

# **ROMANIAN ECONOMIC AND BUSINESS REVIEW**

## EDITOR

Bogdan Glăvan  
*Romanian American University*

## ASSOCIATE EDITORS

Lucian Botea  
Marian-Florin Busuioc  
Flavia Anghel  
Luminița Tuleașcă  
Iuliu Ivănescu  
Elena-Mihaela Pavel  
*Romanian American University*

## EDITORIAL BOARD

Moisă Altăr, *Romanian American University*  
Florin Bonciu, *Romanian American University*  
Mohamed Latib, *DeSales University*  
Galen Godbey, *DeSales University*  
Anthony Evans, *European Business School*  
Andras Inotai, *Institute of World Economy, Hungary Academy of Science*  
Gheorghe Lepădatu, *Dimitrie Cantemir University*  
Mihai Aristotel Ungureanu, *Romanian American University*  
Ion Stancu, *Academy of Economic Studies*  
Constantin Floricel, *Romanian American University*  
George Ionescu, *Romanian American University*  
Nikolay Gertchev, *European Commission*  
Marcel Moldoveanu, *Institute of World Economy, Romanian Academy of Sciences*  
Alex Sharland, *Barry University*  
Ion Pohoacă, *Alexandru Ioan Cuza University*  
Theodor Purcărea, *Romanian American University*  
Nicolae Idu, *European Institute of Romania*  
Cosmin Marinescu, *Academy of Economic Studies*  
Ovidiu Folcuț, *Romanian American University*  
Josef Sima, *University of Prague*  
Laurențiu Anghel, *Academy of Economic Studies*  
Ilie Vasile, *Academy of Economic Studies*  
Klodian Gorica, *University of Tirana*  
Pacha Malyadri, *Osmania University*  
Andreea Budacia, *Romanian American University*  
Bogdan Włodarczyk, *University of Warmia and Mazury*

## Statement of Purpose

The *Romanian Economic and Business Review* (ISSN 1842-2497) intends to provide a forum for academic analysis of the economic phenomena and institutions affecting the world economy in general, and Romania, in particular. *REBE* examines a wide variety of phenomena related to economic growth and business development and attempts to publish high quality research focusing on the role of institutions and public policy, within both a national and international context. *REBE* encourages cross-disciplinary research work of Romanian and foreign scholars.

## Indexed and/or Abstracted in:

EBSCO; EconLit; ProQuest; DOAJ; Index Copernicus; RePec

## Author Information

The ROMANIAN ECONOMIC AND BUSINESS REVIEW (REBE) is a refereed journal published four times annually by the Romanian-American University. The editors invite submissions of articles that deal with important issues in economy and business. Papers that focus on specific phenomena and events affecting Romanian economy are particularly encouraged. Because REBE seeks a broad audience, papers should be comprehensible beyond narrow disciplinary bounds.

Manuscripts should not exceed 8,000 words and must conform to the REBE's style requirements, which are guided by The Chicago Manual of Style (14<sup>th</sup> edition). All submissions must include a cover sheet explaining the scope of the article, and including the authors' names and affiliations, telephone and e-mail address. The text should be single-spaced. References are cited with parentheses using the author/date/page style. *Example:* (Marcus, 2005, p. 74). Authors should use footnotes, not endnotes to add only short comments. Bibliography should include only references cited in the text, in the alphabetical order of authors. An abstract of no more than 200 words should be included.

Submission of a paper implies that the paper will not be submitted for publication to another journal unless rejected by the REBE editor or withdrawn by the author, and that it is an original work. All submissions should be sent to the journal Editor:

Dr. Bogdan Glăvan  
Romanian-American University  
Bulevardul Expoziției nr. 1B  
București  
E-mail: bogdan.n.glavan@gmail.com

## Subscription rates:

Institutions - \$100/year  
Individuals - \$30/year

# ROMANIAN ECONOMIC AND BUSINESS REVIEW

---

WINTER 2018

VOLUME 13

NUMBER 4

---



ISSN 1842 – 2497

# ROMANIAN ECONOMIC AND BUSINESS REVIEW

## CONTENTS

<b>ANA MIHAELA ISTRATE ROXANA BÎRSANU</b>	<i>A SEMIOTIC APPROACH TO MARKETING COMMUNICATION</i>	7
<b>AMIT HEDAU SHAILENDER SINGH HUWATI JANOR</b>	<i>DETERMINANTS OF CAPITAL STRUCTURE – A SECTOR SPECIFIC APPROACH</i>	14
<b>MOHAMMAD ZIAUL ISLAM SHORMIN AKTAR MOHAMMAD AWAL HOSSEN MOHAMMAD SAIFUL ISLAM</b>	<i>NON-PERFORMING LOAN AND ASSET UTILIZATION OF BANKS: EVIDENCE FROM BANGLADESH</i>	31
<b>NEDELESCU DUMITRU MIHAI CROITORU ELENA LUCIA</b>	<i>THE INFLUENCE OF FISCAL PRESSURE ON PERFORMANCE ADMINISTRATION OF THE FISCAL SYSTEM IN ROMANIA</i>	40
<b>ROXANA BÎRSANU</b>	<i>VENTURING INTO A NEW CULTURE – MAIN CHALLENGES</i>	47
<b>DIANA SOCA</b>	<i>THE BEHAVIOR OF DISTRIBUTORS FACE TO FACE WITH THE NEEDS OF THE MODERN CONSUMERS</i>	54

<b>IULIANA MILITARU</b>	<i>FISCAL IMPULSE – COMPONENT OF THE STRATEGY FOR R&amp;D INVESTMENTS STIMULATION IN PERSPECTIVE OF BOOSTING THE COMPETITIVENESS OF EUROPEAN UNION</i>	58
<b>ȘTEFAN PETRICĂ ISTRATE ANA MIHAELA POPESCU LILIANA</b>	<i>RESEARCH ON THE MANAGEMENT OF RURAL TOURISM RESOURCES IN THE SOUTHERN PART OF ROMANIA</i>	65

# A SEMIOTIC APPROACH TO MARKETING COMMUNICATION

Ana Mihaela Istrate,  
Roxana Bîrsanu\*

## Abstract

*Large corporations, both domestic and international, such as Coca-Cola Co. or Bitdefender are well aware that corporate communication can and should be used as an effective tool for highlighting company identity and reputation, since the consistent image of a company is the first step towards a good relationship with the customers. This article aims at analyzing consumer-oriented messaging of several large corporations, which is targeted at gaining consumer trust. The study looks into the way corporations design their messages to the public by using various tools (such as linguistic representation and metarepresentation) provided by the communication framework. The main focus is on the communicative aspect of the corporate message since components such as intercultural communication or globalization can reinforce the trust of prospective customers.*

**Key words:** *communication, marketing, semiotics, manipulation theory, commercials*

**JEL Classification:** M30.

## 1. Introduction

Nowadays, advertising is embedded in our daily lives at such a deep level, and we have grown so accustomed to it that we hardly ever question if it serves our purposes and needs as consumers or whether it is the other way around. From the plethora of definitions of advertising to be found in the specialty literature, there is one dating back from 1987 which we consider to be particularly relevant for the analysis carried out in this paper: “Advertising is the most sophisticated ‘Town Crier’ man has yet devised. It shouts its message from magazines, newspapers, billboards, radio and television. It shouts wherever people congregate. Its market is no longer local or national, but worldwide. It also speaks in many tongues” (Zakia & Nadin, 1987: 5). What actually happened since 1987 until now is that the “town crier” is no longer as innocent and well-meant as it was supposed to be and has actually become one of the most effective tools for fostering consumerism.

Basically, the main role of advertising is informative and persuasive, i.e. it is meant to inform prospective buyers about a certain product/service and prompt them to purchase them or react to them in any other way deemed desirable by the advertisers. However, although this function is still prevalent, there is another dimension of advertising that is ethically questionable and that has become increasingly the focus of research on advertising: the manipulative intent of advertisers.

---

\* Ana Mihaela Istrate and Roxana Bîrsanu are at the Romanian American University in Bucharest.

As specialists consider, advertising is able to create a “perceived difference” (Day, 1999:17), which can either represent a specific feeling in the mind of the potential customers, or it is simply a set of customers that become the target of the respective campaign. The purpose is to develop loyalty, by adding value to the brand, and the more you know about your target market, in terms of the psychology of the individual, the more powerful you are and able to achieve the financial targets. Of course, there is a cost in all this endeavour, and it is related to the money invested in marketing research. It is estimated that only in the United States of America, more than 4 billion dollars are spent only on marketing research, which makes us consider the role it plays in our lives and the impact upon our buying decisions. Because in the end everything is about the money they invest in advertising and the money we spend on products.

So, the questions that comes to our mind are: How manipulative can advertising be? Can advertising be dangerous for us as potential customers? Is there a special segment of the market that can be manipulated easier than others?

If we are talking about the impact of advertising on young children we have to admit that television is the mediator, the interface between the family and the seller, and as specialists affirm “children are particularly vulnerable to the persuasive effects of advertising, especially television commercials, because they lack the skills and experiences necessary to analyse advertising messages” (Day, 1999: 70).

