was 191.3% growth over the previous year for the subscribers figures to rise to 9,174,209. This performance equally doubled in year 2005 for the sector recorded another 99.42% improvement over the preceding year to poll a subscriber figure of 18,295,896. 2006 recorded 75.91% growth and 2007 recorded 24.3% growth to have subscriber figures of 32,184,861 and 40,011,296 respectively. As at December, 2008, the subscriber figure was already 56,935,985 for the GSM sector; an increase of 42.3% over the performance of 2007. The sectoral growth of the GSM services under the spate of seven years became so astronomical to finish at 21,267.47%; a kind that has not been so recorded in any country of the world before. This made the Nigerian telecom sector to receive a global claim of the fastest growing mobile markets in the world. This global success was mainly driven by the GSM/Digital Mobile Services providers in which MTN, GLOBACOM and V-MOBILE (now ZAIN) were the major players.

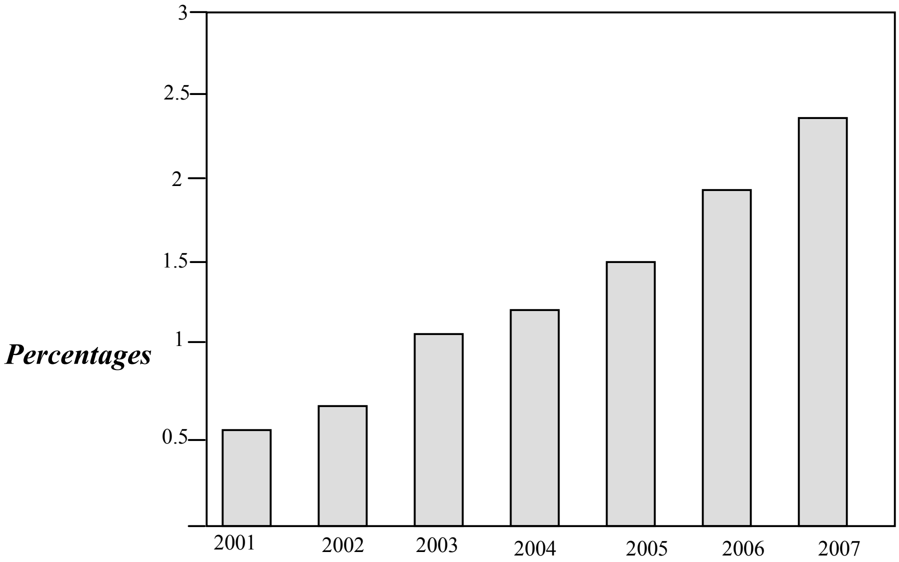
The implication of these spontaneous and sectoral growth in the GSM/Digital Mobile services has a positive attendant effect on the nation teledensity which has equally grown from near-zero value of 0.04 in 1999 to 0.73 in 2001; to 1.89 in 2002; to 3.35 in 2003, to 8.50 in 2004 to 16.27 in 2005; to 24.18 in 2006 to 29.98 in 2007 and finally to 45.93 at the end of year 2008, a feet that is comparable with that of many developed world teledensity.

Capital and Network Investment in Nigeria

This aspect of the telecommunication sector has equally witnessed tremendous growth overtime. The sector has been said to have grown from $50 million in 1999 to $12 billion in 2008. The principal corporate investors that financed the GSM lunch in 2001 were First Bank, Stanbic, Zenith, Diamond Bank, Guarantee Trust and Standard Chartered forming syndicates to provide working capital for many telecoms companies in Nigeria. [NCC report 2004]. Some of these investments deals and contract involves:

- €67 million Turkey contract awarded in February 2003 by Globacom to the French vendor Alcatel for installation of 1 million mobile lines, 100,000 fixed lines, 3 international gateways, and a national fibre-optic backbone;
- US$395 million facility to MTN by a syndicate of 14 Nigerian banks, led by Stanbic Bank and Standard Chartered (London) in November 2003 as part of MTN's USD $1.3 million capital expenditure budget;
- US$250 facility to MTN by another bank consortium led by GTB in October 2004 for network infrastructure;
- US$120 million equipment finance deal between LM Ericsson and V-mobile in 2003 for the installation of a north/south transmission backbone;
- US$200 million contract awarded by Globacom to Siemens, for network installation in northern Nigeria in February 2003;
- US$110 million radio network contract awarded by V-mobile in February 2004 to LM Ericsson;
- US$620 million spent by MTN as capital expenses between March and September 2004 to build 344 base stations and 6 switches.

This various investments in the communication sector have grown to about 12 billion dollars as at December 2008. These various investments have had their positive impacts on the nation's economy in terms of GDP contribution. The growth in the telecoms sector in Nigeria as authored by the introduction of GSM/Digital Mobile services has contributed the following percentages to the GDP growth of the nation as presented in the chart below. For example, by year 2007, the telecom sector has started contributing about 2.5% of the nation's Gross Domestic Product (GDP)



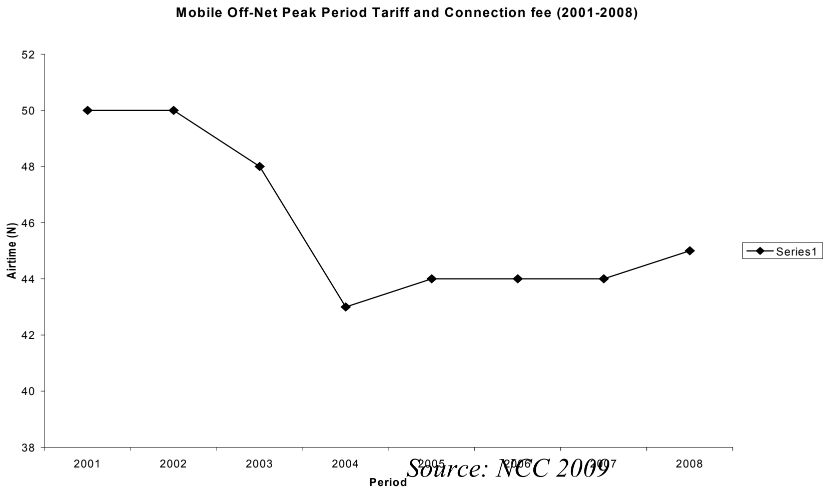
Source: NCC 2009: Contribution of Telecoms to GDP (2001-2007)

5. Product, Pricing and Competition in the GSM Sector

Before the Globacom lunch of its GSM services in August 2003, MTN and Econet Wireless (Now Zain) dominated the GSM market in terms of pricing and competition. The connection fee (cost of SIM pack) was ₦15,000 in 2001 when MTN and ECONET began. This cost at times doubles before the SIM pack gets to the subscribers through the distributors. Some Nigerians procured their SIM pack (which is the cost of connection) between the rate of ₦45,000 and ₦30,000 in 2001. This went on till the end of 2002 while the mobile tariff was ₦50 per minute for calls despite complains of poor services. Besides, the pressure on the networks to introduce per-second-billing (PSB) was disregarded by both MTN and Econet. But the entrance of Glomobile in August 2003 changed the competitive landscape for the company entered the market from the on-set with"per second billing". Globacom equally came into the market with attractive packages that forced down the connection fees. By 2004, Globacom SIM pack was as low as ₦1 for basic prepaid customers. This pricing technique was first responsible for the number of subscribers' base to hit about 10 million subscribers by year 2004.

Before the per second billing, subscribers then were billed on minute-per-minute basis. Globacom commenced per-second-billing (PSB) on August 27, 2003, V-mobile (now Zain) followed suit on 26, November 2003 while MTN adopted this pricing technique on 1st December 2003 after much pressure from the customers. The competition that Globacom brought about through PSB actually forced down the tariff of the GSM providers, by 2004 the total billing for one complete minute amounted to about ₦45 which is about 75k per second and has been like this since 2004 at peak period except some exceptional promotional products of the service providers that offer lesser amount depending on compliance with the provision of the products features.

The chart below shows the tariff/ fee from 2001 to 2008:



Source: NCC 2009

However, evidence has shown that the GSM/Digital Mobile Services operators have made astronomical and very huge profit over their business operations in Nigeria. These three big players are private entities and have hidden behind this not to disclose information about their financial performance. But from diverse industrial sources, and from the Stock exchange of Johannesburg where MTN is mandated to disclose its financial information, it was gathered that the first time in the history of MTN to beat Vodacoom in South Africa in profit making in 10 year history was in 2003 which was as a result of its performance in Nigeria. In 2003 alone, MTN has 40% growth on its EBITDA declaring a net ₦22 billion (160 million US Dollars) from about 1 million lines. V-mobile (now Zain) full year net profit for 2003 was $480 million while MTN ended her second year of operation with $1.09 billion (about ₦150 billion).

Similarly, MTN became the most profitable telecom company in Africa in 2003 raking R2.1 billion for the six months ended in September 30, 2003 which was R700 million higher than that of Vodacoom. This trend has actually continued up till now.

6. Services Provided by GSM Operations

MTN: MTN Nigeria operates a GSM license granted her in September 2001 and it is valid till August 2016. It has equally been awarded the 3G license in March 2007. As at December 2008, MTN controls 40:5% of the telecoms market share.

MTN strongly believes in product innovation which plays an important role in keeping its brand very strong in Nigeria. MTN products are tailored towards different customers segments and a holistic value proposition. Its pricing plans have been targeted towards on-net calling preference, using off-peak capacity, per-second plans, disconnection calls to friends and family, XtraConnet which offers subscribers opportunity to stay closer to friends and family; XtraCool designed for the youth; XtraPro designed for dynamic professionals entrepreneurs, XtraSpecial designed specifically for the monthly subscribers, XtraProfit a prepaid plan designed for business centers owners; XtraValue which offers convenience and opportunity for specialized treatment. Other services MTN renders include MTN caller tunex reloaded, MTN Back-up, Video calling, Blackberry, fly connect, fastlink, SIM plus, DSTV mobile, Data Roaming, International Roaming and coverage.

GLOBACOM: This is another indigenous telecom company in Nigeria that was named as the second national operator. It has been licensed to operate fixed line phone, mobile international gateway services. Globacom was very prominent in the dynamic and intense competition that has become the order of the day in Nigeria telecommunication sector through its introduction of per-second-billing, text to e-mail and family in 2003. Other products of Globacom are prepaid premium. Multimedia messaging services, talk now, magic plus, Glo Direct, Glo mobile Intenet, ProfitMax Plus, GloFleet Manager, Optimizer, Maximizer etc. Globacom main suppliers are Siemens and Alcatel.

The subscribers of Globacom at moment stand at 22 million with coverage extending to over 50,000 cities, town, communities and major roads. It ranked the 5th largest operator in Middle East and Africa (MEA).

ZAIN: Zain group was founded in 1983 as Mobile Telecommunication Company (MTC) in the Middle East. It was rebranded as Zain in 2007 to create a global brand. Zain operates in 24 countries of the world with over 15,000 employees providing mobile voice and data services to over 69.5 million active subscribers across the world as at June 2009. Its area of operations include, seven countries in the Middle East and 16 countries in Africa, Nigeria inclusive.

Zain in Nigeria was formerly known as Celtel Nigeria, the company was established in year 2000 by a group of institutional and private investors and 3 state governments and it then bears the name ECONET. Zain made history by being the first telecom operator to lunch commercial GSM services in Nigeria on August 5,

2001. In 2006 Celtel International acquired the majority of state in the company and rebranded as Celtel. On August 1st 2008, Celtel Nigeria was rebranded as Zain Nigeria following the global acquisition of Celtel International by MTC Group.

Zain Nigeria currently covers over 15,000 towns, 14,000 communities and the six geo-political zones in the country. It was the first to introduce the toll-free 24 hours customer care line 111, Zain products includes Voice mail, Roaming, Conference calling, Call waiting, Caller line ID presentation, International Direct Dialing, fax services, call forwarding, SMS, call me back, Me 2 u, credit me, Zain mobile office, friends and family, Zain Joli comprising of Joli people, Joli padi, Joli yonda and Joli yans.

Customer Satisfaction

Telecommunication products fall under the intangible services that are not concrete products but their utility can be determined based on what the consumers feel toward the rendering of the service by the service provider(s) per a period of time.

Hause, Boone and Kurtz (2004) define service as an intangible task that satisfies the need of consumer and business uses. In spite that services do not have physical features that buyers can see, hear, smell, taste or touch prior purchase, buyers can have the assurance of buying a promise. Thus, it is said that the services are inseparable from the service providers which means that consumer perceptions of a service provider become their perception of the service itself.

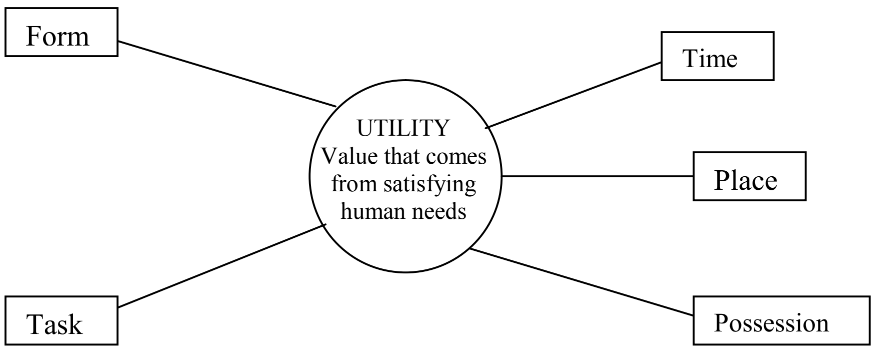
In the light of the above, it then becomes highly imperative of the service provider to ensure that all the activities are tailored toward customer satisfaction. Boone and Kurtz (2004) opine that, customer satisfaction is the extent to which customers are satisfied with their purchased goods and services. The telecoms operators must understand at every point in time what is called customer service standard. *This is the statement of goals and acceptable performance for quality of service that a firm expects have some standard they will not want the operators to fall below otherwise they will term such operator as underperforming and may jettison its service for another one that meets this standard.*

An intelligent company and service providers will understand the importance of forming strong customers relationship management to the extent that, the customer loyalty is 100% won. Kotler (2003) therefore opines that, companies that want to form a strong customers bond need to attend to the following basics of customers:

- get across-departmental participation in planning and managing the customer satisfaction and retention process;
- integrate the voice of the customer in all business decisions;
- create superior products, services and experience for the target market;
- organize and make accessible a database of information on individual

customer needs, preferences, contacts, purchase frequency and satisfaction;
- make it easy for customers to read appropriate company personnel and express their needs, perceptions and complaints;
- run award programs recognizing outstanding employees and customers (for).

In supporting this position of Kotler (2003), Berry and Parasuraman (1995) opine that, building a strong customer bond demands the company to identify the three retention building approach of adding financial benefits to customer, adding social benefits to customer and adding structural ties between the customer and the company. But in the opinion of McCarthy and Perreault (2005) they believe that, customer satisfaction is the extent to which a firm fulfils a customer's needs, desires and expectations, hence the need for companies to know that production and marketing must be aimed at producing economic utility for customers in form, task, time, place and possession utilities i.e.



Source: McCarthy and Perreault (2005); Utility and Value Satisfying Model

This significantly applies to the telecoms companies if they must get their subscribers confidence.

a. ***Form utility*** will be provided by the telecom operators when the subscribers have access to their concrete products i.e. recharge cards at the face value. In some places, MTN ₦400 card sells for ₦410, Glo ₦150 card sell for ₦160 and Zain ₦100 card sells for ₦110. Customers do not enjoy form utility of these products the moment the paid value exceeds the face value.

b. ***Task utility*** will be afforded the customers when the operators handle their services transmission in such a way and manner that intrusion and calldrops significantly reduced.

c. ***Time utility*** will be enjoyed by subscribers whenever the product and services are made available when the customers want them. You can imagine a non-fluctuating GSM service; the subscribers will be extremely satisfied.

d. ***Place utility*** is achieved whenever the customer buys the SIM card and the recharge card and has the right to use then without any infringement and difficulties. Many times, subscribers found it difficult loading their recharge cards even when they have paid for them

7. Methodology

Methodology simply implies the theory of how research should be undertaken (Sainder et al., 2007).

Statement of Problem: At independence in 1960, Nigeria only had 18,724 functional lines for a population of about 45 million people, a teledensity of about 0.04 telephone to 100 people. [Nigeria Business Info. Com 2008]. The then telephone network only consisted 121 exchanges of which 116 were of the manual (Magnet) type while only 5 were automatic. Between 1960 and 1984 (26 years after) only 181,276 lines were added to make the nations functional lines up to 200,000 as against the planned target of about 460,000 while all these exchanges were analog. [NBI Com 2008] This dismal failure led to the creation of NITEL in 1985 by the government to harmonize the planning and coordination of the internal and external telecommunication services, by providing accessible efficient and affordable services to the Nigerian populace. It enjoyed the strongest monopoly to provide all ranges of telecommunications services to the subscribers in Nigeria. But by 2003 (18 yrs after), NITEL could only boast of 500,000 functional lines available to 100 million Nigerian, a teledensity of 0.4 which was grossly below the Africa average of 1.67 [Tell, July, 2008]. The licensing of the three GSM operators in July 2001: Econet wireless communication Limited (now Zain), MTN Limited and MTEL Limited brought a restored hope to the yearning and aspirations of Nigerians. The fourth GSM mobile operator, Globacom was licensed in September 2002. In the National Telecommunication policy of Nigeria Communication Commission (NCC) it was targeted that the sector (GSM) should attain 1.2 million subscribers within three years. But surprisingly, within less than one year the two telecom operators (MTN and Econet) added 1,569,050 subscribers surpassing the target of 3 years in just one year. By 2003, it doubled with an increase of 200% to net 3,149,472 subscribers. As at December 2008, the subscriber figure of the three biggest GSM operators (MTN, Globacom and Zain) stand at 56,677,465 [NCC

Data, 2008] representing 3,612.22% increase from 2002. Compared to less than 500,000 lines that the nation telecom sector managed to get for 115 years of existence from 1886-2001.

However, in figure, there is a significant improvement in the seven years advent of GSM in Nigeria for our teledensity has tremendously improved to 45.93 as at December 2008 which is one of the best in the world. This therefore called for an investigation and this study research question is drawn as follow:

- Is this significant increase in number of subscribers and the nation's teledensity equally proportionately felt by the customers of these subscribers?
- Are the services transmitted by these GSM subscribers of good quality and give value back to the customers?
- What is the level of loyalty that each of the GSM subscribers have towards their operators?

All these will be addressed through the empirical investigation conducted in this study.