According to the statistics, the overall figures spent by the families of children under the age of fourteen, amount yearly to more than \$20 billion, only in the USA. At the same time, advertisers spend annually around \$800 million only to target this very special and profitable segment of the market. The process is the result of a blend of advertising techniques which include television advertising and online media.

Because nowadays children spend a long time in front of the television, or connected to smart devices connected to the Internet, it is estimated that children spend around one hour of advertising materials for every five hours of programs they watch. Thus, companies realized the huge potential of the segment and realized that the techniques they used can be improved, so that the segment could be approached in a more direct manner.

If we consider the types of advertising that children can view on the cartoon TV channels, we realize that marketers no longer judge the young children’s segment as too immature to take the buying decision, because what is more important for them, this special segment influences the buying decision dramatically.

So, the immediate questions that jump our mind are: Do children understand the purpose of the advertising message? Are they prone to being manipulated? Both questions receive a dramatic YES, as an answer.

Normally, manipulation can be equated with persuasion, but a rational one, which is not the case when we talk about children, because in the particular case of children, manipulative advertising attempts to “either (1) non-rationally change consumers’ desires or tastes, or (2) associate the product or service with the satisfaction of conscious or unconscious desires that it is unlikely to satisfy” (Phillips, 1997:19).

Leaving aside too much theory, what we have to understand here is the fact that advertising, through television commercials, can influence children in such a way that they will want a specific product, be it a toy, a snack or a cereal, or even a type of detergent that wipes the fruit stains from fabric, which is even a more amazing case.



Kids are assaulted with advertising messages from a very early age. The mere fact that very young children have access to video games, no matter how harmless or non-violent they are, either on tablets or smartphones, makes them vulnerable to the violent impact of advertising commercials for different types of products.

## 2. Theoretical background

In this article, we will focus on two Nestle commercials for cereals for children – Nestle cereals with vitamin D and Nesquik cereals. Given the fact that the target consumers for these products are children of various ages (some of whom cannot even read yet), it is somehow logical that the preferred means to advertise for them are commercials. Because, although both written ads and commercials follow the same AIDA principles (drawing consumers' attention, arising their interest, generating the desire to obtain the product and prompting them to take action and actually do the purchase), commercials are more suitable and, obviously, more effective for this particular category of consumers, since they are “an interaction of elements in which genres merge into each other” (Mirza Dzanic, 2013: 477). This blend of text, image and sound increases the efficiency of the message.

The paper has a two-fold purpose: on the one hand, it aims to check whether the actual message transmitted to consumers (i.e. the commercials) comply with the principles the manufacturer claims to follow, or whether it deviates from such principles. On the other hand, but closely connected to the one mentioned before, it aims to carry out a semiotic analysis of the commercials for the purpose of identifying how signs and symbols are used in order to convince and/or manipulate buyers into purchasing them. Therefore, the analysis relies mostly on concepts pertaining to the manipulation theory and semiotics.

Broadly speaking, semiotics is the science of signs; it studies how they shape reality and our perception of the reality and the mediation between the meaning of signs and their perception by the targeted audience. Semiotics is not a new science and its roots can be traced back as far as Greek writers such as Aristotle and, later on, Saint Augustine, both of whom discussed about signs and the elements of reality they stand for. Signs can have a meaning in themselves or in conjunction with other signs, which sometimes enriches their significance. That is why semiotics operates with concepts such as *sign*, *meaning*, *code* and *context*, all of which are useful in deciphering any given message, be it written, audio, video or non-verbal as is the case of body language.

Semiotic analysis is a very efficient tool for the deconstruction of an advertising message; it is an endeavour that helps us understand how it was created and which are its basic assumptions and intended results, since “it deals with the conditions under which different signs can be interpreted according to a preestablished intention or with the circumstances under which people assign meanings to signs different from those intended (Zakia & Nadin, 1987: 6), in other words, the degree to which manipulation is embedded in the message. Besides the basic concepts from semiotics, in our analysis we will also make use of the concept of *implicature*, a term used in pragmatics. Implicature is a term which refers to meanings which are implied in an utterance, although they are neither directly stated nor strictly implied. Or, to use Grundy's words, “any meaning which is conveyed indirectly or through hints and understood implicitly without ever being explicitly stated” (2000: 73).

### 3. Analysis

#### 3.1 *Compliance with Nestle Principles*

The Nestle Consumer Communication Principles state the lines along which data relevant for the consumers are developed in a manner which serves the principles of transparency and social responsibility. They mainly address issues such as the marketing of food products, the commitment of the company to the non-promotion of violence or racial, religious, sexual discrimination and its abidance by local rules and regulations. The Principles contain a separate chapter dedicated to children as consumers, “children” being understood there as persons under 12 years of age, with potential variations in the use of the term from one country to another.

The Principles take a rather negative approach to advertising to children, in the sense that they indicate what is forbidden or not recommended rather than good or advisable practice in this respect: “advertising should not mislead about potential benefits from the use of the product” or “advertising should not portray or encourage behaviour intended to shock or create anxiety in children”, or “our communication must not undermine the authority of parents. Children shown in our communication should not be seen urging parents or others to buy products”.

However, a closer look at the two commercials mentioned before reveals that Nestle Principles are often breached in, at least some, of the Nestle advertising communications. In the commercial for Nestle cereals with vitamin D, the very first of the Principles is flouted, namely “No advertising or marketing strategy may be directed at children under 6”, while the commercial characters are two kids, one of them at least being under 6. Another principle claims that “Advertising should not mislead about potential benefits from the use of the product. Such potential benefits may include, but are not limited to, status or popularity with peers, physical growth, strength or proficiency”. The boy featuring the clip claims to be a “supervoinic” and a “super hero”, a status he presumably achieved by consuming the Nestle cereals. Advertisers resorted to implicature to suggest that he is a super hero precisely due to the cereals and that he is training his sister into becoming a super hero too by convincing her to eat the same cereals.

One of the Nestle Principles for consumer communication states that “Advertising directed to children should not create a sense of urgency [...] for example, by using words like “now” and “only”. However, in the Nesquik commercial, the animated character says “Vreau cerealele mele Nesquik *acum*”, which obviously implies impatience for obtaining the much-desired cereals. This continues the opening line of the commercial: “E timpul pentru cerealele Nesquik”. A child who is watching a program which is interrupted by an ad claiming that it is time for a cereal break will most likely wish to take the same snack as the characters presented on screen.

The same commercial features Quicky, the well-known Nesquik bunny, which joins the children while taking their cereal snack. The Principles claim that “Fantasy, including animation, is appropriate for younger, as well as older children. However, it should not create difficulty in distinguishing between the real and the imaginary”. The children in the clip seem really pleased to see Quicky, whom they treat as one of them. It is true that it is unlikely for children of that approximate age (around 12) not to realize that the rabbit is just animation, but younger children exposed to the same commercial would probably believe it is real and that, just like them, it likes and eats the same cereals.

Otherwise, the commercials under discussion make use of many of the advertising techniques meant to ensure the efficient reception of the message such as repetition, claims, bandwagon, promotions or association. In both messages, the name of the cereal brand is repeated several times, in order to reinforce brand awareness and build consumer memory. Claims are used when the mother in the clip urges parents to look for the bag of cereals with the green mark, since they allegedly contain wholegrain and vitamin D “pentru dezvoltarea oaselor”. The purpose of such claims is to promote specific features of the advertised product, thus creating certain expectations in what the product can offer potential consumers. An effective technique especially when children are the intended audience of advertising is bandwagon. Its role is to persuade buyers that other people use the same product and to imply that they would somehow be left out if they do not follow suit. It is used in the Nesquik commercial, when several kids appear sharing the same meal. It is also implied in the other commercial, when the mother claims that those cereals are “cerealele preferate ale copiilor”, suggesting parents that by purchasing them, they could help with their children’s smoother integration among peers.

A powerful advertising instrument, association is most effective among teenagers, but less so in the case of younger children. However, there is an association with superheroes in one of the two analysed commercials – children would purportedly become superheroes if they eat the advertised cereals. In the other ad, the association that is generated in the viewers’ mind is with the state of well-being and happiness conveyed by the actor kids, having fun and enjoying the company of “celebrities” in the children’s world such as Quicky. In the same ad, children are informed about a promotion, namely that the cereal bags contain mini Transformer figures, which certainly further stimulates the young consumers’ desire to purchase the product.

### **3.2 Semiotic analysis**

The commercials analysed before make use of all the mechanisms that ensures success among children, the intended targets of the message, especially the one for vitamin D cereals: the costumes remind of super heroes (the boy wears a mask and a cape); it addresses boys and girls alike, since it promises that girls can become superheroes as well; the presence of the dog (possibly a super dog, judging by the way it is dressed) and a front image of the box of cereals, which displays the much loved Nesquik bunny. The commercials also consider the parents, who are secondary targets, since they are the ones making the actual purchasing decision, being in possession of the financial means to do so: they are lured with healthy ingredients (wholegrain, vitamins, minerals) – which parent does not want his/her children to be healthy?; there is an overemphasis on vitamin D – and in case the parents are unaware of it, the message explains that it is good for the bones. In the background there is also a bag of Nestle Fitness cereals, presumably eaten by the mother (a super heroine as well, undoubtedly).

The *signs* here, to use a concept from semiotics, are image, sound and language. When decoding the images, it becomes apparent that they abound in positive colours, which convey a clear message: the product intended for use has only benefits for consumers. The children wear mostly warm colours, the only exception being green, which is actually the predominant colour. It appears on all the cues alluding to superheroes, on the top of the cereal bag; it dominates the surroundings (the children play

in a garden) and it is used for all the words displayed on the screen. Since green is known to represent health and life, the choice of this colour implies that the product can be safely consumed by children. As for the audio element, in both commercials the soundtracks are equally positive and, most important of all, the narrators are children, which makes the commercial all the more relatable for all children to whom the message is addressed.

All these signs combine in order to create the general *meaning* of the communication instance, in this particular case, the two commercials. Meaning is not intrinsic to the text, it is gradually built as a result of people's interaction with the message. That is precisely why, especially in advertising addressing children as primary audience and parents (or other decision-making agents) as secondary targets, meaning is constructed on a double level. The particular features of the categories of recipients need to be carefully considered, since they decode the message according to distinct criteria such as interests, desire, life experience, openness to the message etc.

*Symbols* in general and in semiotics in particular are used in order to add new layers of meaning to a context of communication. Their interpretation may vary across cultures and even across historical periods. They are interpreted according to a common set of beliefs and values shared by a group or a community, and, consequently, they acquire meaning in an explicitly defined context. The two commercials analysed abound in symbols that resonate with the intended receivers of the message. In the Nesquik commercial, the characters are pre-adolescents, at the border between the innocence of childhood and budding adulthood. The advertisers seem to be well-aware of it: the commercial blends countryside scenes - green open spaces where children can run and play, with an urban landscape, more appealing to adolescents. The scenery matches perfectly the recipients' interests.

The same could be said about the emphasis on the nutritional profile of the products to be sold, more precisely the Western approach to sugar consumption. The commercial for vitamin D cereals places more emphasis on the benefits the cereals have for health (one should bear in mind that the decision-making agent is, in this case, the parent) – the sugar content is not mentioned, but the messages repeatedly mentions the content of wholegrain, minerals and vitamins. In the second commercial, emphasis is on the taste of the product and on having fun with peers while sharing it. Different interpretations are encouraged for pretty much the same product, depending on the expected reaction of the target message beneficiaries.

In semiotic models, *codes* are used as systems in which signs combine in order to create meaning. According to Fiske, "a code is a system of meaning common to the members of a culture or sub-culture. It consists of both signs and rules or conventions that determine how and in what context these signs are used and how they can combine to form more complex messages" (1990:19). Although the recipients of the advertising messages share the same *code* (in this case, the same language), they interpret them differently. While the children may take the meaning of the words and images literally, parents (or grownups exposed to the same commercials) may see beyond the surface of the communication act. In the examples analysed above, meaning is considerably constructed with the help of persuasion techniques verging on manipulation; nevertheless, it is the decision of the message recipients whether the construction (or the decoding) of

the meaning according to different perspectives leads to an outcome which is satisfactory from the advertisers' point of view.

### **3. Conclusions**

Advertising, the "town crier" of modern times, is a powerful tool that can be used to educate, to inform, to convince, but also to manipulate, in which case the consequences translate into irrational and uninspired choices made by the target recipients of the message. The solution lies in the moral probity of advertisers and in the prospective buyers' awareness of their true needs and expectations. These two aspects are all the more important when advertising targets children, a category of potential consumers with specific features in terms of needs, life experience, expectations or interests. In their case, they are merely the prompters of a purchasing action, the actual decision makers being the parents, who are in possession of the financial means to turn desire into reality.

Therefore, it is their responsibility to check when persuasion turns into manipulation and to what effect. In order to do so, they have to properly decode advertising messages addressing their children by deconstructing them so as to get to the meaning hidden beyond the surface of communication. Despite the principles and values explicitly stated by manufacturers, who are the direct beneficiaries of advertising communications, the reality (in this case, the concrete commercials analysed) prove that sometimes there is a chasm between the principles they claim to comply with and the strategies and techniques they actually use in order to reach and convince consumers. Deconstructing the various levels of advertising messages is an effective strategy to grasp the meaning under the surface of signs, symbols and codes which are used in order to create the intricate fabric of a communication act which has the ultimate goal of encouraging consumerism.

### **References**

- Day, N., (1999), *Advertising. Information or Manipulation?* Enslow Publishers, Inc.: Springfield, USA.
- Dzanic, M., (2013), The semiotics of contemporary advertising messages: Decoding visuals. *Jezikoslovlje* 14.2-3, 475-485.
- Fiske, J., (1990), *Introduction to Communication Studies*, 2<sup>nd</sup> edition, Routledge: London.
- Grundy, P., (2000), *Doing Pragmatics*, 2<sup>nd</sup> edition, Edward Arnold: London.
- Phillips, M.J., (1997), *Ethics and Manipulation in Advertising: Answering a Flawed Indictement*, Quorum Books: Westport, USA.
- Zakia, R.D. & Nadin, M., (1987), Semiotics, advertising and marketing. *Journal of Consumer Marketing*, 4(2), 5-12.
- <https://www.youtube.com/watch?v=JEXqY9TWhfs>
- <https://www.youtube.com/watch?v=xfpmdFBJCg>
- [https://www.nestle.com/asset-library/documents/library/documents/about\\_us/communication-principles.pdf](https://www.nestle.com/asset-library/documents/library/documents/about_us/communication-principles.pdf)

# DETERMINANTS OF CAPITAL STRUCTURE – A SECTOR SPECIFIC APPROACH

Amit Hedau, Shailender Singh,  
Huwati Janor\*

## Abstract

*To achieve the objective of wealth maximization, capital structure of the firm has momentous role. Apart from qualitative factors like economic condition, political & social status and management approach, quantitative factors like profitability, sales, depreciation and few more financial variables determine and influence the capital structure of the firm. This paper deals with the analysis of similarities and dissimilarities of determinants of capital structure among different sectors of Indian capital market using data from 2008 to 2018. OLS regression model is used to decompose the influence of explanatory variable on debt to equity ratio, which is dependent variable. The present paper is among very few research works focusing on different sectors individually, at least with reference to Indian capital market. The findings of paper confirm the presence of sector-specific determinants of capital structure in Indian capital market. The paper has its implication in the field of finance in terms of extending the understanding about variation of factors influencing capital structure of companies from different sectors.*

**Keywords:** *Capital structure, Indian capital market, determinants of capital structure*

**JEL Classification:** *F65, G23, G32*

## 1. Introduction

Capital structure is the way a company finances itself by combining long-term debt, specific short-term debt, and equity (Ross et al., 2005; Hsiao et al., 2009). Since capital structure affects financial performance, managers are always concern about status of capital structure. In line with the objectives of financial management, wealth maximization can be achieved through firm's value maximization. Capital structure is one of the factors to affect the value of the firm. Therefore, managers are continuously evaluating several combinations to minimize the weighted average cost of capital and maximization of the value of firm.

---

\* Amit Hedau is Assistant Professor, Department of Commerce, SRM University AP Amaravati. E-mail: amithedau21@gmail.com

Shailender Singh is Associate Professor, Department of Commerce, SRM University AP Amaravati. E-mail: reshullus@yahoo.com

Huwati Janor is Associate Professor, Faculty of Economics and Management, University Kebangsaan Malaysia.

The modern theory of capital structure was put forward by Modigliani and Miller (MM) in 1958. Over the past 55 years, the topic is well researched to explain the pattern of capital structure and its determinants. All those researches contributed to understand the application of theoretical models in the real business world. Still, a better understanding of determinants of firm's capital structure is still elusive (Barclay and Smith, 2005). Existing research work on determinants of capital structure can be divided into the following categories which are inclusive and not exhaustive.

**Table 1- Category wise summary of research work on capital structure**

Sr. No	Category	Reference
1	Country-specific	Booth et al, (2001), Rajan and Zingales (1995), Wald (1999), Ozkan (2001), Deesomsak, Paudyal and Pescetto (2004), Philippe et al (2003), Keshar and Baral (2004), Chen (2004), Datta and Agarwal (2009)
2	Sector-specific	Joshua (2008), Bhaduri (2002), Abdou et al (2012), Poddar and Mittal (2014), Ray (2013), Nimalathasan and Brabete (2010), Mishra (2011), Arvanitis et al (2012)
3	Cross country/Sector	Mehmet and Eda (2009), Psillaki and Daskalakis (2009)

Source: - Authors compilation

Above categorization indicates that more emphasis was given either on a country (category 1) or on a particular sector (category 2), or cross-country comparison (category 3). A *within country cross-sector*, comparative analysis of similarities and differences for determinants of capital structure is a topic that has not yet been explored adequately, at least with reference to the Indian market. The present research is carried out to find out similarities or differences for determinants of capital structure *among different sectors* of Indian capital market. Hence, this research is expected to make some contribution to the existing body of finance in the area of corporate finance.