Objective of the Study

The broad objective of this study is to empirically investigate the trend of activities of the 3 big GSM service providers (MTN, Globacom and Zain) vis-à-vis the reaction of their customers to the level of satisfaction derivable from the GSM service providers for the past five-years of active operations. Other specific objectives are:

- To examine the level of comfort being enjoyed by the customers/subscribers vis-à-vis the growth recorded by their service providers;
- To investigate the pricing policies of the providers and the position of the customer/subscribers on the various call rates;
- To investigate the level of customers' care services being provided by the operators and the social responsibilities enjoyed by the subscribers.

Justification of the Study

The significant of this study is resident in its resolve to empirically investigate the feelings of customers about the services of the 3 big GSM service providers which control 89% of market share in their sector. The completion of this study will show whether customer satisfaction has grown proportionately with the growth in the telecoms sector over the spate of seven years. This study will empirically investigate the level of dedication of these 3-big giant GSM providers to the satisfaction of their services by the customers. Equally, Nigeria Communication Commission (NCC) will find this study very interesting and informative towards providing better supervisory role to protect the interest of the subscribers in the telecommunication sector.

Scope of Study

This study has been carried out in the south western part of the nation Nigeria comprising of six states, namely, Ondo, Ekiti, Lagos, Ogun, Osun and Oyo stated; specifically in state capital of each of these states except Osun where Ile-Ife was sampled. The 3-big giants of the telecommunication sector, namely; MTN, Globacom and Zain customers have been sampled across these six states of south western Nigeria to empirically investigate the feelings of the customers towards the satisfaction derivable from the various services of the GSM operators.

Sampled Population Size and Techniques

The population of this study comprises of the totality of all the customers of the operators in the Nigeria Telecommunication industry, which can be categorized into private telecom operation (PTOs) that mostly operate fixed wireless and GSM sector that comprises of six players namely MTN, Globacom, Zain, Visafone, Etisalat and M-Tel. But the study consider the customers of the 3 giant (MTN, Globacom and Zain) among these six players in GSM sector that have been responsible for the major changes in the telecom sector for the past seven years. For ease of accessibility to data gathering, the South-Western region of the country was selected purposively and 100 customers of the 3 GSM operators was sampled in the proportion of 34:33:33 for MTN, Globacom and Zain respectively. Since the south-western geopolitical zone comprises of 6 states, 600 questionnaires were drawn on 600 customer of these operators (MTN, Glo and Zain) in 204, 198 and 198 respectively.

Statement of Hypothesis

(1) On the overall, subscribers of the GSM operators are dissatisfied with the various services provided to them on the three net works;

(2) Similar factors affect the satisfaction desires of the three GSM subscribers;

(3) The sporadic growth in the GSM Operators gains in Nigeria has not been translated into adequate subscribers' satisfaction.

Data Collection and Techniques

100 questionnaires were administered on the subscribers of the three GSM operators (MTN, Globacom, Zain) in the ratio of 34:33:33 respectively in each of the capitals of the 6 States of the South-west geographical zone. In all, 600 questionnaires were administered in the six South-western states. Purposive sampling technique was used to select the region of administration being a known terrain. The questionnaires were administered in Akure, Ado-Ekiti, Ife, Ibadan, Abeokuta and Lagos. Except for Osun state in which Ife was used, others state capitals were use as points of administration. Accidental and purposive sampling techniques were used to administer the questionnaires on customers. Purposive sampling was used to ensure that all the categories of customers were sampled to avoid lopsidedness. Accidental sampling technique was specifically used in Lagos given the hustling and bustling in Lagos that did not permit many to spare the few minutes required to fill all the questionnaires. Many questionnaires in Lagos were not recoverable for only 60% success was recorded. But it was better in all other states for purposively, the questionnaires were administered on civil servants, bankers, students, traders etc to ensure adequate representation. 93% was recovered in Abeokuta, 98% in Ado-Ekiti, 100% in Akure, 98% in Ibadan and 100% in Ife-Osun state. In all 549 questionnaires were recovered representing 91.5% overall success in questionnaire recovery. Evaluating collation via operator by operator in all the states; 184 was recovered from MTN customers, 186 from Globacom customers and 179 from Zain customers; representing 90.1%, 90.93% and 90.40% respectively. In analyzing the collected data, Percentage, ‘T-’ test, ANOVA, [F-test] and Cross tabulation/’Eta’ Divisional Measures were used to measure subscribers level of satisfaction of the three GSM operators’ services. [MTN, GLOBACOM and ZAIN]. The sporadic growth within the seven years of GSM existence in Nigeria was described with the use of statistical graphs showing the number of subscribers, connections fees between 2001 and 2008, contribution of telecom to GDP [2001-2007], and trend of private investment between 1999 and 2008. SPSS 16 package was used to analysis these various statistical techniques.

Results Presentation

The various computations were carried out with use of **SPSS 16.** The SPSS 16 output from this analysis revealed that 58.8% of the respondent from the three networks and the six capital States of the sampled population are Male while 41.2% are female. 59.7% of the sample are singled while 38.8% are married. It was equally found out that both the income earners and non-income earners use GSM services. But all the sampled population has all together 72.7% of people earning various categories of income ranging from N7,500 to above N90,000 using the service while 27.3% claimed not to have income but are still using the GSM services. About 92.7% of the sampled population have used the GSM services for more than one year, which makes the study valid to measure customers' satisfaction for the respondents are experienced users of GSM services. The responses of the subscribers to the questionnaires that determine the level of satisfaction revealed a high level of dissatisfaction with various services of the GSM operators. For example, 52.5% agreed to the fact that, calls are often very difficult to make or receive on their operators' network while 45.2% disagreed with this. Unintentional termination of calls due to network failures; 51.6% agreed to this while 43% disagreed. 65.4% of the respondents claimed that they are dissatisfied with their networks while it is only 30.6% that disagreed with this. Similarly, 50.3% of the sample believed that the price being charged by the operators is unfair while 44.1% believed that the prices are fair. But in spite of this discountenance, each of the operators' subscribers believed that the GSM revolution has allowed access to telephone compared to before 2001. 65.8% believed that telephone services are better now compared to before while 80.8% believed that the operators' performance now is far better than the period of NITEL monopoly.

Statistical Test

One Sample t-test at 95% confidence interval has been used to test the differences among the means of the responses collated from the respondents across the six states of the South-Western Nigeria on the specific 22 questions that the study asked to determine their level of satisfaction. The test of significance is used to verify the truth or falsity of the Null Hypothesis one.

Hence $t = \frac{/\ddot{X} - \mu /}{S\ddot{x}}$ where $S\ddot{x} = S/\sqrt{n}$

at the degree of freedom V = n-1. The SPSS 16 output result is displayed below:

	T- Test [One-Sample Test] Test Value = 0					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
difficult calls	74.566	548	.000	3.430	3.34	3.52
distortion and infringement of calls	67.463	548	.000	3.209	3.12	3.30
unintentional termination due to network failures	65.342	548	.000	3.448	3.34	3.55
preference over competitors	70.244	548	.000	3.836	3.73	3.94

satisfied with the net works	77.623	548	.000	3.772	3.68	3.87
all round satisfaction	68.489	548	.000	3.441	3.34	3.54
fair pricing	63.436	548	.000	3.226	3.13	3.33
just and reasonable charges in comparison with charges	67.940	548	.000	3.355	3.26	3.45
no sharp practices in pricing	58.181	548	.000	3.270	3.16	3.38
prepaid card allows for choices to be made	75.697	548	.000	3.940	3.84	4.04
quick response to customer complain	66.823	548	.000	3.508	3.41	3.61
friendly customer attendant with courtesy	74.308	548	.000	3.825	3.72	3.93
your network has superior customer service	63.066	548	.000	3.537	3.43	3.65
tremendous improvement	79.416	548	.000	3.787	3.69	3.88
notification of network problem by texts	68.445	548	.000	3.689	3.58	3.79
adequate rewards for patronage	59.335	548	.000	3.284	3.18	3.39
awareness of social responsibilities	70.290	548	.000	3.791	3.68	3.90
indirect and direct benefits from social responsibilities	60.893	548	.000	3.233	3.13	3.34
agreement with promotional exercises	58.884	548	.000	3.348	3.24	3.46
promotions are genue	42.881	548	.000	2.821	2.69	2.95
access to telephone before 2001	60.209	548	.000	3.446	3.33	3.56
telephone services better now than before	66.162	548	.000	3.785	3.67	3.90
non access to phone before 2001	59.442	548	.000	3.328	3.22	3.44
services better now than NITEL monopoly	81.871	548	.000	4.231	4.13	4.33

SPSS 16 Output of Customers' Satisfaction Research Survey 2009

Decision Rule

From the above output, the measurement variable ratio used for the Linkert Scaling is between 1 and 5 in this order;

Cannot say	1
Extremely disagree	2
Slightly disagree	3
Slightly agree	4
Extremely agree	5

Therefore, the **Ẍ** of the above ratio is 3 [i.e 15/5]. For the Null hypothesis to be accepted, the $\mu \leq 3$ otherwise, the alternative hypothesis is adopted.

Hence: $Ho = \mu \leq 3$ }

$H1 = \mu > 3$ } one tail test

$$\frac{\sum \ddot{X}}{N} = \frac{84.54}{24} = 3.52$$

Therefore, since the μ= **3.52 and >3,** Ho is rejected. It then means that, on the overall, the subscribers are dissatisfied with the various services of the GSM operators.

One way ANOVA procedure was used to test the hypothesis 2 whether the several means of the responses of the GSM subscribers are equal. That is, this is used to know whether the subscribers of one GSM operator is more dissatisfied than the other or to know whether they are being dissatisfied by similar factors. This test was carried out at 5% level of significance.

Decision Rule

If the **Fc < Ft**, Ho is accepted, otherwise H1 is accepted. The table below shows the SPSS 16 output for ANOVA between groups [i.e MTN/ZAIN, MTN/GLOBACOM, GLOBACOM/ZAIN] and within groups [i.e MTN/GLOBACOM/ZAIN] for each of the respondents' responses.

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
difficult calls	Between Groups	7.741	2	3.870	3.361	.035
	Within Groups	628.809	546	1.152		
	Total	636.550	548			
distortion and infringement of calls	Between Groups	3.087	2	1.543	1.243	.289
	Within Groups	677.824	546	1.241		
	Total	680.911	548			
unintentional termination due to network failures	Between Groups	7.801	2	3.901	2.566	.078
	Within Groups	829.969	546	1.520		
	Total	837.770	548			
preference over competitors	Between Groups	5.297	2	2.648	1.621	.199
	Within Groups	891.949	546	1.634		
	Total	897.246	548			
satisfied with the net works	Between Groups	2.495	2	1.248	.962	.383
	Within Groups	708.044	546	1.297		
	Total	710.539	548			
all round satisfaction	Between Groups	.000	2	.000	.000	1.000
	Within Groups	759.326	546	1.391		
	Total	759.326	548			
fair pricing	Between Groups	5.165	2	2.582	1.824	.162
	Within Groups	772.828	546	1.415		
	Total	777.993	548			
just and reasonable charges in comparison with charges	Between Groups	2.672	2	1.336	.998	.369
	Within Groups	731.066	546	1.339		
	Total	733.738	548			
no sharp practices in pricing	Between Groups	9.861	2	4.931	2.863	.058
	Within Groups	940.241	546	1.722		
	Total	950.102	548			
prepaid card allows for choices	Between Groups	9.102	2	4.551	3.083	.047
	Within Groups	805.914	546	1.476		

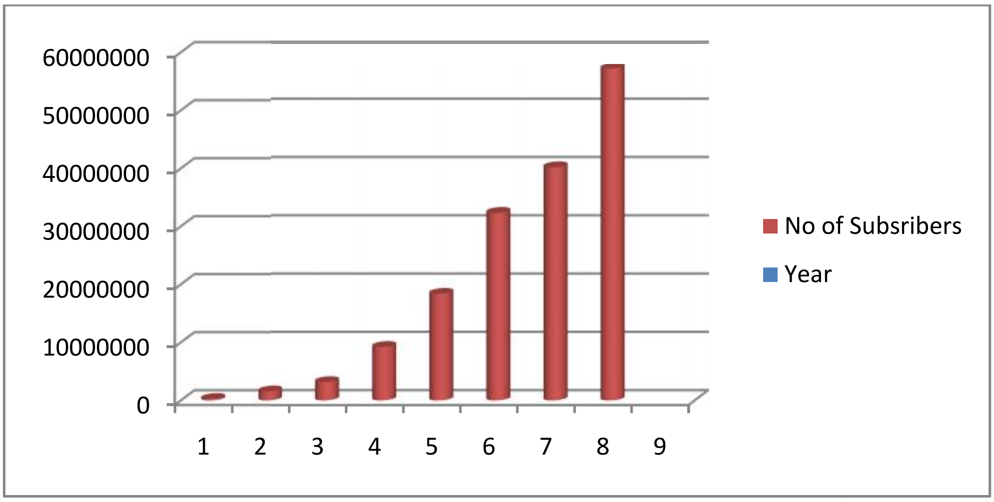
to be made	Total	815.016	548			
quick response to customer complain	Between Groups	2.133	2	1.067	.704	.495
	Within Groups	827.080	546	1.515		
	Total	829.213	548			
friendly customer attendant with courtesy	Between Groups	1.368	2	.684	.469	.626
	Within Groups	795.845	546	1.458		
	Total	797.213	548			
your network has superior customer service	Between Groups	4.898	2	2.449	1.420	.243
	Within Groups	941.586	546	1.725		
	Total	946.485	548			
tremendous improvement	Between Groups	3.046	2	1.523	1.221	.296
	Within Groups	681.019	546	1.247		
	Total	684.066	548			
notification of network problem by texts	Between Groups	37.121	2	18.561	12.113	.000
	Within Groups	836.617	546	1.532		
	Total	873.738	548			
adequate rewards for patronage	Between Groups	45.082	2	22.541	14.040	.000
	Within Groups	876.590	546	1.605		
	Total	921.672	548			
awareness of social responsibilities	Between Groups	2.101	2	1.051	.657	.519
	Within Groups	872.810	546	1.599		
	Total	874.911	548			
indirect and direct benefits from social responsibilities	Between Groups	9.527	2	4.763	3.101	.046
	Within Groups	838.630	546	1.536		
	Total	848.157	548			
agreement with promotional exercises	Between Groups	5.080	2	2.540	1.434	.239
	Within Groups	967.470	546	1.772		
	Total	972.550	548			

promotions are genue	Between Groups	38.503	2	19.252	8.316	.000
	Within Groups	1264.003	546	2.315		
	Total	1302.506	548			
access to telephone before 2001	Between Groups	3.976	2	1.988	1.106	.332
	Within Groups	981.689	546	1.798		
	Total	985.665	548			
telephone services better now than before	Between Groups	.338	2	.169	.094	.911
	Within Groups	984.300	546	1.803		
	Total	984.638	548			
non access to phone before 2001	Between Groups	.520	2	.260	.151	.860
	Within Groups	942.464	546	1.726		
	Total	942.984	548			
services better now than NITEL monopoly	Between Groups	6.223	2	3.111	2.130	.120
	Within Groups	797.398	546	1.460		
	Total	803.621	548			

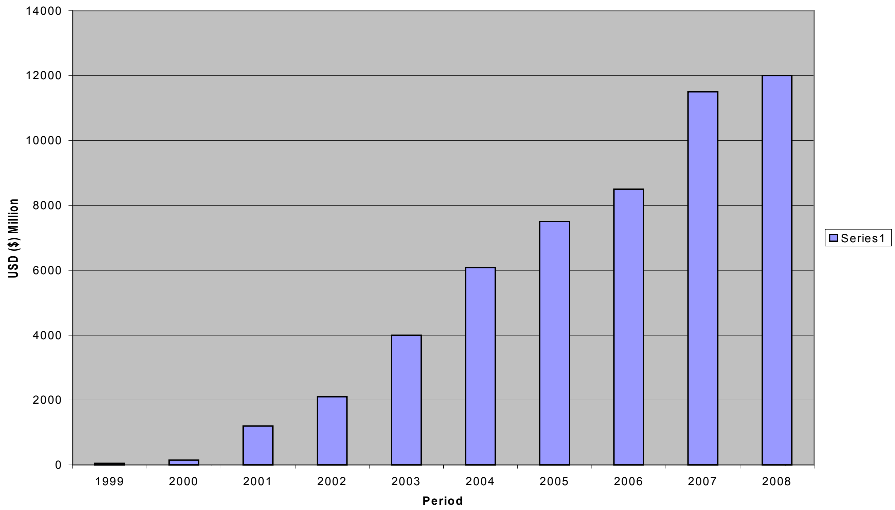
SPSS 16 Output of Customers' Satisfaction Research Survey 2009

From the above analysis; between groups, F values show no significant difference among the beliefes of the subscribers except for all round satisfaction (V13). Similarly F value shows no significant difference within groups. In the overall, it was discovered that similar factors are responsible for the complains of subscribers to satisfaction in all the 3 networks hence the Null hypothesis rejected.