The remainder of this paper is organized into five sections. Section 2 deals with a brief literature review to find out the research gap and to frame the research question. Section 3 covers with research methodology. Section 4 discusses the findings of data analysis and section 5 is the concluding section of the paper.

## **2. Literature Review - Theories of capital structure**

Net income (NI) approach by David Durand (1952) suggested that the use of debt in capital structure can help the firm to increase its value. This claim was made under the assumption that the cost of equity will remain same and the value of firm will increase due to tax benefits of interest payments. On the contrary, in his later work, Net operating income (NOI) approach, he suggested that existence of debt do not change the value of the firm. Because debt addition increases risk due to bankruptcy which increases the cost of equity and keeping the value of the firm unaltered.

The existence of debt in capital structure reduces the tax burden for any firm. This saving of taxes helps to increase the value of the firm. Therefore, financial experts traditionally believe that increasing company's leverage would increase the value of the firm up to a certain point.

However, MM challenged this traditional view. They claimed that earnings power decides the value of the firm and capital structure is irrelevant to judge the value of the firm. MM tries to predict the value of firm under perfect market conditions which have attracted the attention of many scholars. In the real business world, pattern of capital structure deviates from the theoretical suggestion. Consequently, MM model should be considered as a starting point for finding out determinants of capital structure and importance of debt in total capital of a firm. Even MM makes some relaxation about their assumption in their later work (Modigliani and Miller, 1963, and Miller (1977). Below is the brief review of the prominent theories of capital structure.

### **Trade-off Theory**

Kraus and Litzenberger (1973) put forward the relationship between capital structure and trade-off with cost and benefits of debt, popularly known as “Trade-off theory”. According to this theory, there is a possibility of optimal capital structure which can be achieved by a trade-off between cost and benefits of debt. Because of tax shield on interest, the presence of debt in total capital of firm reduces the tax liability of the firm. This increases post-tax returns for the firm up to a certain point. But, additional debt increases the risk of bankruptcy. And therefore benefits of debt diminish with its every addition to the capital of firm after a certain cut off point.

### **Agency Cost Theory**

Developed by Jensen and Meckling (1976), this theory identified two types of conflict (referred to as agency cost) as determinants of capital structure. The first conflict is between shareholders, who can claim whole of post-tax profit, and managers, whose claim in the profits of the firm is restricted to their salaries. Therefore, management prefers to consume the majority of profits by way of perquisites which increases cost to the firm and reduces the profits. According to the theory, this problem can be solved by including debt as a part of capital. For payment of interest to debt holders, management has to avoid the use of free cash flows in inadequate investment decisions. Otherwise firm has to face bankruptcy for default of payment to debt holders. Second conflict is between shareholder and debt holder, which is more complicated than the first one. Shareholders may forgo current profits with the expectation of long-term appreciation of their investment. On the contrary, debt holders are interested in current profits to receive regular interest. In such situations, management has to determine the optimal capital structure, where the lowest level of conflicts (agency cost) can be determined by using independent variable i.e leverage ratio of the firm.

### **Pecking order Theory**

Pecking order theory was articulated by Myers in 1984. This theory is based on information asymmetries between outside investors and firm’s managers. Debt is considered a signaling tool when there is information asymmetry between outside investors and firm’s managers. It was argued that management’s choice for including debt in the capital structure. If management expects poor cash flow in future, they will avoid debt for the fear that debt default will diminish the performance of the firm. Also, the



inclusion of debt in capital structure will tempt existing investor to expect a higher return on their current investment to compensate risk of diluting ownership. According to pecking order theory, (Mayers, 1984, Mayers and Majluf, 1984) management of the company gives first priority to internal funds followed by low-risk debt and lastly to new equity to finance new investments. The overall cost of capital is the focus of this theory rather than the optimization of capital structure of company. The relevance of pecking order theory was questioned by few experts like Helwege and Liang in 1996 & Frank and Goyal in 2001. However, Booth et al. (2001) support this theory on the basis of their empirical work on 10 countries.

### **Market Timing Theory**

According to this theory, market performance is the key factor to decide the issue of new equity (Lucas and McDonald, 1990). Economy passes through different phases like recession and booming. When the economy is witnessing recession, equity issues will be less in contrast with when the economy is booming, equity issues will be large. Empirical work by Bayless and Chaplinsky (1996), and Baker and Wurgler (2000) support these relations between equity issues and the phase of the economy. Therefore, managers of the company prefer to postpone the new issue of equity for better market conditions. However, in the absence of any suggested model, opinion differs between researchers from different places.

**In the Indian context**, determinants of capital structure were well documented by Chakraborty (1977) by studying determinants like age, profitability, retained earnings and capital intensity, which shows negative, whereas total assets have shown positive relation with the debt-equity ratio which was the dependent variable. As the capital market of India was not much developed up to 1992, Singh and Hamid (1992) found that Indian corporate is highly inclined towards debt capital. Bhaduri (2002) develop and confirms a model to study the existence of restructuring costs in attaining an optimal capital structure. The model confirms optimal capital structure can be influenced by determinants such as growth, cash flow, size, product and industry characteristics.

Datta and Agarwal (2009) conclude that the behavior of Indian corporate sector towards capital structure is elastic. They have found that profitability and growth are negatively related, whereas size and tangibility are positively related with dependent variable, leverage. Panigrahi (2011) confirms that the “location of the firm” strongly influences the quantum of inflows of funds.

Rasoolpur (2012) on the basis of their research of 298 manufacturing firms’ claimed that uniqueness and liquidity are the main explanatory factors of capital structure in India. Other factors like growth of assets, cash flow coverage ratio, earning rate and dividend payout ratio are found insignificant. Ray (2013) have found that asset composition, size, and non-debt tax shield are positively related to debt-equity ratio, while age, profitability, asset collateral has a statistically negative relation with the debt-equity ratio.

Tiwari and Krishnakutty (2014) analyze the capital structure of 90 firms and found a significant relationship between non-debt tax shield and debt with the capital structure

of Indian firms. However, profitability and risk have shown the insignificant impact on the leverage of the firm.

### Research Question

Many consolidated studies as cited above are done in the Indian context. Similarly, few sector-specific studies are compiled as below:

Sr.No	Author	Sector
1	Mohanraj (2011)	Manufacturing
2	Riyaz Ahmad (2012)	Automobile
3	Ali et al (2014)	Non-Finance Companies
4	Poddar and Mittal (2014)	Steel Companies
5	Sinha and Samantha (2014)	Cement
6	Satyanarayana and Malavalli (2015)	Auto and IT
7	Satyanarayana and Kumar (2017)	FMCG, Infra, IT and Capital Goods

Source: -Authors Compilation

Based on the comprehensive literature survey, it is observed that most of the research done so far is either sector-specific or consolidated by taking a sample of few companies irrespective of their sectorial belonging. Therefore, there is a need to have an elaborative research work focusing on all or many sectors in one research paper. The need for comparative analysis in single research work is identified as a research gap. Thus the present work is initiated with the following research question: -

***Are determinants of capital structure sector specific among different sectors of Indian capital market?***

This research paper is analyzing the capital structure of companies forming part different sectorial indices of National stock exchange (NSE).

## 3. Research Methodology

### 3.1 Sources of Data

The National Stock Exchange (NSE) is India's leading stock exchange set up by leading institutions to provide a modern, fully automated screen-based trading system with national reach. In addition to main market index i.e CNX Nifty, NSE has sector-specific indices representing 10 different sectors of Indian economy. In this study, the researcher is finding out the similarities or differences of determinants of capital structure of companies forming part of these indices. Out of 10, only 6 sectors are considered for the purpose of study.<sup>1</sup> The period of study is from 2008-2009 to 2017-2018 (April to March). The data about the financial variables are collected from a prowess database

<sup>1</sup> Financial and insurance (CNX Bank Index, CNX Finance Index and CNX PSU Bank Index) firms are excluded because their leverage is strongly differing from debt issued by non-financial firms (see Rajan and Zingales 1995). Furthermore, banks differ substantially from non-financial firms because they are protected by a regulatory safety net.

maintained by CMIE (Center for Monitoring Indian Economy). Further annual reports and website of sample companies have also been visited if required.

### 3.2 The technique of Data Analysis

The descriptive statistics are used for preliminary analysis of the data. Multiple regression model of Ordinary Least Squares (OLS) is used to decompose the variation in dependent variable by the independent variables. This technique reveals the extent of relationship between the dependent variable and several independent variables. The Step-wise regression approach is employed to identify variables, which explain the greatest variation in the dependent variable. It does this by selecting and adding to the model, the variables contributing the greatest explained variance, followed by the second, third and so on until additional variables do not contribute further to adjusted  $R^2$ .

The best regression model has to meet certain assumptions which are checked by examining outliers and residuals. Another problem, multicollinearity among independent variables may affect the overall estimations of the model as well as coefficients of individual variables. VIFs have been considered to determine the extent of collinearity among independent variables. Regression models test only linear relationships. The scatter diagram of data may reveal the presence of non-linear relationships. The non-linear variables have been transformed to log values to improve the linearity of variables.

### 3.3 Research Variable - Dependent Variable

The dependent variable of this study is a debt to equity ratio also known as leverage. There is diversity in the definition of leverage among different scholars. The ratio of total debt (long term and short term) to total assets, ratio of long-term debt to total assets are few common ways to interpret the meaning of leverage. Earlier studies differ for market value or book value of terms used in the ratio. As the market value of debt is depending on many factors which are out of control for a firm, researcher used book value of variables (dependent and explanatory) in this study. Thies & Klock (1992) and Fama French (2002) also support the book value approach. The researcher has used following formula to find out the value of dependent variable:

$$\text{Debt to Equity Ratio} = \text{Total Debt (long term and short term)} / \text{Total assets (Book value)}$$

### 3.4 Independent (Explanatory) variables

Referring to the existing literature, a number of determinants of capital structure can be considered for the purpose of study. But due to limitations of data availability, researcher restricts the study to the following variables only.

#### Size of the firm

Firms are categorized on the basis of their scale of operations. This is a subjective concept with no clear bifurcation between large scale and small scale. However, a higher volume of transaction is associated with more funds and vice versa. For voluminous organizations need to infuse more capital which is a mix of debt and equity. However, the effect of the size of firm on capital structure is not unidirectional. Few researches like

Huang and Song (2002), Rajan and Zingales (1995)<sup>2</sup> Zarebski and Dimovski (2012), Rasoolpur (2012), Ajanthan (2013), Md-Yusuf et al. (2013), Kuhnhausen and Stieber (2014), Zubairi and Farooq (2014), found significant relation between size and leverage. Chhapra and Asim (2012) found size as an only significant factor affecting capital structure of the firm. In this study, the researcher has used natural logarithm of sales as a proxy for the size of company.

### **Profitability**

The theory is inconsistent for effects of profit on the leverage of the company. According to trade-off theory, there is a positive relationship between profitability and leverage because companies with higher taxable profit should have a high leverage to get the maximum benefit of debt tax shield. On the contrary, pecking order theory claims a negative relationship between two variables. Firms with higher profits will have enough internal capital to finance new investments. Therefore, these firms will prefer internal capital over debt as a source of finance, thereby will have low leverage. Empirical findings by Rajan and Zingales, (1995), Titman and Wessels, (1988), Booth et al. (2001), Huang and Song, (2002), Chen (2004), Abor (2008), Bas et al. (2009), Kedzior (2012), Fernandez et al. (2013), Choi (2014), Zubairi and Farooq (2014), observed significant relation between profitability and leverage. In the present study, researcher has used return on total asset (defined as earnings before interest and taxes divided by total assets) as a proxy for the profitability of the company

### **Tangibility**

Tangible assets can be used as collateral for debt financing. Therefore, theoretically more the tangible assets a firm has, higher is the leverage. Rajan and Zingales (1995), Friend and Lang (1988), Titman and Wessels (1988), Chen (2004), Frank and Goyal (2007), Bas et al. (2009), Ramakrishnan (2012), Fauzi et al. (2013), Choi (2014), Chekrezi (2015) confirm significant relationship between tangibility and leverage. In the present study, tangibility is defined as tangible assets divided by total assets.

### **Financial distress**

Financial distress also referred to as volatility. It means variations in operating profits of the company. Volatility in earnings makes it difficult to meet the time-bound repayments towards debt capital. Therefore, earning volatility is reflected in the capital structure of the company by accommodating less debt and more equity due to its perpetual presence in the capitals of the firm. Empirical findings by Kim and Sorensen, (1986), Huang and Song, (2002) predict positive relationship, whereas Bradley et al. (1984), Titman and Wessels (1988) and Guha-Khasnobis and Bhaduri (2002) gave contradictory results. In the present study, the researcher has used the standard deviation of return on assets as a proxy for financial distress.

### **Non-Debt Tax Shield (NDTS)**

The impact of income tax on capital structure is considered through NDTS. In addition to interest on the debt, companies have non-debt related items like depreciation and

---

<sup>2</sup> For G7 Countries only.

research & development (R&D) expenditure, which provide tax shield (DeAngelo and Masulis, 1980). Managers will have less inclination towards debt if other non-debt tax shields are available. So there is a negative relationship between non-debt tax shield and leverage as per trade-off theory. Pecking order theory expects no relation between NDTS and leverage. Earlier empirical results also give mix opinion about this relationship. Scott (1977), Moore (1986), Gardner and Trzcinka (1992), Prahalathan (2010), Lim (2012) & Kuhnhausen and Stieber (2014) observe positive relationship while Shenoy and Koch (1996), Huang and Song (2002), Choi (2014) and Saeed et al (2014) observed a negative relationship between NDTS and leverage. In India, items like depreciation, R & D expenses, preliminary expenses are considered as NDTS. However, due to limitations of availability of data, the researcher has used a ratio of depreciation to total assets as a proxy for NDTS.

### **Growth**

Companies with growth opportunities need more capital to invest in the business. They prefer debt capital to finance the gap between required capital and available internal capital (Psillaki and Daskalakis 2009). Empirical findings give mixed results for this. In support of trade-off order theory, Rajan and Zingales, (1995), Fama and French, (2002) reported negative while Booth et al. (2001), Huang and Song, (2002), Chen (2004), Mishra (2011), Rasoolpur (2012), Pahuja and Sahi (2012), Tiwary and Krishnakutty (2014), Yadav (2014) found positive relation between growth and leverage in support of pecking order theory. In the present study, researcher has used percentage change in total assets as a proxy for growth opportunities.

### **Liquidity**

Liquidity is used to measure short terms solvency of the company. As per pecking order theory, companies having high liquid assets will prefer internal funding thereby showing negative, the relationship between liquidity and leverage (Deesomsak et al. 2004). Alternatively, trade-off theory suggests high debt can be served with high liquidity and predicts a positive relationship between liquidity and leverage. Sabir and Malik (2012), Rasoolpur (2012), Md-Yusuf et. al. (2013), Zubairi and Farooq (2014), Cekrezi (2015) found liquidity as one of the significant determinants of capital structure. In the present study, researcher has used a ratio of current assets to current liabilities as a proxy for liquidity.

### **Uniqueness**

Unique products have little alternative usage. Companies offering such unique products have to incur heavily on R & D and selling expenses. These companies' faces problems of exit barriers due to limited demand for their products. Therefore they find it difficult to raise debt so less leveraged (Titman, 1988). Song (2005) and Rasoolpur (2012) gave some contradictory findings on uniqueness for their studies during the different time period. Yadav (2014) support the findings of Song (2005) about no significant relationship between uniqueness and capital structure. In the present study, researcher has used a ratio of selling expenses to total sales as a proxy for uniqueness.

### **Ownership Structure of the Companies**

Depending on legal status, a shareholder can be classified as an institutional and non-institutional shareholder. Capital structure and ownership structure of companies

were first correlated by Jensen and Meckling (1976). They observed heterogeneity in financial motivations between the different groups of the shareholder. Amihud et al (1990) and Zeckhauser & Pound (1990) observed a negative relationship between leverage and presence of large shareholder. The researcher has classified ownership structure of sample companies into an institutional and non-institutional pattern for the purpose of this study.

#### 4. Findings

The objective of the present paper is to evaluate the sector-specific determinants of capital structure of Indian firms during the period 2008-18. The panel data for 10 years is analyzed across constituents of 6 sectorial indices maintained by National Stock Exchange of India. Total nine explanatory variables are regressed against one dependent variable. The findings of the research confirm the presence of sector-specific factors, that determine the capital structure of the company. The output of the regression analysis is discussed as under.

For checking the presence and influence of outliers, the standardized residual is analyzed. In the first trial, the maximum value of standardized residual was 5.76 against the acceptable value of  $< 3.29$ . The problem was overcome by deleting cases using case-wise diagnostic. In the third trial, findings were within an acceptable value (max = 3.09, see table 1) against the standard acceptable value of  $< 3.29$  with cook's distance (also known as D) at 0.97.

**Table 1 – Residual Statistics**

	Min	Max	Mean	Std. Deviation	N
Predicted Value	-46.6	150.9	19.9	26.11	303
Std. Predicted Value	-2.55	5.02	0	1	303
Std. Error of Predicted Value	1.76	21.73	3.54	1.62	303
Adjusted Predicted Value	-94.34	140.97	19.76	26.54	303
Residual	-82.84	93.45	0	30.06	303
<b>Std. Residual</b>	<b>-2.74</b>	<b>3.09</b>	<b>0</b>	<b>0.99</b>	<b>303</b>
Studentized Residual	-2.75	3.14	0	1.01	303
Deleted Residual	-83.83	99.99	0.14	31	303
Studentized Deleted Residual	-2.78	3.18	0	1.01	303
Mahalanobis Distance	0.03	154.71	3.99	9.5	303
<b>Cook's Distance</b>	<b>0</b>	<b>0.97</b>	<b>0.01</b>	<b>0.06</b>	<b>303</b>
Centered Leverage Value	0	0.51	0.01	0.03	303

Source-Authors Computation

Researched data do not have the problems of multi-collinearity. The highest value of variance inflation factor (VIF) is 1.21 as shown in table 2 against a recommended value of 10 (Hair, Anderson, Tatham, & Black, 1995) or 5 (Rogerson, 2001) and even 4 (Pan & Jackson, 2008) indicating multi-collinearity is not a concern.