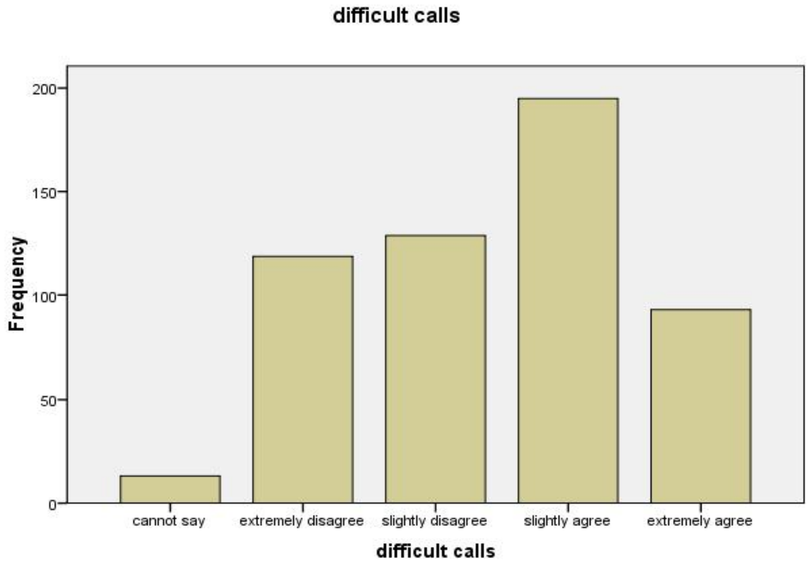
To test the 3rd hypothesis, graphical statistical analysis was used to compare the growth in the GSM sector vis-à-vis the key responses of the subscribers about their level of satisfaction. These graphs are displayed below:



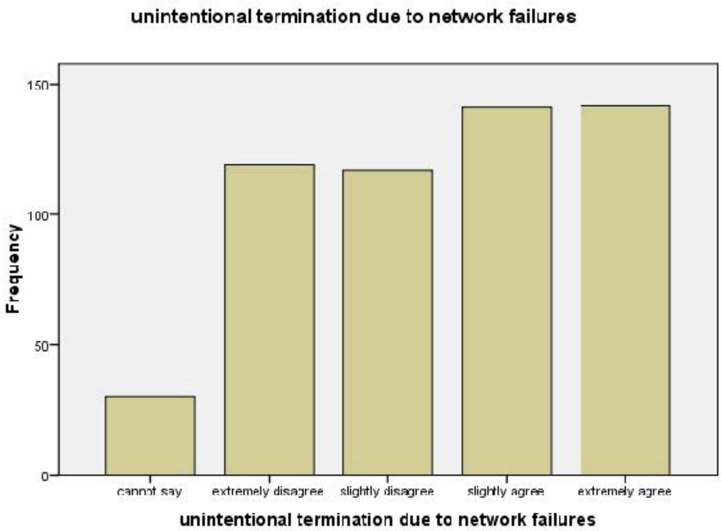
A Bar Chart Showing the Growth of GSM Subscribers' from 2001-2008



A Bar Chart Showing the Trend of GSM Foreign Direct Investment from 1999-2008



A Bar Chart Showing the Respondents' Views on Difficult Calls and Receptions Research Survey 2009



A Bar Chart Showing the Respondents' Views on Network failures Research Survey 2009

The first two charts above displayed the significant growth that the GSM sector has witnessed for the past 7 years of operation in Nigeria. While there were sporadic upward movements in the two determinant factors chosen, reverse was the case when compared with the two charts that explain the satisfaction expressed by the Suscribers for the past 7 years. This relationship simply implies that, the sporadic growth in the GSM operators gains in Nigeria has not been translated into adequate subscribers benefits and satisfaction.

The Cross tabulation and 'Eta' Directional measures provide an explanation to which of the GSM operators' that, the dissatisfying factors affect most. For example, the table below that shows the directional measures comparison of the subscribers' Evaluation of indirect and Direct benefits as enjoyed by the subscribers in terms of social responsibilities from their GSM providers revealed that the 'ETA' value for MTN is higher with 0.44 compared to GLOBACOM value of 0.246. The implication of this is that MTN customers suffer more of this dissatisfying factor more than other Network subscribers.

Directional Measure

gsm service providers				Value
Mtn	Nominal by Interval	Eta	indirect and direct benefits from social responsibilities Dependent	.044
			sampled location Dependent	.100
globacom	Nominal by Interval	Eta	indirect and direct benefits from social responsibilities Dependent	.246
			sampled location Dependent	.147
Zain	Nominal by Interval	Eta	indirect and direct benefits from social responsibilities Dependent	.393
			sampled location Dependent	.151

Conclusion

This study has practically accessed the operations of the three giants in the Nigeria GSM arm of the Telecommunications sector [MTN, GLOBACOM and ZAIN] over the past seven years vis-à-vis their customers' satisfaction of the various products. The study discovery is very important and relevant to the future development of programmes that will enhance sound customers satisfaction by the GSM providers. Similarly, the study has opened up a wide opportunity for the sector's regulatory body [NCC] to look at all these subscribers complain so as to be alive to its responsibility of providing a platform for customers' satisfaction as much as the benefits and gains that have been accruing to GSM Providers since 2001.

Recommendations

This study is 100% empirical and conducted with the achievement of up to 92.7% of the respondents having to have used either or all of these Networks for an average of three years; meaning that, 92.7% of the respondents have responded on their satisfaction to the various services provided by GSM operators based on experience. It is therefore very alarming that customers' satisfaction has not scored a high mark in the books of the GSM operators. Therefore, efforts must be frantically geared towards addressing this issue to ensure that subscribers have values for their money.

NCC should see this research as a revealer of the silence suffering of the Nigerian GSM subscribers and should therefore swing into action that will ensure maximum subscribers protection and right to efficient telephone services.

Most of the strategies of the operators should be more focused on customers' satisfaction for the Nigerian GSM market is gradually moving to its maturity stage when it is only brand loyalty that will keep existing subscribers for each GSM provider. At this period, only the operator that has won the confidence of the subscribers will be able to compete effectively.

The operators should equally attempt to cut down their tariff to win more subscribers, while expanding their Net work to achieve high profitability through economies of scale which will solve the subscribers complains of high tariff permanently.

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The Importance of Price Earnings Ratio in Equity Valuation on Stock Exchange Market

Neculai Tabara[1], Andreea Vasiliu[2]

Abstract: There are many methods used to value equity and companies. Most of them fail to give a realistic value to the firm being valuated. The most used technique is discounted cash flow method. Because of its weaknesses, the investors are using more and more another approach to rate companies. This is relative valuation. The essence of this methodology depends critically on two components: the multiple that is used and the comparables that are chosen. Depending on what multiple we use we may be able to determine the Value of Equity or the Global Value of Enterprise. This paper focuses on equity valuation using multiples. We present the methodology of valuing equity of a non- listed company with the purpose of establishing a share price for the first time on the stock exchange market. The multiple selected is price earnings ratio, calculated as a median for the peer group. The comparable companies are defined as being those who are listed on the stock exchange market in the same class as the company for which we want to find a share value. Further studies on the subject refer to other multiples used in relative valuation.

Keywords: relative valuation; multiples; peer group; mean

JEL Classification: D46; G11; L25; L74; M41

Introduction

Business evaluation it's an important tool in overcoming the economic and financial crisis. Nowadays, it is crucial to estimate adequate corporation value in different moments such as: when we intend to list company's shares on the capital market for determining the price or fair value of shares, for determining the sale or the purchase price of a corporation, when we are changing the capital structure of a business, when we intend to compare two enterprises, when we need to chose between two investment plans. Another field of appliance for this area of knowledge is represented by merges and acquisitions of companies. All this process is needed in order to decrease uncertainty on the market. According to Damodaran, valuation plays a significant role in portfolio management, in acquisition analysis and in corporate finance (Damodaran, 2002). Abrams gives

[1] Professor, PhD, „Alexandru Ioan Cuza" University of Iasi, Romania, Address:11 Carol I Blvd, Iasi, Romania, Tel:+40232201000, Fax:+40232201201, Corresponding author: neculaitabara@yahoo.com.
[2] PhD,"Alexandru Ioan Cuza" University of Iasi, Address:11 Carol I Blvd, Iasi, Romania, Tel:+40232201000, Fax:+40232201201, e-mail: andreea_vasiliu_1986@yahoo.com.

another connotation to the business valuation. He says that it is needed for"planning retirement and exist strategies" (Abrams, 2005, p. 5)"for making an initial public offering, litigations of various types, spinning off a portion of your business, entity restructuring" (Abrams, 2005, p. 6). Arnaud Thauvron states that corporate valuation is necessary also for fiscal use. (Thauvron, 2007, p. 13).

Business evaluation techniques are needed because the value of an enterprise is changing over time depending on the following aspects: existence of free prices leading to changes in the internal information available to management of an enterprise for making economic decisions; fluctuations in the exchange ratio, meaning changes in the value of all goods and hence the whole enterprise; internal management of each company in terms of depreciation and accounting policies may lead to another value of enterprise; CEO experience in terms of staff motivation; employees competence, the strategy applied, the company management structure, size and quality of assets held and used.

The objective of any company is the value maximization and this can be achieved only by knowing the accurate present value. Analysts use a wide range of methods to value a corporation that share common characteristics. The three valuation approaches are: asset approach which measure value through the calculation of assets net of liabilities, income approach which measure value by converting future benefits to present amount and market approach which calculate value by comparing the enterprises with similar ones. (Abrams, 2005, p. 31). Using classical and neoclassical business valuation methods has not led to expected results and their validity was put into question during economic and financial crisis. Therefore, in the recent years, analysts have intensified their efforts, at both theoretical and practical level, on the development of new methods of valuation or revision of existing ones. Most used methods, nowadays, are the following ones: discounted cash flow valuation that relates the value of a company to the present value of expected cash flows, relative valuation that estimates the value of a company by comparing it to some similar corporate and the contingent claim valuation that uses option pricing models to measure the value of assets that share option characteristics (Damodaran, 2002, p. 16).

The purpose of this paper is to present one of the most relevant evaluation method discussed in recent years which is relative valuation technique using multiples.

Related Work

Even though this method is very used, there are few those who wrote a theory on the application of multiples. Regarding theoretical approach to the subject, through the authors that devote space in their book to discussing the multiples valuation method are: Damodaran (2002), Palepu, Healy & Bernard (2000), Thauvron (2007), Pratt (2008).

Damodaran is the one who develops this area of knowledge. In his book"Investment Valuation: Tools and Techniques for Determining the Value of Any Asset" (2002) he presents a theoretical approach to valuation using multiples and in the same time a more practically orientated one. He presents the relative valuation using multiples as being the most important and most used valuation method. He puts the fundamental principles of relative valuation, defines and calculates earnings multiples, book value multiples revenue and sector- specific multiples. In his work he explains the characteristics and the determinants of comparable firms and multiples using data from different countries and industries.

Palepu, Healy and Bernard, in their book"Business Analysis & Valuation Using Financial Statements-Test and Cases"(2000), they talk about the steps involved in a relative valuation process, about the comparable firms, the area of multiples used for firms with poor performance, about the way we should adjust multiplesand about determinants of multiples. They aproach this area of kwnoledge in a theoretical and in a practical way.

Arnaud Thauvron has an important contribution to the area of firm valuation. Using a new method, in his book"Evaluation d'Entreprise", he shares information about variables and multiples used in relative valuation, about the comparable firm. His work is significant because he explain the method by applying it.

Other important names in the area of multiple based valuation of the enterprise are: Lundholm& Sloan. They provide a better understanding of determinants of multiples and their mathematical connection with the accounting field. Richter goes forward and presents a theoretical approach on how to link multiples to the discounted cash flow model. Arzac and Koller, Goedhart & Wessels concentrate on the development of criteria for the identification of comparable firms. Benninga & Sarig point another important aspect, the one of using the same data definition for calculating multiples. Spremann raises another issue, the one of distinction between trading and transaction multiples. (Schreiner, 2007, pp. 14,15).

Shannon P. Pratt, is a notorious name in the area of business and equity valuation and has written several books that speak about many of the notions and methods used in contemporary business valuation around the world. His most recent work is"Valuing a Business: The Analysis and Appraisal of Closely Held Companies" (2008).

The books listed above are very important in business and equity valuation field. Starting with Damodaran and ending with Shannon Pratt, all these studies give alternativ answers to questions that persist in business valuation field.

On the subject of valuation using multiples at the empirical level most studies are based on a limited set of firms or years and consider only a limited number of multiples.

Regarding the accurateness of estimation using multiples for valuing a company important studies belong to Kaplan and Ruback, Gilson, Hotchkiss and Ruback. In their work, they provide evidence that discounted cash flow method and valuation approaches using companies in similar industries provide reliable estimates of market value. They deduce that estimates based on multiples and comparable companies underestimate transaction value with a media estimation error of -18,1%. In the same way they deduce that using multiples for comparable companies from the same industry and area of transactions it's more accurate. Another field of study concerning multiples is to estimate the terminal value of the firm by using comparable EBITDA multiple and the EBITDA forecast. They discover that the estimated value exceed transaction values by more than 10%. Even though evaluation using multiples doesn't give a fair value, according to the findings of their study it's more accurate than patrimonial methods of evaluation (Kaplan & Ruback, 1995). Gilson, Hotchkiss and Ruback compare the market value of firms that reorganize in bankruptcy with estimates of value based on management's published cash flow projections and also based on projected EBITDA in the first forecast year. Even though the estimation error for the value obtain through discounted cash flow and multiples it's preeminent, those two methods have a higher accuracy than others in estimating value for bankrupt firm (Gilson, Hotchkiss, & Ruback, 2000).

In what has to do with the identification of comparable firms, significant research papers belong to Boatsman & Baskin (they show that valuation errors are smaller when comparable firms are matched on the basis of similar historical earnings growth), Alford and Bhojraj& Lee (they discover that valuation errors are smaller if the comparable firms are matched upon underlying economic variables instead of industry membership) (Schreiner, 2007).

On the topic of specific multiples for some industries, Barker and Tasker agree that practitioners prefer using PE and price to book value multiples in the financial industry, price to operating cash flow multiples in the consumer services industry (Schreiner, 2007, p. 19).

As regards the combinations of multiples, Cheng and McNamare combine price to earnings multiples and price to book value multiples in valuation of the companies. They conclude that their method it's more accurate that by using separate those two multiples (Schreiner, 2007, p. 20). In the same way, Stephen Penman calculates value as a multiple of combined earnings and book value. He defines comparable firms as groups based on the spread between capitalized earnings and book value and by the firm itself with its own historical weights (Penman, 1998).

Concepts and Terms Regarding Relative Valuation

In order to develop this subject we believe necessary to establish some theoretical considerations. To achieve this we should define the following terms: value, business evaluation, relative valuation.

Starting with Adam Smith, who was the first one who gave a definitions for value, there where many those who tried to identify the meaning of it. In essence, it means"a fair return or equivalent in goods, services, or money for something exchanged the monetary worth of something" (Abrams, 2005, p. 6). Regarding business value there are many ways of defining it: fair market value, fair value, investment value.

Business evaluation consists in calculating a value for those enterprises by using one or more methods, whit the objective of establishing a price. (Thauvron, 2007, p. 11). It developed from real estate valuation.

Concerning relative valuation, in this method the value of a business or equity is drawn from the pricing of"comparable" enterprises, standardized using a common variable such as earnings, cash flows, book value or revenues (Damodaran, 2002, p. 25) and a set of multiples. This method is a part of market approach which is a general way of determining a value of a business by using a method that compares the subject to similar business (Abrams, 2005, p. 44). The most common multiples used to value a firm are price-earnings ratio, price to book value ratio, price to sales ratio, price to cash-flow ratio, price to dividends ratio, market value to replacement value (Tobin's Q). By using this method we assume that the other firms in industry are comparable to the company being valued, we must make some adjustments and we must apply the multiple derived from the similar companies to the subject firm. There are many manners of putting into practice this approach. Some of the analysts make a cross sectional comparison of multiples across similar companies, while others use time series comparison of the multiple of a company to the multiples it used to trade in the past (Damodaran, 2002, p. 25). Others choose to estimate multiples by using the same strategy applied in discounted cash flow analyze. In the last case, even if they use cross sectional or time series comparation, they relate to the future establishing growth rates in earnings and cash flows, payout ratio and risk (Damodaran, 2002, p. 27). Relative valuation using multiples is simple and easy to work with when there are a large number of comparable firms working in the industry. Some problems may appear if we must value a unique firm or if the comparables firms are being overvalued or undervalued.

Performing a valuation using multiples involves the following steps:

1. Selecting a measure of performance or value for multiples calculations.

There are four types of multiples used in valuation: earnings multiples, book value multiples, revenue multiples, sector-specific multiples. The aim of this article is to study earnings multiples and value a company using one of this multiples.

Earnings multiples are the most used multiples in relative valuation. Even though it is widespread, valuation using earnings multiples does not have any meaning if a firm has a negative or a low net income, if comparable firms use different accounting policies and if the companies don't have similar capital structure (Schreiner, 2007, p. 41). In this category there are multiples such as: price earnings ratio (PE), PEG (defined to be the price earnings ratio divided by the expected growth rate in earnings), relative PE ratio, price to future earnings and price to earnings before R&D expenses, enterprise value to EBITDA. There are several methods of applying this multiples in enterprise valuation: first one is to compare earnings multiples across a peer group and to control for differences in growth, risk and payout and second one is to expand the definition of comparable firm to the entire sector (Damodaran, 2002, p. 714).

Book value multiples are used to determine how much a stock is over or under valuated. In this area we will find multiples such as: price to book equity, return on equity, Tobin's Q. The price –book value of a firm is determined by its expected payout ratio, growth and riskiness (Damodaran, 2002, p. 755).

Revenue multiples are especially used to compare firms in different markets, with different accounting systems. They are also useful to value equity and firms that have negative earnings. One of these multiples is price to sale ratio.

Sector specific multiples refers to those multiples used only for a small category of firms. By applying this multiple we will use as a denominator some operating units that generate revenues and profits for the firm. For example for commodity companies we will use number of units of the commodity in reserves, for manufacturing companies- number of units produced, for subscription based firms (cable companies, internet service providers, information providers) - number of subscriptions. (Damodaran, 2002, p. 792)

2. Estimating multiples for comparable firms using the measure of performance or value:

Next step is to identify the comparables firm. Doing this represents a challenge. At first stage we must organize the companies into industry groups. This is difficult because most firms have more activities fields (Bernard, Palepu, & Healy, 2000). So we must determine which the principal activity that influences the performance is. After that, in the industry area where the firm that is valued is placed, we must identify companies that are most similar according to a number of dimensions.

Damodaran identifies those dimensions: cash flows, growth potential and risk (Damodaran, 2002, p. 650). Some define comparable firms as those who are in the same industry. Because those companies have different strategies, growth opportunities and profitability which create comparability problems, the analyst put into equation an average across all firms in the industry (Bernard, Palepu, & Healy, 2000, p. 412). Others define some additional dimensions such as: asset size, number of employees, growth in revenues and earnings (Drake, p. 2).

3. Application of the comparable firm multiple to the performance or value measure of the firm being analyzed. (Bernard, Palepu, & Healy, 2000, p. 412)

The final step is to apply the multiplicator to a value measure or value driver of the company being evaluated. Depending on what value driver (inductor) we use we will obtain the Value of Equity to Investors or the Global value of the Company (Thauvron, 2007, p. 150).

Equation 1. Formula for Equity value

$$\text{Value of equity to investors} = \text{Equity Multiple} * \text{Value driver} \qquad [1]$$

Equation 2. Formula for Global Value of the Enterprise

$$\text{Global Value of the Entreprise} = \text{Firm Multiple} * \text{Value driver} \qquad [2]$$

Empirical Study

Our research represents a case study regarding equity valuation using price earnings ratio. We use financial and accounting theory and, off course, data for the companies involved, which is available on Bucharest Stock Exchange Market. In our study we will follow the next steps: problem statement, multiple selection and estimation, identification of comparable companies, accounting for differences, estimation of the peer group multiple, computation of equity value for company A.

Problem Statement

The aim of this study is to estimate a value for the company A using the relative valuation method. The company's owners intend to list the shares on the stock exchange market. About company A we know that it is part of Section F: Construction, Division 41: Construction of buildings, Group 412: Construction of residential and non-residential buildings, Class 4120: Construction of residential and non-residential buildings. The financial and economic indicators for the fiscal year ended at 31.12.N for the company A are:

Table 1. Financial indicators for company A

Indicator*	AI	AC	Cpr	D	CA	RN	Nrang
A	7752813	11212565	9100078	9865300	19560231	510724	125

** AI- fixed assets, AC- current assets; Cpr-equity, D- debts, CA-turnover, RN- net income, Nrang-number of employees.*

In our study we will give an answer to the following questions:

1. What represents comparable firms in terms of relative valuation?
2. What is the methodology of defining peer group?
3. Which average can be used to estimate peer group multiple?
4. Which is the more realistic estimation of equity value?

Step 1: Multiple selection and estimation

The first step in valuating company A using relative valuation techniques is to select a multiple. As shown in previous section, there are many ways of doing this valuation. For this case study we choose price earnings ratio as a multiple. According to Damodaran, price earnings ratio is the most widely used (Damodaran, 2002, p. 659). PER was for the first time defined in the early 1930 by Benjamin Graham (Schreiner, 2007, p. 41).

Price earnings ratio is the ratio between market price per equity and earnings per share.

Equation 3, Formula for Price Earnings Ratio

$$\mathbf{PER} = \frac{\textbf{Market price per share}}{\textbf{Earnings per share}} \qquad [3]$$

The most important problem regarding PE formula is how we define Earnings per share. Price to earnings ratio can be calculated using three types of denominators:

- Current PER, where the earnings per share is the net income of the company for the last fiscal period, divided by number of share outstanding;
- Trailing PER, where the earnings per share is the net income of the company for the most recent 12 months divided by number of share outstanding;
- Forward PER, where we use estimated income for the next 12 months instead of net income for the last 12 months.

For this study we will use as a denominator current PER.

Step 2: Identification of comparable companies

Establishing a value for the company A represent the first step for its quotation on the stock market. Therefore, according to relative valuation method, we should define comparable companies quoted on the stock market.

First of all we define peer group using the industry classification system as a criteria. In Romanian economic system the business cataloging is set up in National Classification of Economic Activities of Romania, REV 2. Picking firms from a 4-digit industry code produces a more homogenous group of potential peers than a broad industry group (Schreiner, 2007, p. 73). On Bucharest stock exchange market there are 42 companies that match up Class 4120. As a result we define this group of 42 companies as being the one in which we will find comparable firms for enterprise A.

Only 40 companies of the previous match the size criteria. Each one of these companies is a part of the third Category of RASDAQ due to their performance and profitability indices. The next step is to find out which ones of this companies trade on the market. We will find out that we have only 37 companies that trade on the market, the other 3 suspended their tradable shares. All the firms are from Romania. We don't believe that it is necessary a more deep region criteria for detection of comparable firms.

An important factor for valuation of a company through relative valuation using PER is to set up a peer group where all the companies have positive net income. In order to analyze this condition we realize a database containing important financial and accounting information for all those companies using their Annual Financial Report for the fiscal year ended at 31.12.N, information available on the Bucharest Stock Exchange Market (bvb.ro). We evaluate net income for all those 37 companies and we reach out with a potential peer group of 30 companies.

A critical stage in using Price Earning Ratio in business valuation is to understand how this multiple is distributed across firms in the sector. In this phase we examine the distribution of PE ratios across the sector (all those 37 firms). For companies that have negative net income price earnings ration is not a multiple that can be calculated. By using equation [3], we achieve the following distribution of PER for the possible peer group:

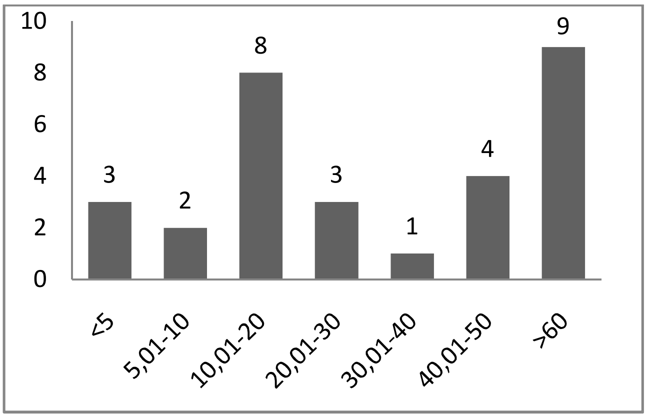

Figure 1. Current PE ratio distribution across sector 4120. Bucharest Exchange Market- December N

**Source: Our calculation based on data available on Bucharest stock exchange market (Companies Directory: BVB, 2011)*

Figure 1 presents the distribution of PE ratio for companies listed on Bucharest Exchange Market at Section F: Construction, Division 41: Construction of buildings, Group 412: Construction of residential and non-residential buildings, Class 4120: Construction of residential and non-residential buildings (companies with negative net income are not included).

PER is estimated as the ratio between share price and earnings per share recorded by the issuer of the shares. Earnings per share is determined as the ratio between the total profit over a period of one year (2N) and total number of shares outstanding of the issuer at the end of the year. PER value represents the duration (in years) of the recuperation of the investment in a share.

According to Benjamin Graham, a well know investment theorist, in general a price/earnings ratio (or"P/E" ratio) below 10 is considered low, between 10 and 20 is considered moderate, and greater than 20 is considered expensive (Graham & Zweig, 1973, p. 70). Therefore, a company with a PER below 10 is undervalued, between 10 and 20 the value of the company on the market is a fair value and higher than 20 the company is overvalued. In our opinion this perspective fails to take into account the company's growth prospects. PER ratio is more than a measure of the company's past performance, it takes into account market expectations for a company's growth. This is the reason why we will consider as being part of the peer group all the companies with a PER lower than 30. By doing that our potential peer group has 16 companies. PER values using equation [3] are shown below:

Table 2. Value of PER for the comparable companies

Firm	PER	Firm	PER
SELC	10,22	CONK	1,22
CNBC	4,53	COSH	6,32
CIAC	13,15	COEL	12,3
COBJ	26,54	CNSI	6,25
COKJ	3,76	MOLE	22,35
CONN	13,63	URBN	15,76
ICSI	13,35	CONJ	14,65
PENT	26,47	FOND	10,98

**Source: Our calculation based on data available on Bucharest stock exchange market. (Companies Directory: BVB, 2011)*

Step 3: Differences between peer group and company A regarding assets, debts, growth rates, profitability and risk

Even though we tried to define with precision peer group, each time there will be differences between the peer's group financial characteristics and those of the target firm as shown below:

Table 3. Differences between peer group and company A

Indicators	Mean for peer group	A	Differences
AI	7792460,06	7752813,00	39647,06
AC	14996816,50	11212565,00	3784251,50
Cpr	10184288,94	9100078,00	1084210,94
D	11200456,38	9865300,00	1335156,38
CA	24016414,31	19560231,00	4456183,31
RN	544945,81	510724,00	34221,81
Nrang	169,06	125,00	44,06
GrowthRN	0,72	0,53	0,19
ROA %	3,61	2,69	0,91
RISK %	177,49	108,41	69,08

**Source: Our calculation based on data available on Bucharest stock exchange market. For this part we used arithmetical mean. (Companies Directory: BVB, 2011)*

*** For calculation of the mean for peer group we used equation [5].*

There are two methods to define these differences: cross-sectional analysis and time-series analysis (Bernard, Palepu, & Healy, 2000). We use cross sectional analysis, which means that we compare mean for peer group with financial indicators of company A.

The most important ratios showed above are: growth rate of net income (GrowthRN-), return on assets (ROA) and debt to market value of common equity ratio (RISK). As we can see the company has a lower growth rate (difference 0,19), return on assets (difference 0,91) and risk (difference 69,08). In the same time it has minor total assets and debt. Net income is almost the same as the mean for the peer group.

All these differences have an important effect on equity value (Brealey & Myers, 2003). This is the reason why Schreiner believes that we should use an adjustment factor in equity value formula (Schreiner, 2007, p. 79):

Equation 4: Formula for Value of equity according to Schreiner

$$\textbf{Value of equity to investors} = \boldsymbol{\alpha} * \textbf{Equity Multiple} * \textbf{Value driver}. \quad [4]$$

Where:

α= adjustment factor.

Step 4: Estimation of the peer group multiple

After the identification of the peer group and the calculation of the PER for each comparable company, the next step is the aggregation of the multiples into a single number (Schreiner, 2007, p. 52). For doing that we should use statistical method. Many studies prefer to use arithmetic mean. This represents the value obtained by dividing the sum of the set of indicators by the number of those indicators. The mean is the balance point of all values of a distribution. Arithmetical mean for the peer group is calculated as follows:

Equation 5. Formula for Arithmetical mean

$$\boldsymbol{\mu} = \frac{\mathbf{1}}{\boldsymbol{n}} \times \sum_{\boldsymbol{i=1}}^{\boldsymbol{n}} \boldsymbol{x_i}, \quad [5]$$

Where:

n=16 and represents the number of the comparable firms;

i= each of the company from the peer group;

x_i= PER for the company i. (Jaba & Grama, 2004, p. 120)

According to Shannon Pratt the arithmetic mean is not quite right for the estimation of synthetic PER for the group (Pratt & Niculita, 2008). Mihai Ţarcă advises also not to use arithmetic mean in the series which shows large variations between minimum and maximum (Ţarcă, 1997, p. 167). There are others aggregates that determine with greater accuracy the mean of the peer group. Such aggregates are: median, harmonic mean (Schreiner, 2007, p. 52). The first one is an average found by dividing the peer group into two and than selecting the value in the middle. Median for the peer group is calculated, after arrangement in ascending order the indicators, as follows:

Equation 6. Formula for Median

$$Me = \frac{X_{\frac{n}{2}} + X_{(\frac{n}{2}+1)}}{2}, \quad [6]$$

Where:

n=16 and represents the number of the comparable firms;

x_i= PER for the company i. (Jaba & Grama, 2004, p. 121)

According to Schreiner the harmonic mean represents a better solution to this problem. Harmonic mean gives equal weight to each data point compared with the arithmetic average that puts more emphasis on large values. This mean is calculates as follows:

Equation 7. Formula for Harmonic mean

$$Mh = \frac{\sum_{i=1}^{n} k_i}{\sum_{i=1}^{n} \frac{1}{x_i} \times k_i}, \quad [7]$$

Where:

n=16 and represents the number of the comparable firms;

x_i= PER for the company i;

k_i= frequency of occurrence of x_i. (Ţarcă, 1997, p. 169)

For this study we will choose only these three methods and we want to see what the difference is between. The table shown below presents summary descriptive statistics for current price earnings ratio. As presented in a section above, we will choose only 16 comparables companies that have PER below 30. The reason of doing that is to prevent outliers from having too large influence on the average. By using equation [3], [5], [6], [7] we have the following means:

Table 4. Summary Statistics – PE Ratios for the peer group

	N	Minimum	Maximum	Mean	Median	Harmonic Mean
PER	16	1,22	26,54	12,5925	12,725	6,748

**Source: Our calculation based on data available on Bucharest stock exchange market. (Companies Directory: BVB, 2011)*

Where: N-represents the number of companies that are component of the peer group; Minimum, Maximum- PER values of the group; Mean- represents the result of summing the ratios and dividing the result by the total number of ratios; Median- represents the value that separates PER values of the peer group into two; Harmonic Mean- is an inverted form of the arithmetic average

To determine the multiple we have a population of 16 companies (N) that have PER values between 1,22(Minimum) and 26,54(Maximum).

The Mean for the peer group is 12,5925. That means that for a homogeneous group, each company will have a PER of 12,5925. If the companies for which price earnings ratio exceeds 30 would not have been eliminated, the average would have been 144.76, which results in an overvaluation of the company A. The mean has a value that is between 10 and 20. That implies that by applying this value to the net income of the company A we will not have an under or overvalued share price.

The Median for the peer group is 12,725. That means that half of the target group have PER values that exceed 12,725 and half have PER values that are below 12,725. If the companies for which price earnings ratio exceeds 30 would not have been eliminated, the median would have been 104,61, which result in an overvaluation of the company A. In the same way this value (12,725) guarantees a more realistic share value for the company A.

The harmonic mean for the peer group is 6,748. According to finance and statistics theory this is a more realistic mean for a group of variables.

Step 5: Applying the formula to valuate equity for the company A

By using price earnings ratio as a multiple and net income as the suitable value driver we will find out equity value, which divided by total number of shares will give the price of a share on the stock exchange market for company A. According to all the assumption made above, the equity value for company A , according to equation [1], is:

Table 5. Value of Equity for Company A by multiple used and by average

Multiple		Value driver-Net Income for company A	Equity Value
Name	Value		
Mean	12,5925	510724	6431292
Median	12,725	510724	6498963
Harmonic Mean	6,748	510724	3446366
Average Equity Value for company A			**5458873**

**Source: Our calculation based on data available on Bucharest stock exchange market and on annual report of company A. (Companies Directory: BVB, 2011)*

By using arithmetical mean for outline the price earnings ration for the peer group, the equity value is 6.431.292. There is no significant difference in using median, the equity value is 6.498.963. An important negative variation of the equity value is established by using harmonic mean. In the last case we have a smaller equity value of 3.446.366.

In our opinion, we should use an average of all these three means for estimating the equity value. By doing that, through equation [5], equity value for company A is 5.458.873. This last value is the one that is closest to the average equity value for the 16 companies (5.934.825).

From our point of view, some of the disadvantages of using one or another mean for price earnings ratio of the peer group are eliminated by using the final average. In this way, the equity value obtained falls within the capital market trend, and the share price will not be over or under valued.

Conclusions

There are many reasons for using relative valuation tehniques: it can be made with fewer assumpions and more quickly that a discounted cash flow valuation; it is simplier to understand; it is much more likely to reflect the fair value (Damodaran, 2002, p. 637); does not require multiyear forecast on a variety of parameters including growth, profitability and cost of capital (Bernard, Palepu, & Healy, 2000, p. 407). Schreiner goes for this method in equity and firmvaluation because of its understandability, accessibility of the accounting through financial press (Schreiner, 2007, p. 54). For all of the authors mentioned above, relative valuation reflects current mood of the market in term of equity or business value.

In the same time there are some weaknesses regarding this method. First of all key variables in valuation such as risk, growth, cash flow are ignored. Secondly, it is posible to have an overvalued or an undervalued market that leads to a higher respectivly a lower value of the business. By using this method we can easly manipulate the final value of the company (Damodaran, 2002, p. 638). Another chalange of this method is the identification of comparable firm (Bernard, Palepu, & Healy, 2000, p. 407). Failure of correcting the differences in risk can lead to incorect evaluations also (Abrams, 2005, p. 49). Schreiner observes two important weakness of this method: allows manipulation of values and is affected by market bubbles (Schreiner, 2007, p. 54)

This work presents an evidential approach of using multiples for valuing equity. We illustrate the methodology of relative valuation by presenting a literature review on the subject and in the same time by developing a case study. For this, we used data available on Bucharest Stock Exchange Market. In our research we intermix previous studies in terms of defining comparable firms. We also define a maximum value of price earning ratio that can be used in peer group. In terms of means used to calculate a PER for the entire group of comparable companies we operate with: arithmetical mean, median and harmonic mean. There are not significat differences between equity value achieved by using arithmetical mean and median. There is a major discrepancy by applying harmonic mean. In our opinion, the average of those three values illustrates the best choice.

Future Research

Obviously, there is an important field of research in the area of equity and business valuation and for sure empirical exploration remains to be conducted. We intend to study the correlation between PER and growth, risk and performance, the value of equity and global value of enterprise using a mixture of multiples. Of course, we intend to study and other methods for valuing equity and companies.

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Success Factors for Personal Sale - Transaction Oriented

Daniel Mihai Vasiliu[1]

Abstract: This paper aims to demonstrate that a complex of factors, which I called”the success factors", which decisively influence the sale process. Currently, companies spend significant amounts of money each year to train sales representatives in the art sale. Banking institutions are designed to successfully meet the financial needs of the customers, to identify new needs, to reshape banking products and services, to create and launch new products and services on market.

Keywords: relationship manager; preparation; approach; objections; negotiation

1 Introduction

In a highly competitive and increasingly dynamic market, success in sales is provided by a customer-oriented sales philosophy. News in technology and global economic developments have greatly diminished the differences between products, while stimulating the emergence of a competitive environment. In the current market dynamics, product and price are no longer able to sustain a competitive advantage by themselves, so a customer can buy the same products, with approximately the same prices in several places. In this context, the main question that arises is,”Why buy from us?"

2. Current Status

The literature deals specifically standard stages of personal selling, however, success factors are not expressly customized. A manager in the banking sector needs to know the factors that are the key to successful sales. This will motivate the team in the development of personal selling skills and specific steps in order to develop the client portfolio.

[1] PhD in progress,”Alexandru Ioan Cuza” University of Iasi, Romania, Address: 11 Carol I Blvd, Iasi, Romania, Tel: +40232201000, Fax: +40232201201, Corresponding author: vasiliudaniel75@yahoo.com.

Personal selling in banking involves direct interaction of bank staff to perform a tranzaction. Personal selling is a complex process that requires going through a serious of precise steps. (Kotler, 2003, p. 106) Personal selling in baking involves going through the same stages, except that the term 'salesperson' is replaced by the 'customer adviser - relationship manager”. Selling means talking to the right person at the right time about the right solution at the right price, recognizing the right time to close the transaction. (Breithaupt, 2005, p. 19) When the vendor helps the customer to buy, in fact, he helps himself to win more. To lose a customer means losing some money. (Prutianu, 2008, pp 748-756). Prospecting and evaluation are previous stages which, if completed strengthen an approved manner, can be successful tools. Sales Manager has to consider the current and prospective customers.

By analyzing the customer base in terms of their potential and current status of purchases made from the range of products, can be identified the areas of attack. Similarly, can be also analyzed and potential customers. (Gower Handbook of Management, 2001, p. 58)

Preparing a presentation is a laborious step, in which the sales representative,”do their homework."

The client’s knowledge of rejection factors is useful for the effort to minimize their meaning. Customer reactions are based on their perceptions. Problematic situations should not be taken in the tragic, but considered further learning opportunities and return to negotiations. There is an opinion that”the silent majority of customers rather turn to a supplier other than to fight." (Timm, 2008, p. 16-25)

Preparation is to identify key decision makers, learning about the history of the firm, especially financial, to identify their product needs, etc. (If we refer to corporate customers). Approach, namely how salesperson contact potential customer while presenting product sale is the essential steps in the process.