Table 2 – Collinearity and VIF Statistics

	Un-standardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	1.68	6.71		2.52	0.802		
Size	<b>0.877</b>	0.164	0.611	5.34	<b>0.00</b>	1.00	1.00
NDTS	<b>0.88</b>	0.22	0.53	3.98	<b>0.00</b>	0.83	1.21
Profitability	0.37	0.12	0.40	3.00	0.01	0.83	1.15
Tangibility	<b>2.00</b>	0.37	0.89	5.45	<b>0.00</b>	1.00	1.00
Fin. Distress	<b>1.13</b>	0.18	0.91	6.47	<b>0.00</b>	1.00	1.00
Growth	0.502	0.134	0.454	3.74	<b>0.00</b>	0.96	1.03
Liquidity	0.504	0.191	0.319	2.63	0.01	0.96	1.03
Uniqueness	1.06	0.18	0.74	5.74	<b>0.00</b>	1.00	1.00
Ownership Structure	-0.97	0.34	-0.36	-2.84	0.01	1.00	1.00

Source-Authors Computation

Table 3: - Regression Coefficients

	FMCG		Real Estate		Pharma		Metal		Media		Auto	
	Coef.	P	Coef.	P	Coef.	P	Coef.	P	Coef.	P	Coef.	P
LIQUIDITY	0.435344	0.3323	0.510186	0.0506	-1.023215	<b>0.0007</b>	0.246593	0.525	0.470011	0.5239	-0.262291	0.0949
FIN. DISTRESS	-0.603774	0.1139	0.578888	<b>0.0039</b>	0.223732	0.5141	-0.17763	0.721	-0.293414	0.4428	-0.09434	0.3552
GROWTH	0.293062	0.6008	0.159995	0.6673	0.257741	0.4824	2.538151	<b>0.002</b>	-3.304956	0.1611	1.251583	<b>0.0064</b>
NDTS	-0.199944	0.5845	-0.090841	0.7755	-1.549219	<b>0.0199</b>	0.398899	0.5073	-3.032069	<b>0.0006</b>	0.686363	<b>0.0015</b>
NON-PROMOTOR	0.403162	0.3372	0.417349	0.3028	-2.34135	<b>0.0366</b>	0.648886	<b>0.0053</b>	2.068216	<b>0.053</b>	-3.290085	<b>0.0001</b>
PROFITABILITY	-1.924538	<b>0.0000</b>	-0.698339	<b>0.0045</b>	-0.526966	0.1357	-0.907022	<b>0.0171</b>	-1.294009	0.1562	-0.739955	<b>0.0009</b>
PROMOTOR	0.185236	0.3672	-0.620821	<b>0.0226</b>	-2.349704	0.0518	1.143741	0.1468	2.031001	0.2871	-3.654421	<b>0.0000</b>
SIZE	-0.346412	<b>0.0002</b>	-0.017032	0.8382	-0.531872	<b>0.034</b>	0.01733	0.9046	-0.265179	0.1249	-0.352844	<b>0.0003</b>
TANGIBILITY	0.34183	0.2855	1.542577	<b>0.0000</b>	2.783375	<b>0.0000</b>	0.412864	0.4826	0.798009	0.5554	1.623455	<b>0.0000</b>
UNIQUENESS	0.755591	<b>0.0331</b>	0.223617	0.0807	1.194057	<b>0.0000</b>	-0.082279	0.6919	1.621494	<b>0.0004</b>	-0.004842	0.9721
Adjusted R-squared	0.478026		0.547886		0.600546		0.318824		0.482079		0.579879	

Source-Authors Computation

Among the 6 different sectors, it is found that the auto and pharma sector has the highest (six) number of significant factors followed by real estate industry. Neither single common explanatory variable found significant across all the indices which confirms the presence of sector-specific determinants of capital structure. However, it can be said that profitability and non-promoter shareholding are influencing the majority of sectors. The adjusted *R*-sq value across the sectors varies from 31% in the metal sector to 60% in the pharma sector. The findings of the present study are in line with the general assumption which is explained as under:

**FMCG sector**

It is found that profitability, sales, and uniqueness are three factors; significantly determine the capital structure of FMCG sector companies. In the case of FMCG sector, sales and profitability are focused on a daily basis, as goods are produced and sold at a faster rate than any other sector. Therefore, we conclude that the finding of significant factor matches with industry feature. The negative coefficient of profitability and sales means the FMCG sector prefers or need to have lesser debt component and more equity in the capital structure. Both the significant variables are favoring towards reducing the debt to equity ratio with their negative influence.

**Real Estate Industry**

The Operating return from real estate industry is not consistent. Therefore, even retails as well as institutional shareholders are not keenly interested in shareholding. As a result, promoters need to hold the majority of capital. Higher the promoter shareholding, lesser will be the debt to equity ratio. All these findings are confirmed in the present study. It is observed that financial distress, promoter holding, profitability, and tangibility are the significant factors contributing towards the capital structure of the companies from the real estate industry. Financial distress and tangibility with positive coefficient are pushing debt to equity ratio, which clearly indicates a higher amount of debt or lesser amount of equity is preferred. The overall effect of these two factors carries more weighted than the other two significant variables with a negative coefficient.

**Pharma Sector**

Total six, out of nine factors found to be significantly contributing towards the capital structure of the pharma sector companies. The value of adjusted R-sq is highest (60%) among the other sectors. Pharma sector companies are required to have research and development facility backed by research equipment for which company has to invest in plant and machinery. Therefore, tangibility is the key factor to decide the determinants of capital structure. Similarly, profitability and current ratio which speaks about the sound financial condition have a significant influence towards the capital structure.

**Metal Sector**

A capital-intensive sector has a seasonal business cycle. During the booming phase, there is a heavy demand for the product and vice-versa during a recessionary period. The present study correctly identified the growth as a significant factor influencing capital structure of the company in the metal sector. The positive coefficient of significant variable growth has more inclination towards debt as a preferred source of finance and therefore higher the debt to equity ratio. However, the value of R-square is the lowest among the other sector.



### **Media Sector**

The media sector is believed to have lesser tangible assets as compared to manufacturing units. Therefore, the negative coefficient of NDTS specifies the lesser value of debt to equity ratio. Uniqueness, next significant factor indicates more use of capital towards selling and distribution expenses which have a direct impact on the composition of capital structure.

### **Auto Sector**

A capital intensive sector, require a huge investment in physical infrastructure. At the same time, liquidity needs to be maintained at an optimum level. The finding of the present study accurately shows that the dependency of capital structure is influenced by all research variable except financial distress and uniqueness. The outcome of regression analysis clearly indicates that profitability, size, NDTS, growth, and liquidity are the major significant factors to decide the leverage level of companies belonging to the auto sector.

## **5. Conclusion**

The present study is conducted with the objective to find out the presence of sector-specific determinants of capital structure. The sample units are selected from the constituents of sectorial indices maintained by NSE. The findings confirm the variation of determinants of capital structure from industry to industry. It can be concluding that each sector has its own features or requirements which determines and influence the level of leverage. More interestingly not a single factor is found to be common across all the sectors. The study came with a meaningful outcome that can be considered by the management while deciding the mix of various sources of finance to raise capital. Apart from the merits and demerits of each source of finance, sector affiliation seems to be a key variable to decide the capital structure.

## **References**

- Abdou, H.A., Kuzmic, A., Pointon, J., and Lister, R.J., (2012), “Determinants of Capital Structure in the UK Retail Industry: A Comparison of Multiple Regression and Generalized Regression Neural Network”, *Intelligent Systems in Accounting, Finance & Management*, 19 (3):151-169.
- Abor, J., (2008), “Determinants of the Capital Structure of Ghanaian Firms”, *African Economic Research Consortium, Nairobi* 1-34.
- Ajanthan, A., (2013), “Determinants of Capital Structure: Evidence from Hotel and Restaurant Companies in Sri Lanka”, *International Journal of Scientific and Research Publications*, 3(6): 1–8.

- Ali, M.S., Akram, H.W. and Khan, M.A., (2014), "Analysis of Determinants of Capital Structure: With Special Reference to Indian Listed Non-Financial Companies in S and P CNX Nifty". *Business Dimensions*, 1(2): 113-170.
- Amihud, Y., Lev, B. and Travlos, N., (1990), "Corporate Control and the Choice of Investment Financing: The Case of Corporate Acquisitions". *Journal of Finance*, 45: 603-616.
- Arvanitis, S.H., Tzigkounaki, I.S., Stamatopoulos, T.V., and Thalassinou, E.I., (2012), "Dynamic Approach of Capital Structure of European Shipping Companies". *International Journal of Economic Sciences and Applied Research*, 5(3): 33-63.
- Baker, Malcolm P., and Wurgler, Jeffrey A., (2000), "The Equity Share in New Issues and Aggregate Stock Returns" *Journal of Finance*, 55(5): 2219-2258.
- Barclay, M.J., and Smith, C.W., (2005), "The Capital Structure Puzzle: The Evidence Revisited", *Journal of Applied Corporate Finance*, 17: 8-17. doi:10.1111/j.1745-6622.2005.012\_2.x.
- Bas, T., Muradoglu, G. and Phylaktis, K., (2009), *Determinants of Capital Structure in Developing Countries*, Cass Business School, 106 Bunhill Row, London, UK.
- Bayless, M., and Chaplinsky, S., (1996), "Is There a Window of Opportunity for Seasoned Equity Issuance?", *The Journal of Finance*, 51(1): 253-278.
- Bhaduri, (2002), "Determinants of Capital Structure Choice: A Study of the Indian Corporate Sector", *Applied Financial Economics*, 12(9): 655-665.
- Booth, L., Aivazian, V., Demircuc-Kunt, A., and Maksimovic, V., (2001), "Capital Structure in Developing Countries", *The Journal of Finance*, 56 (1): 87-130.
- Bradley, Michael, Gregg A. Jarrell, and E. Han Kim, (1984), "On the Existence of an Optimal Capital Structure: Theory and Evidence", *Journal of Finance*, 39: 857-878.
- Cekrezi, A., (2015), "Internal Factors Which Influence Capital Structure Choice of Albanian Firms", *Research Journal of Finance and Accounting*, 6(8): 168-175.
- Chakraborty, S.K., (1977), "Corporate Capital Structure and Cost of Capital: A Preliminary Study of the Indian Private Sector" Institute of Cost and Works Accountants of India. Calcutta.
- Chen, J.J., (2004), "Determinants of capital structure of Chinese-listed companies". *Journal of Business Research*, 57(12): 1341-1351.
- Chhapra, I.U. and Asim, M., (2012), "Determinants of capital structuring: an empirical study of growth and financing behavior of firms of textile sector in Pakistan". *Journal of Management and Social Sciences*, 8(2): 1-10.
- Choi, D.S., (2014), "Determinants of The Capital Structure: Empirical Study from The Korean Market". *International Journal of Science, Commerce, and Humanities*, 2(7): 116-125.
- Cook, R.D. and Weisberg, S., (1982), *Residuals and Influence in Regression*. Chapman and Hall.
- Datta D. and Agarwal B., (2009), "Determinants of Capital Structure of Indian Corporate Sector in the Period of Bull Run 2003-2007: An Econometric Study". *Journal of Finance*, 4(9):45-49.
- DeAngelo, H., and Masulis R.W., (1980) "Optimal Capital Structure under Corporate and Personal Taxation". *Journal of Financial Economics*, 8: 3-29.
- Deesomsak R., Paudyal K. and Pescetto G., (2004), "The Determinants of Capital Structure: Evidence from The Asia Pacific Region". *Journal of Multinational Financial Management*, 14: 387- 405.

- Durand D., (1952), "Cost of Debt and Equity Funds for Business: Trends and Problems of Measurement". In *Conference on Research in Business Finance*, National Bureau of Economic Research New York, 115-147.
- Fama E.F. and French K.R., (2002), "Testing Trade-Off and Pecking Order Predictions About Dividends and Debt". *The Review of Financial Studies*, 15(1): 1-33.
- Fauzi, F., Basyith, A. and Idris, M., (2013), "The Determinants of Capital Structure: An Empirical Study of New Zealand-listed Firms". *Asian Journal of Finance and Accounting*, 5(2): 1-21.
- Fernandez, D.M., Kumar, D.R. and Mansour, D.E., (2013), "Determinants of Capital Structure: Evidence from Oman". *Arabian Journal of Business and Management Review*, 2(11): 34-44.
- Frank, M.Z. and Goyal, V.K., (2007), "Capital Structure Decisions: Which Factors Are Reliably Important?". University of Minnesota, Hong Kong University of Science and Technology, Working Paper.
- Frank, M.Z. and Goyal, V.K., (2001), "Testing the Pecking Order Theory of Capital Structure". In EFA 0157: AFA 2001 New Orleans London.
- Friend, I., and Larry H.P. Lang, (1988), "An Empirical Test of the Impact of Managerial Self-Interest on Corporate Capital Structure". *The Journal of Finance*, 43(2): 271-281.
- Gardner, J. and Trzcinka C., (1992), "All-Equity Firms and the Balancing Theory of Capital Structure". *Journal of Financial Research*, 15: 77-90.
- Guha-Khasnobis, B. and Bhaduri, S.N., (2002), "Determinants of Capital Structure in India, (1990–1998): A Dynamic Panel Data Approach". *Journal of Economic Integration*, 17(4): 761-776.
- Hair, J.F., Anderson, R.E., Tatham, R.L., and Black, W.C., (1995), *Multivariate Data Analysis*. Englewood Cliffs, NJ: Prentice-Hall.
- Helwege, Jean, Liang, and Nellie, (1996), "Is there a pecking order? Evidence from a panel of IPO firms". *Journal of Financial Economics*, 40(3): 429-458.
- Hsiao et al., (2009), *The Concept Of Capital Structure Finance Essay*. Retrieved December 2017, from UKEssays.com:<http://www.ukessays.com/dissertation/literature-review/the-concept-of-capital-structure.php#ixzz2zauL4MDn>
- Huang, S.G.H. and Song, F.M., (2002), *The Determinants of Capital Structure: Evidence from China*, School of Economics & Finance and Centre for China Financial Research, The University of Hong Kong, Working Paper No. 1042: 1-34.
- Jensen, M. and Meckling, W., (1976), "Theory of The Firm: Managerial Behavior, Agency Costs, and Ownership Structure". *Journal of Financial Economics*, 3: 305- 360.
- Joshua, Abor, (2008), *Determinants of the Capital Structure of Ghanaian Firms*, Department of Finance University of Ghana Business School Legon. AERC Research Paper 176 African Economic Research Consortium. Nairobi.
- Kędzior, M., (2012), "Capital Structure in EU Selected Countries-Micro and Macro Determinants". *Argumenta Oeconomica*, 28(1): 69-117.
- Keshar J. Baral, (2004). "Determinants of Capital Structure: A Case Study of Listed Companies of Nepal". *The Journal of Nepalese Business Studies*, 1(1): 1-13.
- Kim W., and Sorensen E., (1986), "Evidence on the Impact of the Agency Costs of Debt on Corporate Debt Policy". *The Journal of Financial and Quantitative Analysis*, 21(2): 131- 144.
- Kraus and Litzenberger R., (1973), "A State-Preference Model of Optimal Financial Leverage". *Journal of Finance*, 28(4): 911- 922.

- Kuhnhausen, F. and Stieber, H.W., (2014), *Determinants of Capital Structure in Non-Financial Companies*, Munich Discussion Paper No. 38, Department of Economics, University of Munich, 1- 57.
- Lim, T.C., (2012), “Determinants of Capital Structure Empirical Evidence from Financial Services Listed Firms in China”. *International Journal of Economics and Finance*, 4(3): 191-203.
- Lucas, D., and McDonald, R., (1990), “Equity Issues and Stock Price Dynamics”. *The Journal of Finance*, 45(4): 1019-1043.
- Md-Yusuf, M., Yunus, F.M. and Supaat, N.Z.L., (2013), “Determinants of Capital Structure in Malaysia Electrical and Electronic Sector”. *International Journal of Social, Management, Economics and Business Engineering*, 7(6): 676-681.
- Mehmet Ş. and Eda O., (2009), “Behavioral Dimension of Cross-Sectoral Capital Structure Decisions: ISE (Istanbul Stock Exchange) Application”. *International Research Journal of Finance and Economics*, 12(7): 44-54.
- Miller, M.H., (1977), “Debt and Taxes” *Journal of Finance*, XXXII(2): 261-275.
- Mishra, C.S., (2011), “Determinants of Capital Structure-A Study of Manufacturing Sector PSU’s in India”. In *International Conference on Financial Management and Economics*, 11(1): 247-252.
- Modigliani, F. and Miller, M.H., (1963), “Corporate Income Taxes and the Cost of Capital: A Correction”. *American Economic Review*, 53: 433-443.
- Modigliani, Franco, and Merton. Miller H., (1958), “The Cost of Capital, Corporation Finance, and the Theory of Investment”. *American Economic Review*, 48: 261-297.
- Mohanraj, D.V., (2011), “Determinants of Capital Structure Decision in Indian Manufacturing Industries-An Empirical Analysis”. *International Journal of Research in Computer Application and Management*, 1(8): 139-142.
- Moore T.W., (1986), “Asset Composition, Bankruptcy Costs and The Firm’s Choice of Capital Structure”. *The Quarterly Review of Economics and Business*, 25: 4-51.
- Myers, S.C., (1984), “The Capital Structure Puzzle”. *The Journal of Finance*, 39: 574–592.
- Myers, Stewart C. and Majluf, Nicholas S., (1984), “Corporate Financing and Investment Decisions When Firms Have Information that Investors Do Not Have”. NBER Working Paper No. w1396. Available at SSRN: <https://ssrn.com/abstract=274547>.
- Nimalathasan, B. and Brabete V., (2010), “Capital Structure and Its Impact on Profitability: A Study of Listed Manufacturing Companies in Sri Lanka”. *The Young Economists Journal*, 13: 55-61.
- Ozkan, A., (2001), “An Empirical Analysis of Corporate Debt Maturity Structure”. *European Financial Management*, 6: 197-212.
- Pahuja, D.A. and Sahi, M.A., (2012), “Factors Affecting Capital Structure Decisions: Empirical Evidence from Selected Indian Firms”. *International Journal of Marketing, Financial Services and Management Research*, 1(3): 76-86.
- Pan, Y. and Jackson, R.T., (2008), “Ethnic Difference in The Relationship Between Acute Inflammation and Serum Ferritin in US Adult Males”. *Epidemiology and Infection*, 136: 421-431.
- Panigrahi, A., (2011), “Capital Structure Variations: A Study of Indian Corporate”. *Res Manageria*, 2(3): 29-42.
- Philippe et al., (2003), *The Capital Structure of Swiss Companies: An Empirical Analysis Using Dynamic Panel Data*, University of Geneva (HEC). Switzerland.