The importance of the first visit to the customer is given of the first impression, which should be favorable and obtaining information about their needs. Thus, the first few seconds, the first gesture, the first words are usually decisive for the manner in which the negotiation and sale will be conducted. (Breithaupt, 2005, pp 177-188) In this our, customer advisors can not convince people to buy only, with a smile and shiny shoes." (Futrell, 2008, p. 325)

An effective salesperson identifies potential customer objections in order to remove them. Customer complaints are true or false protections, but for sellers are opportunities to discover new customer needs and interests. (Futrell, 2008, pp 372-389)

"When a potential customer has a complaint, smile because then you start to earn your salary." There is a paradox that, potential customers who raises an objection, however, buys. (Futrell, 2008, pp 357-370)

Close or finalize a transaction is the stage where the salesperson feels that it is time to end his client's business. If that is lost, the business can shuffle and sales representative efficiency suffers. We need the client and after he bought, both to purchase other products and especially in the light of what he says to other customers.

Method to preserve and achieve customer's satisfaction in the continuous visits and after-sales. During subsequent visits, the agent may discover other needs of the client that you can satisfy with the products they sell.

Customer is the most obvious barometer of the evolution of a bank, its volume is directly influenced by a proactive personal sale.

However, it should be noted that the sales staff is crucial in negotiating with corporate customers who are less influenced by promotion programs initiated by banks, which addresses more individual customers.

3 Case Study

This section presents a case study to achieve a"perfect" sale by a relations manager of a bank branch.

The purpose of this case study is the extraction of success factors that determine the success of personal selling in banking.

It is intended to simulate a 'perfect' sale in terms of complementing a client portfolio.

On the market it appeared the information that a specific customer has made an important transaction and has a considerable amount of money, and now is considering whether to provide a deposit. There is thus a favorable context for the relationship manager to make the next move.

Before contacting potential client, the rule is that the person concerned must be prepared to learn what is necessary to have an informed discussion, and may prove to customers that know what they do. Selling is not to convince anyone or to influence someone's decision to buy from you. Selling is simply to create the conditions necessary for the person in question to sell himself.

At this time we mean the preparation phase, which theoretically is to identify key decision makers within the firm, learning some things about its history, financial in particular, identify their product needs, the bank is currently collaborating with, the degree of indebtedness, General financial indicators, etc.

In this case, the potential customer is a business administrator, so it is necessary to familiarize the vendor with general issues about customer activity, to know where it is established, it is company policy, which mainly deals with. Given that decision will be influenced on what the person will do with its money, should be outline before a mini-psychological profile by evaluating all the information or local media or from ongoing discussions about the business, be analyzed the position in the top firms in the area.

In this case it is found that the potential client operates in several sectors, having in fact a group of firms with different business objects. It is time to identify the possibility to offer to the customer the desired deposit along with credit and a package of business. It is known that any time a businessman is open to find a better financing option, more convenient.

After the homework about the prospective client, relationship manager must consider what is expected to provide. It is time to focus on products that could be attractive for the customer, to deepen their technical characteristics, to identify strengths and to discover ways of how attractive outlining. It is important to know which bank products were previously offered to customers. This effectively identifies the benefits of their product, to finally get customer needs and expectations.

It is also necessary, preparing presentation materials, product sheets. It is obvious that to make a bill of sale, you must first obtain a meeting with potential customer. With another client known to have very close business relationship with the person concerned is established for a meeting the next morning. Indicated is the time of first contact with potential customer to capture a moment in which he is willing to listen. This is not the first time, but neither the late afternoon when people are already tired, stressed and bored with daily activities. Here's the decisive moment of the meeting. The opportunity to make a first good impression arises not twice. Sitting face to face with potential clients, the only option is to win the gold medal. Sometimes, customer advisor is often regarded as a factor in the disorder, which disrupts a day and so busy. If you cannot change the hole, reducing the initial voltage of the meeting, the race is a potential lost before kickoff. Usually, the first five minutes of a first meeting are most stressful, for both client and vendor.

First impressions are formed in the first 30 seconds, just before you say a word. In the space for meeting appear: appearance, fashion layout, condition and attitude of care. In carrying out the discussion, it is recommended to use a calm, firm tone, not seeming to repeat a lesson learned by heart. It is necessary to transmit a real interest in his savings, for their multiplication, building and maintaining confidence. The vendor must make a mental ray of the personality of the client. Because it is a powerful partner, it certainly does it. In this case, the customer is businessman in the flesh, is a direct person, his mind constantly focused on the projects it develops. That is why we have to make short presentations, to the point.

The client asks directly what this offer is better than competing bank. In response, relationship manager slips discreetly, the argument that has the power to negotiate a fee for deposit rates, while a credit on one of the companies, where like that would need financing, but conditional on being a part of activity the bank. In this way it captured the attention of the interlocutor. Perhaps this is the creative idea that was needed.

It is time that should allow the client to intervene. Leaving the customer to speak, it is discovered that he likes to talk about his business, is proud, is delighted that it has developed in various fields. This is a common interest element, so that should be encouraged to submit their passion projects. It happens sometimes in highly technical issues, relationship manager does not know the exact answer. It is not appropriate to respond"I don't know", but it's better to assure the client that you will find a solution that would satisfy him. Partly, this confrontation involves a certain trade, which means the adjustment of supply to the customer needs. In this case, it is almost certain that the caller will confirm the sale, will become a customer only on profitable details. It is when what the relationship manager has earlier slipped quietly, becomes the main advantage. It reiterates the possibility of negotiating a fee and get better in certain conditions. The respondent is a man profit, and will embrace the idea.

Theoretical and general presentation of the offer entails a series of objections, real or simulated divergence from the client. With patience and calm, one by one, these are surmounted, reaching a type of non-standard product, but which thanks the both parts. It is the time when the discussion is ending, the sale ends, with no declarative elements, but naturally, by itself, by translating the discussion to procedural issues, the time, but all definite perspective. Technical stage begins, a laborious step which involves setting up banking documentation, discussion and details of company accounting department. To conclude on an optimistic note, now when all signs indicated the winning of a new client, the same process of a perpetual negotiations and overstepping the boundaries, relationship manager, a caller stated that for VIP customers, the bank has developed a range of special bank services, that structured packet, combination of deposits, loans, cards, business banking, internet banking.

Moreover, it emphasizes that these products are addressed sophisticated customers who desire a high level of security of transactions. It is a way of showing appreciation, first to businesses that have been discussed, but ultimately for him.

4 Case Study Analysis

The case study presented above, results that the personally selling is a promotional tool that has the advantage of direct contact with potential customers, which enables understanding of the concrete needs they have, thus enabling the high product customization. To achieve an efficient banking, direct dialogue is absolutely necessary, that only you know how expectations. Most banks play a central role to customer advisor (Corporate Relationship Manager, SME or retail), through which the private sale is realized, which is based on interpersonal communication and allows direct feed-back. The relationship between customer and bank is very important and needs to be maintained long term, because attracting new customers may be more expensive than maintaining existing ones. We can also extract the key success factors that can influence the personal sale process. Personal selling is needed to be approached as a complex, carefully prepared, an elaborate process that involves going through the defaulted stages. In prospecting, search and selection stage of potential customers, identifying key success factors are relevant databases, including full potential customers, use of relevant customer identification. In preparation for the proposed sale, success factors are knowledge products, deepening the technical characteristics of the products, identifying strengths, comparisons with the competition, preparing presentation materials, product sheets. When contacting the customers, is necessary to personalize how to contact, depending on the customer profile, the timing that he can be contacted, the differentiation according to the relationship he has with the person concerned (if new customer, old customer, recommended customer). In tendering, success factors relate to adapt the presentation of products with customer needs, by adjusting supply, vendor confidence in their products, presentation of those products that match customer needs. An experienced customer advisor knows that some customers have the ability to tell when the presentation is poor. An important point is that in which the above objections, it is necessary to alter the characteristics of products, non-standard adjustments, even the creation of non-standard products to meet customer needs. Prosecution step should not be approached as the completion of the operation but a beginning of expansion and diversification of services offered to the client once won.

5 Conclusions

In the banking business should not neglect the aspect that, unlike conventional products because of their intangibility, banking products and services are difficult to assess before buying them and why he makes bank efforts to promote them should be directed towards reducing these risks of intangibility. In a world obviously marked of the power of money, banks have become smart companies that create profitable buyers, seeking the most obvious way to increase their share of the 'wallet' customer. During the presentation, the salesperson must draw attention to stimulate customer interest, it must speak, but also to listen to optimize and tailor the message to the client’s needs. For optimizing the personal selling activities, while the part in each stage approach a profound way, it must be inspired selection of people with personal selling skills to work while in the organization is created an environment conducive to developing a portfolio of clients by this method.

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Aspects of Global Crisis

Turtureanu Anca Gabriela[1]

Abstract: The author aims at exploring Germany, known as one of the most developed European economy, based mainly on exports, which until 2010 was the number-one leading exporter. Also, Poland, who managed to surprise us by its economic growth of 1.2% during the most recent global economic crisis, and Romania, which manages to surprise us every day in comparison with other countries such as France or Italy. The global economic crisis is one of the most important events in recent years has brought about tremendous losses and increases levels of unemployment well above the expectations of many analysts. He started as a tornado in the U.S. savings and was felt all over the world. It is practically a state of disorder in the world economy, in which countries economy suddenly going to lower its labor, usually fall brought the financial crisis.

Keywords: recovery; crisis; debt; economy

JEL Classification: F10, G01, M20

1 Introduction

1.1 It is said about the crisis

"I never thought It will repeat 1931 in my lifetime, but this crisis makes me think of that situation from several points of view" - Paul Krugman.

"An important aspect is that the financial system collapsed under its own weight. This contradicted the views of financial markets, who claim to be balanced and not be disturbed only by outside forces. Thus we not only deprived of business financial system and the collapse of a generally accepted theory"- George Soros.

"The savings should be converted into investment, but there is no demand. The real estate market collapsed, not only in the United States and in much of Europe. Many companies do not have access to capital because of the financial system crisis. Such investments drop by 40 percent annually"- Paul Krugman.

[1] Professor, PhD, Faculty of Economic Sciences, Danubius University of Galati, Romania, Address: 3 Galati Blvd, Galati, Romania, tel: +40372 361 102, fax: +40372 361 290, Corresponding author: ancaturtureanu@univ-danubius.ro.

AUDŒ, Vol 7, no 3, pp. 128-137

"When the U.S. economy will shrink, the whole global economy will enter recession. Europe, Canada, Japan and other developed economies will be severely affected. No emerging market economies, related to the developed world, trade in goods, finance and currencies will not escape the real pain."-Nouriel Roubini.

"We can start to worry about the creditworthiness of governments. What happens today in Greece is only the tip of the iceberg of the sovereign debt problems in the euro area, especially Great Britain, then Japan and USA. This will be the next number in the global financial crisis"- Nouriel Roubini.

In conclusion we come to think that"The euro area is certainly one of the biggest risks for global economy" - N. Roubini

2 The Economic Crisis on Countries in Europe

The economic decline was felt across the world and soon affected all areas of activity. In exchange the European Union states, where there are former socialist states, by comparison we can say that they were most affected.

Germany, EU founding state (1958), is recognized worldwide because of its economy. Based largely on exports the crisis showed the weakest economy in the last 22 years. Year 2009 brought an increase in the number of unemployed to 3.5 million people, and although a growing economy, according to analysts' assessments in August 2009, was considered one of the countries which still have trouble due to lower GDP and reducing inflation with strong exports. Basically himself German Chancellor Angela Merkel said it needs 10 years for Germany to return to the economic system before the economic crisis. About Poland, however we cannot say the same thing. Although not the first EU economy and even joined the EU only in 2004, is the only European country which registered a growth. The economic crisis was felt at the beginning of 2009, because tens of companies threatened with layoffs, but the Polish people felt threatened since October 2008 when the largest wave of immigrants in the United Kingdom to return home. After years of failed economic and political problems Romania join EU (2007), managed to stabilize the economy and reduce inflation and unemployment which meant a step forward. Basically economic crisis directly affected about a third of the population, most frequently encountered situation is the inability of loan repayment, affected is primarily were those who had the maximum mortgage the mortgage payment and hinder the possibility of suppliers, especially in case of payment in foreign currency. Also there were increases in unemployment due to layoffs, reductions in production and investment stopped. The property sector has been affected, followed by bankruptcy slightly from industrial factories, chemical industry has reduced production by about 20%, imports have significantly slowed the growth and external debt increased and the middle 2009 were 71 billion.

Even France, the center of most economic meetings and business was affected by the economic crisis. Basically, even in the first quarter of 2009 when about one million people took to the streets protesting against the government which responded in a way inappropriate to the economic crisis.

At the end of 2008 France recorded the lowest economic level, GDP in the fourth quarter losing about 1.5%. Yet because the government had managed to mobilize resources more quickly than other European countries, France in mid-2009 had a successful recovery by 4 months before Europe. Not even the third economy of the euro area , Italy has not escaped the economic crisis, the worst result recorded in 2008 since 1975. All exports were reduced by 3.7% of, imports by 4.5%, investment fell by 3% and consumption by 0.5%. Basically, according to most analysts' assessments, the economic crisis has led to record the largest economic decline since the Second World War.

Great Britain instead, one that has not yet wanted to move to the euro, has experienced the most significant economic crisis in 60 years, during which sales fell by about 55%, profits were recorded higher 10%, the unemployment rate was at the end of 2008 increased 5.5% to 8% in late 2009 which led to increasing demands implicit and state benefits and taxes paid by the state.

All countries, regardless of how they received the economic crisis, suffered losses that were found in the main economic indicators.

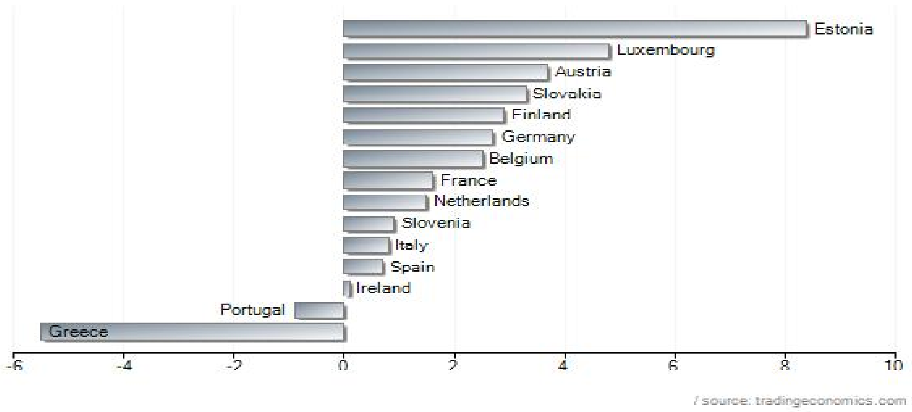

Figure 1 GDP Growth Rates

3 Measures in 2009 and the Effects Of 2010

Forced by the need for recovery, the economy has led politicians to speed up thinking and new measures and strategies to mitigate and overcome the economic downturn soon. European Union initiated several meetings between states, and most high-level talks have resumed helping the most severely affected.

Proof that really is a strong economy has been given by the Germany, which was the first country that has developed an anti-crisis plan. There were actually two anti-crisis plans, a first plan worth 31 billion the government considers, however, insufficient to meet demand and then a second plan to be worth 50 billion euro's. The government wanted from the beginning to invest a great deal, about 18 billion education program, and promised at the time that the future will give up to 9 billion euro's of tax on citizens and firms to facilitate access consumption. It also was another welcome step and reducing the contribution to health insurance fund, which enjoyed the taxpayers. Neither the bank was not forgotten, so that the government then proposed to fully guarantee savings deposits of population amounting to 570 billion euro's and not providing aid in the form of available EU and IMF funds worth 15 billion euro.

Plans and prospects for 2009 did not coincide entirely with those of 2010. So the German state has spent about 150 billion on anti-crisis program, and finally arrived at the need to impose an austerity program which aims to extend until 2013. This program made reference to reducing the budget deficit by 80 billion ie about 3% of GDP by 2014, followed by reducing subsidies for parents, elimination of 10,000 jobs in the public sector for a period of four years, and why not even tax increases for nuclear energy. After fluctuating variations BA growth, and even lowering the German economy, which forced the federal government to borrow 86 billion euro's in 2010 to stabilize the economy somewhat, neither Angela Merkel was not optimistic, forecasting an unemployment rate of 9 1% in 2010 and 10.1% in 2011. But the IMF is still forecasting positions for the German economy, even at the end of 2010 an increase of 3.3% and for 2011 a 2%.

The country that not only attempted but also gave a lesson to all EU Member States was Poland, the only one in Europe ho recorded growth during the recession. Even if he has kept the national currency, the zloty, it has not influenced at all during the crisis economy and that recession was spared largely due to domestic demand which is about two thirds of the economy. We cannot say that he had to develop an anti-crisis plan until they went into recession, but we appreciate the fact that, while others just made their plans, Poland established the 2010 budget based on revenues from State 250 billion zlotys (58.6 billion) and 301.1 billion zlotys expenses (70.9 billion), with then only the main concern, namely to reduce the budget deficit to 3% by 2012 to join the euro. 2010 however, did conclude an agreement with the IMF preventive of 20 billion dollars, in case there is indeed a necessity to accelerate the pace of privatization with a target of 6.3 billion euro and promise keeping public debt below 55% of GDP by 2013.

In Romania after nine months of the onset of economic crisis, the Romanian government issued 32 anti-crisis measures could be mentioned including the following: Establish a scheme to help SMEs during the crisis;

a. Support for export production by guarantee;

b. Tax credits for housing modernization;

c. Establish a monthly ceiling of 1,000 lei for income tax exemption for youth wages up to 30 years;

d. Develop a national environmental investment project and irrigation, to ensure environmental improvement;

e. Extending the"scrap" program for legal persons but only until 1 September 2009;

f. Improving the investment law, including by reducing the value of investments eligible facility to 50 million Euros to 10 million Euro;

Regardless of the measures taken, 2010 is marked by economic decline estimated at -1.9%, with the second worst economic situation in the region immediately after Hungary, but with the possibility of growth of 1.5% in 2011.

France was practically well before the crisis and yet ready to face it was the last EU country which has developed a crisis plan. Initially established a plan worth 26 billion euros in December 2008, on which was returned in 2010 for small alterations, increasing its value to 38.8 billion euros to support the economy. The plan was designed, like all other countries, based on tax cuts, giving the professional fee paid only by businesses, and even supporting key industries, construction and automotive.

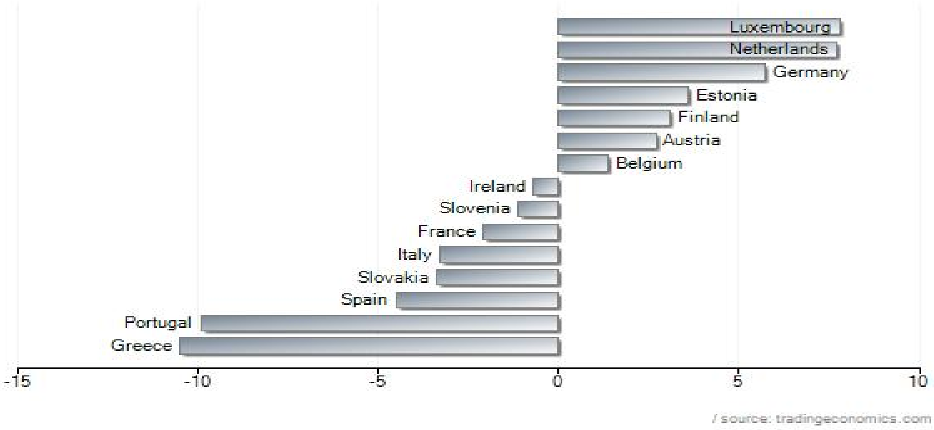

Figure 2 Current Accounts to GDP

The current account deficit as a Highest Percentage of GDP among countries tracked by Economics Trading WAS Recorded in Mongolia (-15.2% of GDP), Mozambique (-12.7%) and Greece (-10.5%). Portugal, Tanzania, Iceland, Kenya, Ghana, Rwanda and Turkey recorded deficit of between 5 and 10 Percent. The current account surplus as a Highest Percentage of GDP WAS Recorded in Singapore (22.2%), Qatar (18.7%), Switzerland (14.2%), Norway (12.8%) and Malaysia (11.8%). Algeria, Taiwan, Saudi Arabia, Luxembourg, Netherlands and the United Arab Emirates recorded between 7 and 10 percent surplus.

3.1 The Wave of Aid and the Measures Imposed by Economic Circumstances

Need of borrowing in the economy is driven by resource requirements generated from activities of private companies or individuals in a country. These resource needs are identified in turn based on the ratio of consumption of resources and inputs of the GDP. When the economy consume more than earn, save or invest rather than spend more than the state collects the tax gap appears, which can be covered by issuance of currency, be financed by foreign markets.

In the present situation, because states are part of a union, the issue of currency is not without the consent of the ECB and loans to help the economy at large financial institutions are able to provide large sums of money, based on agreements if the IMF - a stand-by.

The stand-by is actually an agreement between a financial institution on the one hand and a country on the other hand, on which it can recover under the terms included in it.

3.1.1 Switching to”Rate 2011"

Germany announces a slight but promising. First of all Chancellor has proposed an austerity budget to improve the future economic situation. Value is reduced to only 305.8 million. The current government aims to reduce public spending by about 80 million euro’s and lowering lending 10 million annually. He also refused to increase the Fund's financial support euro area countries, and amazed by its economic growth record of the first month of the year by 3.4%, the largest in the last 18 years. Like a painting in which all colors are mobilized to form an overall picture, we see that the German government returned in early 2011 its decision and proposed a new target: to reduce public debt by 3.8% or about 11 billion euro compared to 2010, reducing to 57.5 billion loans to 65.2 billion euro’s in 2010, and increased taxes by 3% tax would bring increased revenue by 17 million.

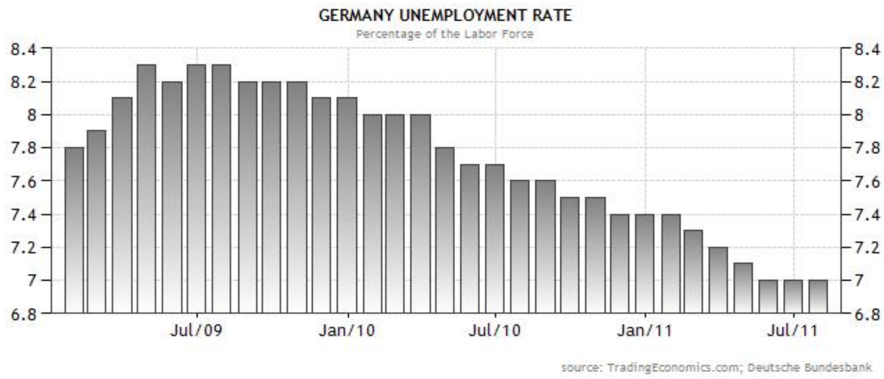

Figure 3 Germany unemployment rate

We continue with Poland, which many states when its planned austerity measures, it planned 2011 budget. Year came with many goals and promises that the government certainly will end.

"While fiscal adjustment scale seems disappointing, the government should be able to achieve the most important is to keep public debt below 55% of GDP in 2010 and 2011", said the Citigroup INC, chief economist Piotr Kalisz.

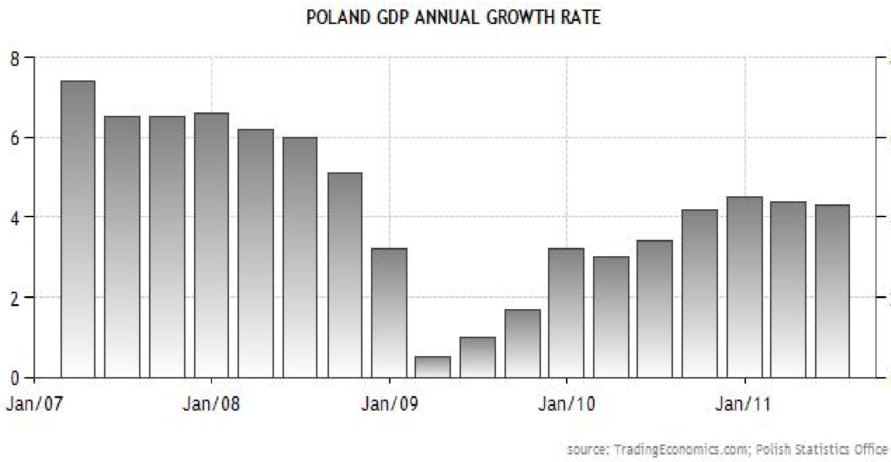

Figure 4 Poland GDP Annual growth rate

"After two years of decline, the economy contracted in real terms by about 9%, Romania could register a timid recovery in 2011. Crisis recovery will be difficult and unpopular measures still strewn with the government will have to implement to achieve the ambitious deficit target of 4.4% agreed with the IMF and the European Union”- said BCR chief economist Lucian Anghel. For next year in view of Oxford Economics, Romania will have a better year, with an advance of 4.8% of GDP, after recovery in private consumption and public consumption and also in investments and will maintain its positive performance of exports and industry.

Table 6 Economic landmark countries and their evolution

Country	GDP Billion USD	GDP QoQ	GDP YoY	Interest rate	Inflation rate	Jobless rate	Gov. Budget	Debt to GDP	Current Account	Exchange rate	Population
United States	14582	1.00%	1.60%	0.25%	3.80%	9.10%	-10.30	93.20	-3.20	120.29	311.00
Euro Area	12456	0.20%	1.70%	1.50%	2.50%	10.00%	-6.00	85.10	-0.40	1.38	329.58
China	5879	2.20%	9.70%	6.56%	6.20%	4.10%	-2.50	17.70	5.20	6.39	1341.00
Japan	5498	-0.50%	-1.00%	0.00%	0.20%	4.70%	-7.40	220.30	3.60	76.80	128.06
Germany	3310	0.10%	2.70%	1.50%	2.40%	7.00%	-3.30	83.20	5.70	1.38	81.63
France	2560	0.00%	1.60%	1.50%	2.20%	9.60%	-7.00	81.70	-2.10	1.38	65.03
United Kingdom	2246	0.20%	0.70%	0.50%	4.50%	7.90%	-10.40	80.00	-2.50	1.58	62.25
Brazil	2088	0.80%	3.10%	12.00%	7.23%	6.00%	2.20	66.10	-2.30	1.71	190.73
Italy	2051	0.30%	0.80%	1.50%	2.80%	8.00%	-4.60	119.00	-3.30	1.38	60.60
India	1729	7.70%	7.70%	7.25%	8.43%	9.40%	-5.10	69.20	-3.20	47.18	1210.20
Canada	1574	-0.10%	2.20%	1.00%	2.70%	7.30%	-3.60	84.00	-3.10	0.98	34.28
Russia	1480	1.10%	3.40%	8.25%	9.00%	6.50%	-3.90	9.90	4.90	30.55	142.90
Spain	1407	0.20%	0.70%	1.50%	3.00%	20.89%	-9.20	60.10	-4.50	1.38	46.10
Mexico	1040	1.10%	3.30%	4.50%	3.42%	5.27%	-3.11	42.70	-0.50	13.00	112.34
South Korea	1014	0.80%	3.40%	3.25%	5.30%	3.30%	-1.10	30.86	2.80	1107.75	48.99
Australia	925	1.20%	1.10%	4.75%	3.60%	5.30%	-4.30	22.30	-2.60	1.04	22.50
Netherlands	783	0.10%	1.50%	1.50%	2.60%	5.10%	-5.40	63.70	7.70	1.38	16.62
Turkey	735	1.30%	8.80%	5.75%	6.65%	9.20%	-3.60	41.70	-6.60	1.78	73.72
Indonesia	707	2.90%	6.50%	6.75%	4.79%	6.80%	-0.62	26.90	0.90	8755.00	237.56
Switzerland	524	0.40%	2.30%	0.00%	0.20%	2.80%	-1.30	55.00	14.20	0.88	7.79
Poland	469	1.10%	4.30%	4.50%	4.30%	11.70%	-7.90	55.00	-3.40	3.12	38.18
Belgium	467	0.70%	2.50%	1.50%	3.95%	7.70%	-4.10	96.80	1.40	1.38	10.87
Sweden	458	1.00%	5.30%	2.00%	3.40%	6.60%	0.00	39.80	6.30	6.62	9.39

Source: TradingEconomics

Not the same opinion has Raiffeisen economists regarding the Romanian economy in 2011 who believes that inflation will come down from 8% in December 2010 to 6.7% in January 2011, will increase food prices in foreign markets in gas and termincă and effort economy will grow by 1.5%.

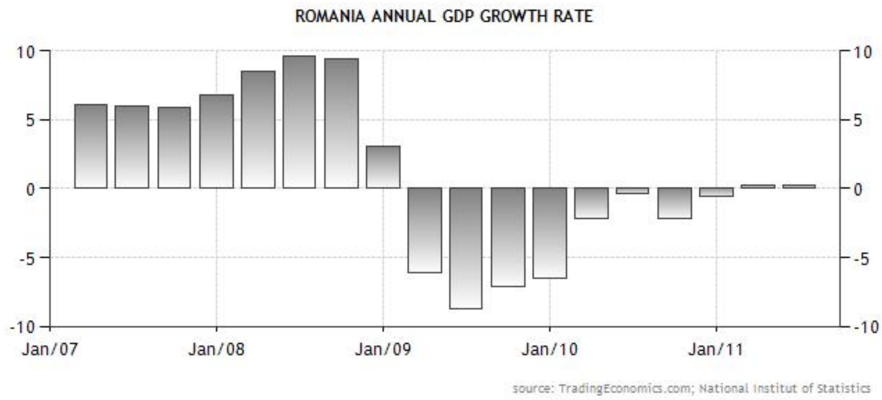

Figure 4 Romanian annual GDP growth rate

We continue with France, which last year recorded a negative record in terms of budget deficit.”2010 ended with a deficit of 148.8 billion euro’s with a billion less than the forecast contained in the supplementary budget adopted in December" - said the French minister Francois Baroin-budget and this year promises it will reduce to 6%.

4 Conclusions

I think the outlook for the European economy in 2011 is no better than they were last year. For example, many euro area countries are not willing to spend money to help other member states apart from those stipulated by the European Facility for Financial Stability. Even discuss the abandonment of the euro by some states, although the risk of this happening in 2011 is reduced. Experts highlight the existence of a north-south division in terms of macroeconomic stability, marked by social unrest that could continue in 2011. The European Central Bank responded with its most forceful program to date, saying it would buy large amounts of Italian and Spanish bonds. In Washington, the Federal Reserve made an unusually firm commitment, saying that in light of the weakening economy it would leave interest rates near zero into 2013 if no threat of inflation appeared. By the beginning of September 2011, fears were rising that European banks could be dragged down by the debt crisis, as financial institutions became increasingly wary of lending to each other, in developments recalling the days leading up to the collapse of Lehman Brothers in September 2008. In this context it speaks more often of a divergence of

EU member states, especially the lack of confidence in the euro area and the possibilities it offers. But this crisis creates opportunity for implementation of reforms so far has remained only in draft form. It's about establishing a permanent mechanism for crisis resolution, the adoption of tax reforms and macroeconomic equilibrium in the labor market restructuring and economic competitiveness.

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Questionnaire – Investigation Survey on Employees' Opinion

Regional Report for the Eastern Region of the Romanian Commercial Bank (RCB)

Doinița Simona Badiu Popa[1]

Abstract: The objective of the study is to investigate the employee's awareness of Eastern Region of the Romanian Commercial Bank, a research based on a common methodology survey, in order to obtain a general review on an established issue, which was demonstrated and confirmed to be effective and its recognizes the performance in an emblematic bank for the Romanian banking industry.

Keywords: personnel management; firm employment decisions; promotions; training; labor management

JEL Classification: M_{12}; M_{51}; M_{52}; M_{53}; M_{54}

Introduction

By carefully nuanced answers, the questions of the questionnaire were designed to collect respondents' opinions about the work environment, collaboration and communication, their own position and direct chief in relation to remuneration / recognition of merit / performance, as chances of valuing some specific opportunities for career development.

Of great interest, or perhaps as a corollary of the cultivated attitude, encouraged through such management, it is assessed the degree of loyalty of operators from the bank units, this element being really a barometer of the recommendation degree of RCB.

[1] Economist, PhD Student, Academy of Economic Studies of Bucharest, Faculty of Management, Romania, Address: 6 Piața Romană Street, Bucharest, Romania, Tel: 021 319 1900, Coresponding author: doinitzapopa@yahoo.com

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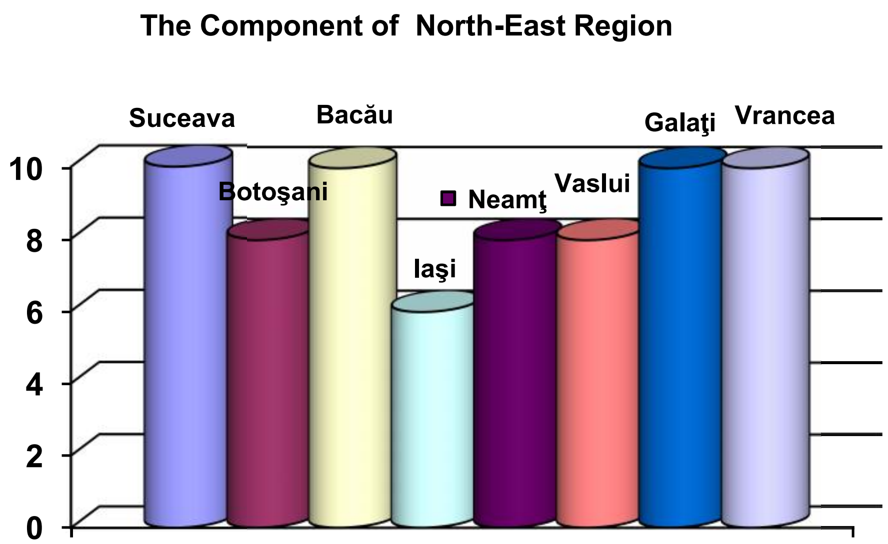
The cognitive value of the survey is drawn from the analysis of each of the questions and subsequently of the responses provided that, on a certain group, they gave very valuable information regarding the performance management system in the bank.

1. How do you assess the role of managerial training in the achievement of the company's success?



Legend:
Very high - 10; High - 8; Neutral - 6, Very small - 4; Minor – 2

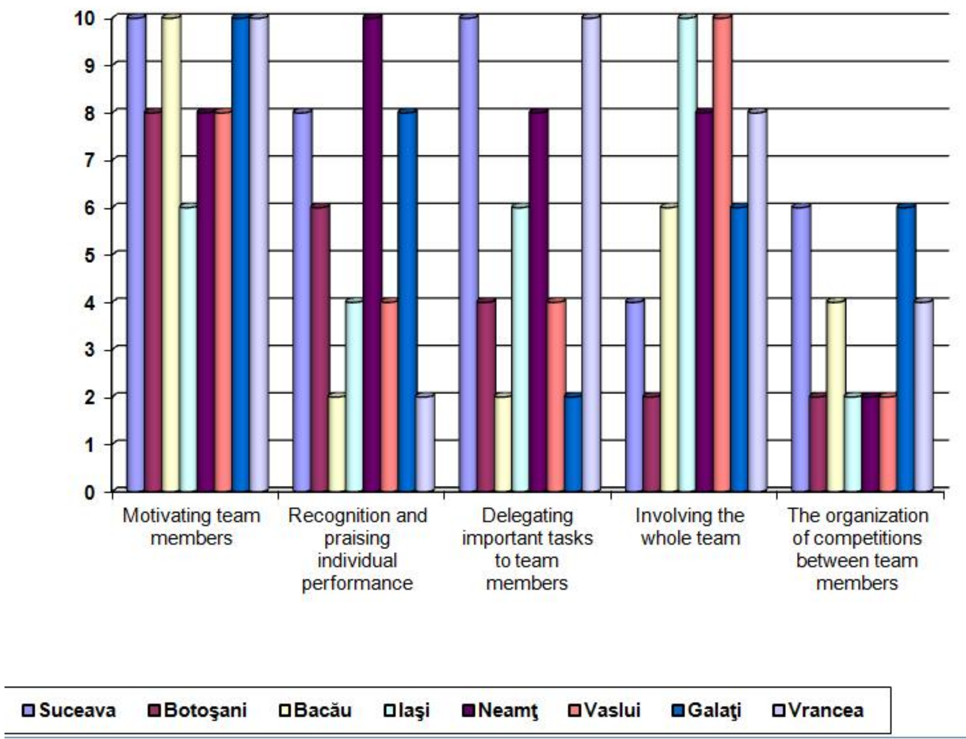
Comments

Questioning all respondents in the eight counties composing the RCB North – East Region reveals a high appreciation for management training, considered to be the true keystone of the performance achieved by the units in question.

Some relatively minor deviation of the respondents indicates a greater requirement that they propose and - also they claim from employees and collaborators teams. Moreover, together with those of"of 10 grade" counties the respondents from Iasi, Botosani and Neamt were among the most fervent subscribers to *coaching* organized by the Central and to which all the staff attended.

2. How would you rate the importance of the following elements on team results?

The Component of East Region



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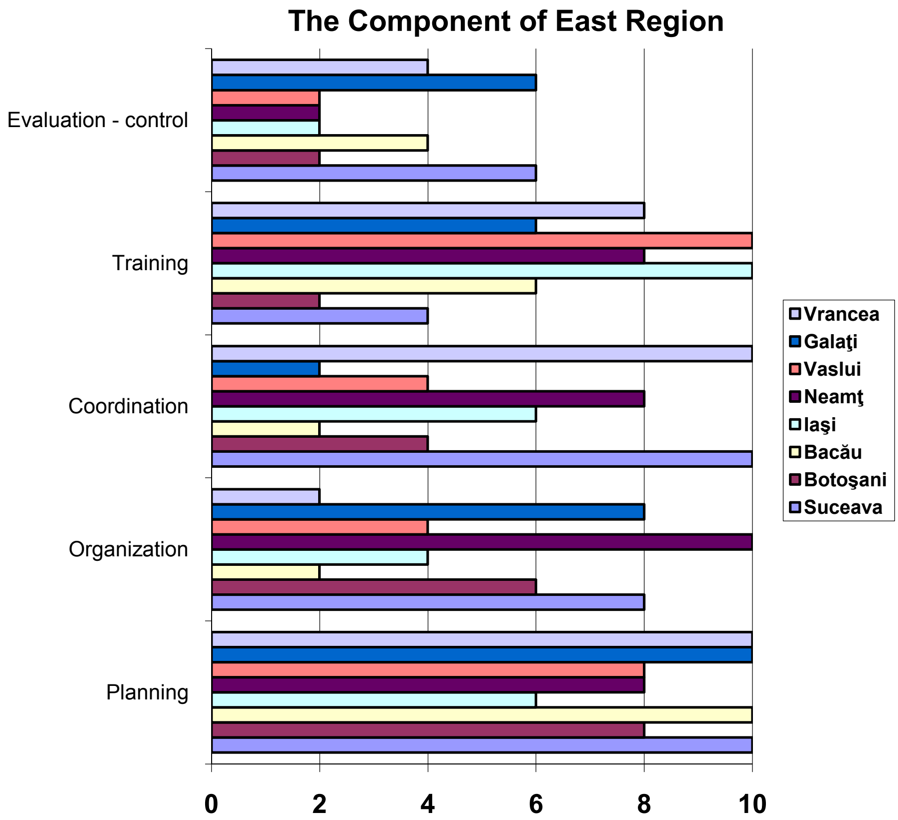
Comments

Keeping the same marks from 0 to 10, the motivation issue occupies an important position in the category of the elements with defining importance to the success of the entire team.

Of course, this may also include various ways of achieving motivation, the salaries and bonuses are among the most frequent and usual means.

If we correlate the previous observations, we can estimate that the delegation of important tasks to team members, or training the entire team is among the favorite methods in the above counties and that there is the view that they would support the success and performance of the company.

3. How would you rate the usefulness of the following functions of the manager in the banking unit?



Legend:

Very high - 10; High - 8; Neutral - 6, Very small - 4; Minor – 2

Comments

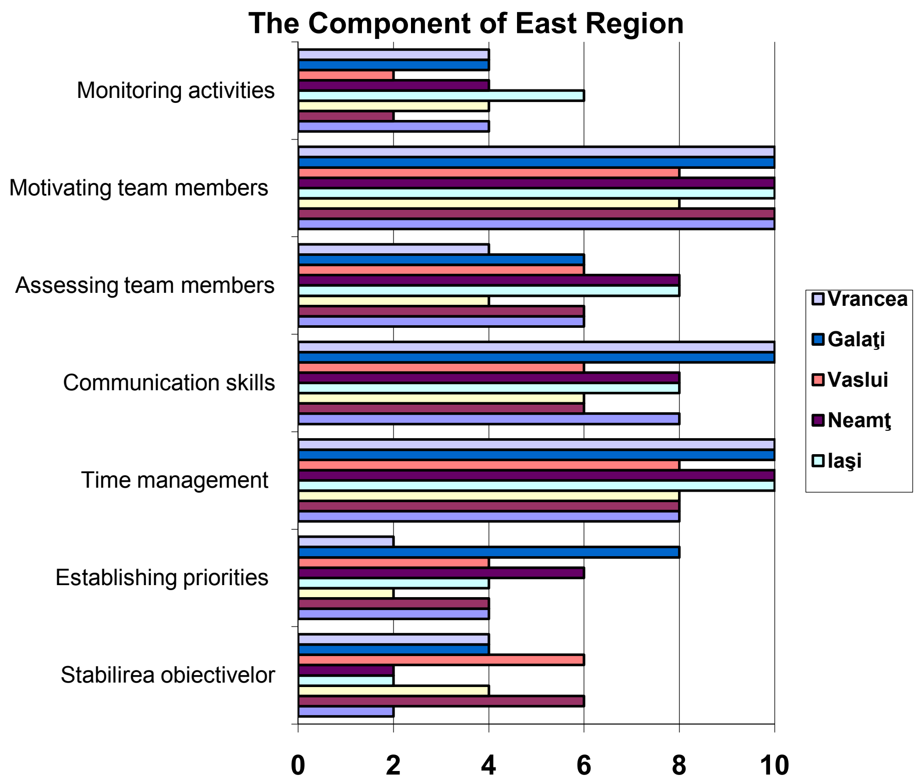
And within the main functions that every top manager performs, most of the respondents gave importance to training and coordination capacities, being considered crucial in obtaining special performance by the banking unit.

It has an important significance the evaluation-control and planning, the latter being considered the more necessary in the difficult times through which the whole economy goes through, and it focuses on the proactive assessment of the challenges, opportunities and operating climate in general.

Scoring relatively low the other managerial functions might also justify the special team coagulation, a maturity of people inter-relations, which relativizes the control share, for example, even the organization itself.

Evidently the *evaluation-control* or even *the coordination* have their importance established, but in the structure of respondents in the county the results / final reported grading derived as an average of somewhat different notation, to which, in the final analysis, we opted"by rounding" to the most common noting.

4. What is the importance you assign to the following skills and abilities of a manager?



Legend:

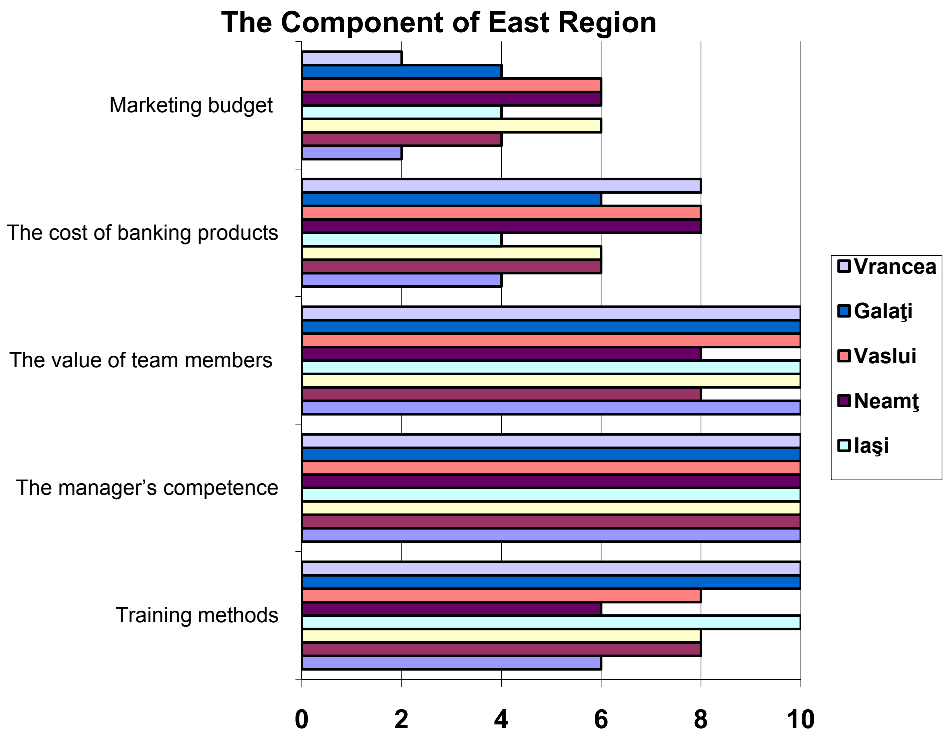
Very high - 10; High - 8; Neutral - 6, Very small - 4; Minor - 2.

Comments

One can see a certain consistency of respondents in assessing the item"motivation of the team members", the"communication" skills and"time management". Without having the same rating, the"*monitoring activities*" can easily be outrun, which requires to corroborate in the evaluation with the ability of a manager to establish the priorities and goals. Moreover, ranking immediately lower may also be due to a reduced possibility that, by grading, may also be observed in all the nuances of assessment.

On the other hand, both setting priorities and objectives are to a considerable extent for the central management, or, for a smaller geographical area as the one examined in this case study, the manager's skills, although important, we find that they are placed in a certain obscurity in the general view.

5. How do the following elements influence the team results?



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Very high - 10; High - 8; Neutral - 6, Very small - 4; Minor - 2.

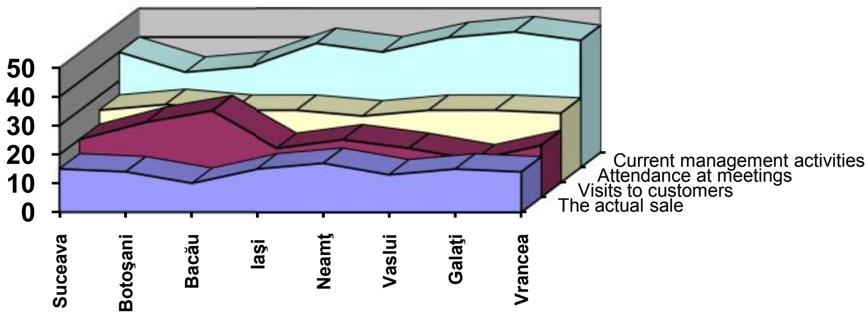
Comments

Although it may seem like repeating one of the above questions, here lined the elements represent a challenge to respondents, because they form a junction between the internal and external impact on team results. It is worth noting the consensus on the *manager competence*, and immediately thereafter, the one linked to the *value of team members*. The results from this question, with its nuances show a maturity proven not only by makers from the banking units of the studied network, but also of the led teams.

It should be emphasized that the most relevant evidence of competence of the manager lies in its ability to *weld* a team. Once established the necessary links through *training, communication and,* last but not least - *motivation,* it also increases the *value of team members*, and hence - its results and performance. It is noteworthy given the *importance of training methods*, with a visible scoring higher than the *marketing budget* and even *the costs of banking products*.

At the risk of repetition, that can be interpreted as a sign of maturity of institutional and inter-human relationships, as a conscious trust assumed in the traditional considerable potential of the company, a capacity which is at a size to which it really becomes critical for the performance of the unit, it is directly related to personal and professional quality of the manager and team members.

6. How would you assess the use of your work time in the overall daily management activities?



Comments

From an overview, we obviously observe the share of current management activities in the work of surveyed managers. It includes all tasks related to planning, coordination, implementation and evaluation-control, but the balance with other concerns that are dosed in a manager's agenda reflects a good practice in the delegation of some duties: observe *visits to customers* or *the actual sale*, which are in a lesser extent among the daily concerns of managers.

And time for meetings is of a considerable extent, although much more reduced, but for a correct analysis and diagnosis of time management by the manager, this element must be correlated with the sizes which are close to the other activities, which presumably, although important for good running of the unit, can - and are - delegated to collaborators.

The sensitive fluctuations from one district to another, also denote a unitary vision on the general policies of the major banking group, an almost identical perception of the role and status of the current leader of the country's banking market.

Moreover, at the end of this survey and under anonymity, the respondents were requested concise views on the business, the brand, and regarding its or the bank's future, in more or less distant perspective. The analyst found a clear attitude of responsibility of the respondents, but - and this should be emphasized – it has been noticed a solid trust, a measurable optimism about the prospects for the future and the strength of RCB. Some of the subjects assessed the prospects for the bank to be the top of other similar units in the system, while others consider that the transfer to another unit of Erste group from another country would be justified only for a specified period as an alternative to improve the professional situation.

Technical Approaches in Conducting the Survey

The preparation of the survey was based on establishing the necessary ***methodological milestones***:

- The diagnosis of the organization is to be highlighted by:
    - assessing the level of employee satisfaction on different aspects of organization;
    - identifying the perceived changes in the post-acquisition period;
    - the impact of these new circumstances on morals and motivation of employees;
    - identifying the most effective ways of internal communication.
- The priorities for action aimed at:
    - ranking the employee's satisfaction according to the perception of manager's various attributes;

- applying the Kano model for identifying and addressing priority issues.

- Data collection period: 14 to 30 September 2010

The data collection was based on a model of Investigation of Employee Opinion developed for a specializing polling firm *Daedalus Millward Brown*. In order to compare the results with country-level standards for key indicators it was used a standard version of the questionnaire, to which the RCB added an additional section of questions, in order to assess:

- loyalty and employee commitment;
- Internal image of RCB;
- the awareness and the importance of RCB values;
- affiliation with Erste Group

- *The data collection techniques* were selected and used under the direct coordination of the company *Daedalus Millward Brown*, a firm specializing in designing and conducting various surveys:

  - *CAWI (Computer Assisted Web Interviews)* – the on-line questionnaire was launched by employees with individual e-mail address & Internet access, and the specializing company coordinated the data collection through the NIPO software.

  - *PAPI (Pen and Paper Personal Interviews*) - it was prepared a hard copy questionnaire that the same specializing firm handed in a sealed envelope to employees without accessing to e-mail with a pre-paid envelope so that they send the questionnaire back.

The process of data collection has allowed the full confidentiality of employees' responses.

Investigating Employee Opinion Survey developed by Daedalus Millward Brown Company in Romania has been applied in many organizational projects since 2006. For this category of studies, Daedalus works with about 15 companies. Companies that have used this tool work in different fields such as industry, consumer goods, professional services, telecommunications and others.

The employees of both companies were evaluated in Bucharest and other cities from different regions of the country. All the filled in questionnaires were self-completed by CAWI techniques and PAPI data collection.

Still within the technical details it may be mentioned that, just for each research project, and in this case it was applied *cleaning the database*, a standard procedure used to ensure the data accuracy and consistency. In the case of the current project, this process included the following steps:

- *The RCB diagram* when comparing the responses of employees with inside RCB information there were found in several cases inconsistencies, where errors were also reported at headquarters and on the network, matching the two datasets, it was chosen only the internal RCB classification.

- *The demographic profile*, focusing on gender, age and experience as RCB employee.

For the same reasons, the *Do not know / no answer* has been drastically relativized, being removed from the database the employees that had too many answers of DNK / NA.

Conclusions

From the classic SWOT scheme, for illustrating the conclusions drawn from this survey we stopped only at three of the four quadrants, justifying that a judicious analysis combined with strengths and weaknesses, can lead efficiency to the general recommended solutions and suggestions of improving the working climate.

In all three quadrants there are lined items in a dictated order by the decreasing level of importance (derived by scoring) as the subjects have established through questionnaires.

Strengths of the RCB.	
Notoriety	31.8
Bank name / reputation / brand / logo	24.7
Services quality	22.6
Tradition / History	19.6
Focus on customer	17.0
Efficiency / Profitability / Performance / Competitiveness	13.9
Offer products / products	11.2
Expanding network / infrastructure (branches, ATMs)	10.9
Reliability	8.9
Staff / Employers / Employees	8.0
Integrity	7.4
Customers/ portfolio of custumers	6.4
The most powerful bank in the banking system/ leader	5.7
Strong bank, strong brand, strength, economic power	4.4

Teamwork	3.9
Transparency	3.3
Timeliness / effectiveness	2.9
Market share	1.9
Other	9.2

Between the”RCB's strengths”, reputation, name / brand pg the bank, the efficiency and expanded facilities are on the leading position, within walking distance to be followed by other elements, of course – as important, but with a reduced share in the qualification.

Weaknesses of the RCB	
High interest	10.7
The small number of staff	6.2
Lack of communication (in general)	5.7
Congestion at the office	5.7
Bureaucracy	5.6
Work Program	5.0
Large amount of work	4.3
Info Programs /IT	4.3
Personnel / Employees (tired, stressed, etc)	4.1
Inflexibility / market mismatch / Inertia	3.9
Caring for employees / lack of motivation of the staff	3.7
Professionalism / lack of professionalism of employees	3.7
Poor customer orientation	3.3
Salaries / bonuses	2.9
Delayed feedback	2.0
Quality / Quality of Service	1.7
Organization	1.6
Other	23.9

The high interest is in a place far from the number of staff, the congestion at the office, the bureaucracy and a certain deficiency in the internal communication, the"Weaknesses RCB" cannot include in lower positions the debatable professionalism issues or delayed feedback, which may be inferred as to be linked to a relatively less attractive salary and bonus policy.

Suggestions for improvement	
Internal/ inter-department communication	10.9
Work Program Compliance	10.2
Improve service quality / customer relationship	8.4
More attention to employees	8.4
Improvement of banking products / supply	8.4
Correlation of target / target / a realistic target	7.2
Customer focus	6.3
Improve the recruitment / personnel quality	6.3
Improving workflow (processes, procedures)	6.2
Simplified Programs (Sibcor) / simpler IT programs	4.0
Professional promotion according to their competences	3.6
Working environment / workplace ambience	2.9
Increase salaries / bonuses / salary	2.9
Improve employee training / specialization	2.7
Effectiveness / Efficiency	2.0
Reduce staff load / Stress	2.0

We consider symptomatic the fact that the respondents placed the internal and interdepartmental communication as the head"solutions" to improve the working environment of the banking units in the studied region and the recommended increased attention to employees comes to support the above-stated need for communication.

And other suggestions have great meanings, but again it should be noted the request for pay increases and its correlation with the promotion based on competence and training.

We should also mention the respondent managers concern for a sustained and continuous improvement of employees' specialty and training and this should be based on developing new, advanced training and coaching at he level of all entities.

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Common Transport Policy: The Never Ending Journey

Steluta Cristina Grigore[1]

Abstract: This article explores the reasons that delayed the progress of the Common Transport Policy, underlying possible future developments. Even though Common Transport Policy (CTP) was mentioned in one of the founding treaties of EU, it laid still until the 1980s. The paper begins by presenting the importance of an open and efficient transport for a successful customs union, part of the most successful EU achievement- the single market. The article then analyses the successes of the CTP and its evolution since the signing of the Treaty of Rome. After outlining the progress made by the European Union towards its objective, the article highlights the reasons for which the Common Transport Policy laid dormant for almost two decades. As a sub-section, each means of transport is analysed with the successes and failures/problems. Finally, several salient issues that are addressed in the European Commission's communication: A sustainable future for transport: Towards an integrated, technology-led and user-friendly system are underlined.

Keywords: common transport policy; transport; customs union; European Union

JEL Classification: O18

Even though Common Transport Policy (CTP) was mentioned in one of the founding treaties of EU, it laid still until the 1980s. This article explores the reasons that delayed the progress of the Common Transport Policy, but also underlines possible future developments. The paper begins by presenting the importance of an open and efficient transport for a successful customs union, part of the most successful EU achievement- the single market. The article then analyses the successes of the CTP and its evolution since the signing of the Treaty of Rome. After outlining the progress made by the European Union towards its objective, the article highlights the reasons for which the Common Transport Policy laid dormant for almost two decades. As a sub-section, each means of transport is analysed with the successes and failures/problems. Finally, several salient issues that are addressed in the European Commission's communication: *A sustainable future for transport: Towards an integrated, technology-led and user-*

[1] EU Affairs Adviser, Ministry of Health, Romania, Address: 1-3 Cristian Popisteanu Street, Bucharest, Romania, tel: 021-3072500, Coresponding author: stelutacristina@yahoo.com

friendly system are underlined. It also needs to be mentioned, that this article is an analysis and the starting point for a debate of a European policy that does not have too much attention in the European Union literature and that has too little attention from the EU population. Nonetheless, this policy has made its presence felt in our every days lives and probably will continue to influence the quality of our life.

"Transport is a key sector with links in every other sector of the economy." (Hitiris, 2003) The acknowledgement of its importance within a custom union came with the signing of Treaty of Rome, when transport, agriculture and trade were dedicated separate titles. The obstacles in creating the CTP are debated throughout this article: differences in interpreting the treaty provisions, interference from the Member States, different attitudes towards intervention in transport, diversity of national transport systems, high costs in developing the infrastructure, the burden sharing issue, interests and priorities of the national transport sector, environmental implications, implementation deficit, multitude of sectors and also specific problems related to particular sectors. Nonetheless, from the 1980s important steps have been made in building the common transport policy: liberalisation of the market in areas such as fares' competition, passenger capacity sharing, access to routes for all operators, the application of EC competition rules for air transport and technical specification and work rules harmonization, removal of quotas on road haulage between Member States, full cabotage rights for road transport. Some of the factors shaping the CTP are: the impact of the single market, Trans-European networks, environmental policy, traffic congestion, the growing importance of transport industry and enlargement. As one can understand, the main themes for influencing transport, also stressed in the paper *Evaluation of the Common Transport Policy (CTP) of the EU from 2000 to 2008 and analysis of the evolution and structure of the European transport sector in the context of the long-term development of the CTP* are: the economy (efficiency and competitiveness of transport), the society (impact on people and society) and the environment (the environmental sustainability of the transport system).

Transport delivers benefits to people and businesses. Customs union 'are very similar to free trade areas[1] except that member nations must conduct and pursue common external commercial relations – for instance, they must adopt common external tariffs (CETs) on imports from non-participants […].' (El-Agraa, 2001, p. 1) A possible source of gain in the common market is the result of 'factor mobility across the borders of Member States' (El-Agraa, 2001, p. 103). Factor mobility demonstrates that an open and efficient transport system is a must within the common market.

[1] The definition of Free Trade Areas given by El-Agraa is: 'the member nations remove all trade impediments among themselves but retain their freedom with regard to the determination of their own policies vis-à-vis the outside world'. (p. 1)

Transport costs are an important part of the final costs, accounting for an average of 25% of the output price. So, the competition in the market is directly affected by transport. As a consequence, ‘a determined country can alter its competitive advantage and its trade flows by policy-induced changes (subsidies, taxation) of transport costs.’ (Hitiris, 2003, p. 269)

Transport has an economic importance for the European Union because it generates over 7% of the Union’s GDP and it employs over 5% of total employment in the EU. (Commission, 2009)

All in all, the most significant thing about transport from the economic perspective is the role of allowing people, businesses, regions and countries to use in the best possible way their various comparative advantages, and in facilitating trade.

The development of the Common Transport Policy can be divided into three periods: the period between 1957 and 1985, the period 1985 and 1991 and the after 1992 period. (Schimdt & Giorgi, 2001, p. 294) In the face of recent developments, studies and strategies, the author feels necessary to split *the after 1992 period* into two: prior to 2006 and after 2006.

In the first thirty years of its existence the progress in implementing a CTP within the EC was very slow. The introduced measures were related to particular aspects of”harmonization and reduction in discriminatory practices in the provision of transport services between the Member States. Community-level investments in transport infrastructures were mainly undertaken as part of regional, rather than transport policy.” (Lee in Artis & Lee, 1997, p. 232)

“Despite significant progress with regard to the removal of barriers to competition either through positive regulation—the harmonization of social and technical standards—or through negative regulation—the liberalization and harmonization of the criteria for market access—several problems remain and solutions are outstanding with regard to the main challenges posed by sustainable mobility, namely environmental protection and social cohesion.” (Schimdt & Giorgi, 2001, p. 293)

The change of pace, in the 1980s, in policy formation and implementation has been determined by two stimuli: the first is judgement of the European Court of Justice, that criticized the lack of progress for the CTP and the second was the political initiative that came with the goal of establishing the single market. The judgement was of the ECJ was in response to an action brought by the European Parliament against the Council for failure to carry out its obligations with regard to transport under the Treaty of Rome.

After the 1980s, the Common Transport Policy has started to evolve and develop at different paces depending on the sector, but also depending on the issues that had to be addressed. In the TENs programme there is the recognition that a free Europe

–without barriers has to be achieved with measures for removing the problems of physical barriers – missing links, poor infrastructure and bottlenecks.

The Commission's proposals in 1990 were published for assisting the development of TENs in transport, energy and telecommunications. TENs was promoted as a key feature for creating the single market, but also for to reinforce the economic and social cohesion. The objectives and priorities of TENs-T were set out in *The Community guidelines for the development of the Trans-European Transport Network*. All the roads, airports, railways that met these objectives are of common interest, with the result that they qualify for financial aid from the EU. The qualifying projects will not be funded from the EU more that 50% of the feasibility studies and 10% of cost of work. Public or private funding must cover the rest of the necessary money. The project should be financially viable, judged on its merits and be consistent with the Union's other policies.

The December 1992 White Paper on transport had as objective, which is generally achieved, to open up the transport market. Two important consequences of the White Paper were the lowering of prices and the growing demand for the road transport. (Commission, 2001) The proposals made by the White Paper in 2001 were: the change of balance between types of transport, the removal of bottlenecks, the users as central focus of the transport policy, the management of transport globalisation. The 2001 White Paper, European Transport policy for 2010: Time to decide, concluded that were still many issues to be solved for developing a common transport policy: adequate funding of the infrastructure, political determination, new approach to urban transport by local public authorities, satisfying the needs of users. (Commission, 2001)

The report *Evaluation of the Common Transport Policy (CTP) of the EU from 2000 to 2008 and analysis of the evolution and structure of the European transport sector in the context of the long-term development of the CTP* recommends that the effort to liberalise the rail sector should continue, a full liberalisation of road freight transport should be realised, remaining restrictions on international road passenger transport should be removed.

Since 2001, the European Commission has commissioned several reports on the evaluation of the Common Transport Policy, its future and the future of transport in 20 to 40 years. The reports that need to be taken into account into our analysis are: *A sustainable future for transport: Towards an integrated, technology-led and user-friendly system, COMPETE - Analysis of the contribution of transport policies to the competitiveness of the EU economy and comparison with the United States* or *Report on Transport Scenarios with a 20 and 40 Year Horizon.*

According to the paper *A sustainable future for transport: Towards an integrated, technology-led and user-friendly system*, the European Commission has identified the following trends and challenges: ageing, migration and internal mobility, environmental challenges, scarcity of fossil fuels, urbanisation and different global challenges. The new goal of the European Transport Policy is"to establish a sustainable transport system that meets society's economic, social and environmental needs and is conducive to an inclusive society and a fully integrated and competitive Europe." This goal shall be achieved by realising a quality transport that it is safe and secure a well-maintained and a fully integrated network, transport that is more environmentally sustainable, technological innovation, better prices and improving accessibility.

As seen in the overall presentation above, the development of the CTP has proved difficult for different reasons. Firstly, the diversity of national system was an obstacle in achieving the goal of CTP. Each country has developed a national transport system different to others in terms of pattern and quality of the networks. Meaning that while rail and roads are important in a country like Belgium, where the network is dense, Spain, Portugal and Greece have a sparse system.

Secondly, another issue was that of high costs for developing a CTP infrastructure. The expenses of building rail tracks, tunnels, roads and airports are enormous. (Jones, 2001, p. 332)

Thirdly, a problem that arose related to CTP was that of burden sharing. If one country benefited the most from the CTP, who should primarily pay for it? Should all the EU members bear the costs or only the country directly affected?

Fourthly, the countries that signed the Rome Treaty had 'diverse interests and priorities in their national transport sectors which diverged for reasons of geography and of distinctly different national attitudes to state intervention, regulation, conservation, land use and the environment.' (Hitiris, 2003, p. 269)

Fifthly, an obstacle to develop the CTP was also different interests of the member states and between those providing different forms of transport. Some national carriers dominate some transport sectors and countries have an interest in 'defending near-monopoly positions.' (Jones, 2001, p. 332). The fact that transport has also links with other sectors of the economy means that a CTP would affect other economic sectors. The result of this potential influence 'combined with the fact that a large section of the sector is not directly involved with interstate trading and thus exclusively in the domain of a state's domestic policy, suggests that agreement on common transport policies cannot easily be reached. On the other hand, if a common transport policy is ever devised, it would be a major advance towards integrating a large section of the members' economies.' (Hitiris, 2003, p. 269).

Sixthly, the way in which the CTP should be treated differed between Member States. At a macro-economic level, there were two approaches: the Continental and the Anglo-Saxon philosophies. The objective of transport policy in the Continental view was"to meet wide social goals that require interventions in the market involving regulations, public ownership and direction." From the Anglo-Saxon perspective,"transport provision and use should be efficient in its own right. Efficiency is normally best attained by making the maximum use of market forces." (Button in Al-Agraa, 2001, p. 280)

Seventhly, another element that came into play in the 1970s was the implication for the environment of transport. The attitudes towards the transport in the environmental concerns varied among the Member States. Transport has implications for the environment at the global level, the regional level and the local level. Because of this impact, the policy becomes more difficult to formulate.

Finally, one problem encountered in developing the Common Transport Policy was the implementation deficit, problem otherwise encountered many times when it comes to European legislation.

'The resulting 'implementation gap' varies greatly by country and by area of legislation. In transport policy making this shifting of competencies and decision-making power to the European level has been most pronounced in the areas directly relevant for the establishment of a single market for transport services, namely market access (including liberalization) and the setting of rules and standards. In fact, regarding the latter it could be argued that policy making at the national level has nearly ceased to exist. This is interesting insofar as most environmental and social standards are, from a legal point of view, minimum standards and may be exceeded by any Member State. More often than not the transport industry has prevented the raising of national standards above the required minimum by citing competitive pressures. […]

Apart from the few areas of transport policy making dominated at the European level, the national transport policies of the Member States are retaining their strong influence on the transport system. This is especially true for all measures related to infrastructure, land-use planning, network management and economic measures.' (Schmidt & Giorgi, p. 304) The next sub-section presents the achievements, what still needs to be done and the problems encountered in the specific sectors of transport: railways, maritime, road, inland waterways and air transport. The growth of air transport industry is above the average growth of the EU economy. Passenger traffic and the number of scheduled carriers have risen steadily, but also the numbers of employees in civil aviation and of the airline staff increased. The development of air industry has led also to several problems of increased pollution, airport overcrowding and air-traffic control systems which are overloaded. (Hitiris, 2003, p. 277).

The three 'packages' that led to the liberalization of air transport included: a relaxation of rules, greater flexibility in pricing and the allocation of seat capacity, freeing the provision of services within the EU and the liberalization of cabotage in 1997. A problem encountered in the air transport refer to the 2001 terrorist attacks that sent the air industry into a crisis further leading to bankruptcy of major European airlines. It was also obvious that European companies which are small and medium sized cannot reach optimum capacity size to benefit from economies of scale. While the air transport has taken off with the beginning of the 1980s, the rail transport in Europe has been in decline since 1970s. The competitiveness and the trustworthiness of railway transport have been negative points compared to road haulage. The CTP has as top priority to revitalize the rail transport because it is a safe and environmental clean mean of transport. The increase of railways' efficiency and competitiveness within the EU is an objective of the CTP.

The main problem encountered by rail transport was the increased competition from the other modes of transport: road, air and waterway. Other difficulties encountered within rail transport reflect, according to Button, (Hitiris, 2003, p. 289), are the „technical variations in the infrastructure and working practices of individual states that are only slowly being co-ordinated." As air industry and unlike rail transport, the road transport grew since the 1970s. The changes that occurred in road freight transport due to the CTP are: harmonization measures, controls over haulage charges, licensing, quotas, and cabotage. There was an acceleration of the policy change in EU haulage market but there are still issues to be addressed: 'the opportunities for 'own-account' operators to engage in 'hire-and-reward' operations between and within Member States, and facilitating road-haulage operation with non-EU countries […]' and the harmonization of road-user charging systems. (Lee in Artis & Lee, 1997, p. 219) Concerning road safety, there were several directives adopted for harmonization of standards for brakes, lighting, windscreens, sound levels, agreement for common standards on weights and dimensions of commercial vehicles, agreement on maximum axle weights for articulated lorries, technical vehicle inspection, lorry suspension systems, the fitting of speed limitation devices in lorries and coaches, limiting the risks involved in the carriage of dangerous goods.

The creation of the single administrative document was one major step in removing expenses at internal frontier crossing. Progress in international transport of goods has been made by ending quota restrictions, full freedom to operate transport services in other Member States, establishment of a more rational pricing system and publishing a scale of reference tariffs. As part of the CTP, the EU has established the maximum driving periods, obligatory periods of rest and conditions for employment (i.e. professional ability and training).

The maritime transport is very important to the EU because of its geography and its importance as the world's trading block. The main realisations in the inland waterways are: the mutual recognition of each other's decisions on the navigability of waterways, general technical specifications for waterway craft, liberalisation of cabotage, the mutual recognition of boatmasters' certifications, cockpit crew licences and driving licenses. There were four approved regulations in connection to maritime transport and they referred to: competition – how EC's rules of competition apply to maritime sector, predatory pricing by third countries – "coordinated response, allowing EC to take anti-dumping measures against the countries", cargo reservations –"coordinated EC response to third countries which reserve a portion of their trade to their own vessels", freedom to provide services. (Leornard, 1997, p. 186)

Other regulations in the field of maritime transport relate to: common rules for ship inspection, minimum level of training for crews, the ballast requirements for oil tankers, a European vessels reporting system, regulation to carry dangerous or polluting goods. In 2001, the aims for the Common Transport Policy were underlined in the Commission drawn up White Paper: European Transport policy for 2010: Time to decide. The necessity of another White Paper arose because of the highlighted economic importance of transport and the growing conflict that faces transport. Increasing demand for mobility is part of a loop. It causes and is also caused by worsening congestion, services of poor quality, damage to the environment, the challenges to safety and the isolation of some regions. (Commission, 2001) Congestion is one of the factors that lead to the necessity of the CTP. It is characterized by blockage in the centre and paralysis at the extremities. The areas affected are 10% of road network, 20% of rail network and 30% of flights at major airports as part of the Trans-European Network and the urban areas, having as consequences the risk of loosing competitiveness and costs[1].

	Goods	*Passengers*
Road	44%	79%
Rail	8%	6%
Sea	41%	
Air		5%
Inland Waterways	4%	

Source: Commission (2001)

The growing demand for mobility led in an amazing rise in the use of cars for passengers, with the car numbers becoming three times bigger, rising 3 million a year. The use of car in new member countries will increase in the next few years. Diminishing of costs, better quality and the shift to a stockless economy are the reasons for the demand growth for goods mobility. Integrating transport into sustainable development is another important issue because of the air quality and the climate change. 28 % of emissions of CO_2, the main greenhouse effect come

[1] According to the Commission, the costs are now of 0.5% of GDP, increasing to 1% by 2010. (2001)

from transport, with emissions probably increasing up to 50%. 98% of transport is dependent on oil that is imported in proportion of 70%.

Even though large steps have been made towards shaping a Common Transport Policy, things still need to be done. If we are looking at the European Commission‘s communication: *A sustainable future for transport: Towards an integrated, technology-led and user-friendly system*, we cannot help but wonder: has the common transport policy been replaced by the European Transport Policy, has disappeared or is it just an issue of semantics? Still, the Common or the European Transport Policy (ETP) is not the only answer to development problems. It has been proven that it must be a part of an overall strategy integrating sustainable development that should include: economic policy, social and education policy, urban transport policy, budgetary and fiscal policy, competition policy, research policy and land-use planning policy. As it can be seen throughout the article, the European Union became to develop in time the current CTP or ETP. Due to reasons like differences in interpreting the treaty provisions, interference from the Member States, different attitudes towards intervention in transport, diversity of national transport systems, high costs in developing the infrastructure, the burden sharing issue, interests and priorities of the national transport sector, environmental implications, implementation deficit, multitude of sectors and also specific problems related to particular sectors progress has been too slow. Even though after the 1980s there was an important increase in EU-transport related activities, they did not deal with all the problems that previously existed. If we are not to name the CTP the never ending journey, there should be a further development of the CTP/ ETP (with actions that follow the Commission’s different papers and studies in the subject) that must also take into account the economic consequences of the measures that had been taken, and of the deficiencies that remain.

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