- Poddar, M.N. and Mittal, D.M., (2014), "Capital Structure Determinants of Steel Companies in India: A Panel Data Analysis". *Galaxy International Interdisciplinary Research Journal*, 2(1): 144-158.
- Prahalathan B., (2010), *The Determinants of Capital Structure: An Empirical Analysis of Listed Manufacturing Companies in Colombo Stock Exchange Market in Sri Lanka*, in *ICBI 2010*, University of Kelaniya, Sri Lanka. 1-15.
- Psillaki, M. and Daskalakis, N., (2009), "Are the Determinants of Capital Structure Country or Firm-Specific?". *Small Business Economics*, 33(3): 319-333.
- Rajan, R.G., and Zingales, L., (1995), "What Do We Know about Capital Structure? Some Evidence from International Data". *The Journal of Finance*, 50(5): 1421-1460.
- Ramakrishnan, S., (2012), *Sectoral Analysis on Capital Structure Determinants among the Malaysian Listed Firms*, Ph.D. thesis, Deakin University.
- Rasoolpur, G.S., (2012), "An Empirical Analysis of Capital Structure Determinants: Evidence from The Indian Corporate Sector". *International Journal of Management and Information Technology*, 1(3): 1-12.
- Ray, D.S., (2013), "Investigating Capital Structure Determinants in Listed Cement Companies of India". *Financial and Quantitative Analysis*, 1(3): 47-58.
- Riyaz Ahmed, K., (2012), "Determinants of Capital Structure: A Case of Automobile Manufacturing Companies Listed in NSE". *International Journal of Marketing, Financial Services and Management Research*, 1(4): 47-52.
- Rogerson P.A., (2001), *Statistical Methods for Geography*, Sage, London.
- Ross, S.A., Westerfield, R.W., & Jaffe, J., (2005), in Literature Review On the Concept of Capital Structure Finance Essay.
- Retrieved December 2017, from UKessays.com: <http://www.ukessays.com/dissertation/literature-review/the-conceptof-capital-structure.php#ixzz2zauL4MDn>
- Sabir, M. and Malik, Q.A., (2012), "Determinants of Capital Structure – A Study of Oil and Gas Sector of Pakistan". *Interdisciplinary Journal of Contemporary Research in Business*, 3(10): 395-400.
- Saeed et al., (2014), "Capital Structure and Its Determinants: Empirical Evidence from Pakistan's Pharmaceutical Firms". *Journal of Basic and Applied Scientific Research*, 4(2): 115-125.
- Sathyanarayana, S. and Malvalli, N., (2015), "An Analytical Study on the Determinants of Capital Structure in Indian Automobile, IT and Hotel Sectors". In *Twelfth AIMS International Conference on Management*, India.
- Sathyanarayana, S., Harish, S., and Kumar, H., (2017), "Determinants of Capital Structure: Evidence from Indian Stock Market with Special Reference to Capital Goods, FMCG, Infrastructure and IT sector". *SDMIMD Journal of Management*, 8(1): 75-83.
- Scott, J., (1977), "Bankruptcy, Secured Debt, and Optimal Capital Structure". *The Journal of Finance*, 32(1): 1-19.
- Shenoy, C., and Koch P., (1996), "The Firm's Leverage-Cash Flow Relationship". *Journal of Empirical Finance*, 2: 307-331.
- Singh, A. and Hamid, J., (1992), *Corporate Financial Structures in Developing Countries*, IFC Technical Paper No. 1, International Finance Corporation, Washington D.C.
- Sinha, S. and Samanta, P.K., (2014), "Determinants of Capital Structure of Selected Indian Cement Companies-A Quantile Regression Approach". *Vidyasagar University Journal of Commerce*, 19(1): 85-99.

- Song, H., (2005), "Capital Structure Determinants an Empirical Study of Swedish Companies". In *International Ph.D. Workshop 'Innovation, Entrepreneurship and Growth* Royal Institute of Technology Stockholm.
- Thies, C.F., and Klock, M.S., (1992), "Determinants of Capital Structure". *Review of Financial Economics*, 1(2): 40-53.
- Titman, S., and Wessels, R., (1988), "The determinants of capital structure". *Journal of Finance*, 43: 1-19.
- Tiwari, A.K. and Krishnankutty, R., (2014), "Determinants of Capital Structure: Comparison of Empirical Evidence for The Use of Different Estimators". *Theoretical and Applied Economics*, 21(12): 63-82.
- Wald, John K., (1999), "How Firm Characteristics Affect Capital Structure: An International Comparison". *Journal of Financial Research*, 22(2): 161-187.
- Yadav, C.S., (2014), "Determinants of The Capital Structure and Financial Leverage: Evidence of Selected Indian Companies". *Asia Pacific Journal of Research*, 1(12): 121-130.
- Zarebski, P. and Dimovski, B., (2012), "Determinants of Capital Structure of A-Reits and The Global Financial Crisis". *Pacific Rim Property Research Journal*, 18(1): 3-19.
- Zeckhauser, R.J. and Pound, J., (1990), "Are large shareholder's effective monitors? An investigation of share ownership and corporate performance". *Corporate Finance and Investment*, University of Chicago Press.
- Zubairi, H.J. and Farooq, S., (2014), "Factors Influencing the Capital Structure in Pakistan". *Pakistan Business Review, Journal of Economic Literature*, 16(2): 211-231.

# NON-PERFORMING LOAN AND ASSET UTILIZATION OF BANKS: EVIDENCE FROM BANGLADESH

Mohammad Ziaul Islam

Shormin Aktar

Mohammad Awal Hossen

Mohammad Saiful Islam\*

## Abstract

*The purpose of the research paper is to investigate the impact of non-performing loan (NPL) on return on asset (ROA) of banks in a least developed country as Bangladesh. The research employs a sample size of 40 consisting of the data of non-performing loan ratio against return on asset ratio for last 10 years (2008-2017) generated from four categories of banks namely- State Owned Commercial Banks (SCBs), Specialized Banks (SBs), Private Commercial Banks (PCBs) and Foreign Commercial Banks (FCBs). The paper provides empirical evidence that non-performing loan has significant impact on return on asset of Bank. This study will help the policy makers to maintain desired level of NPL ratio for ensuring ROA targeted by the bank. This research seems to be the first attempt to address such an issue in the context of Bangladesh because most of the literature shows impact of NPL on profitability only ignoring the issue of asset utilization of banks.*

**Keywords:** *State Owned Commercial Banks (SCBs), Specialized Banks (SBs), Least Developed Country (LDC), Return on Assets (ROA), Money Market*

**JEL Classification:** E22, E44, M15

## 1. Introduction

Banks are the most promising as well as established institutions of any economy nowadays which play crucial role in the economic development as financial intermediary through mobilization of fund. Banks channel funds from the surplus units (depositors) to deficit units (borrowers). As a result of this intermediation process, banking sector is pivotal in the economic growth and stability of any country. Modern trade and commerce would almost not be possible in the absence of banking products and services (Chowdhury and Ahmed, 2009). Bangladesh as a least developed country is also dependent mostly on the banks for its financial transactions. Commercial banks are playing major role to the growth of the economy of Bangladesh. Greuning and Bratanovic

---

\* Mohammad Ziaul Islam is at the Leading University, Bangladesh.

Shormin Aktar is at the Leading University, Bangladesh.

Mohammad Awal Hossen is Lecturer, Jessore University of Science and Technology, Bangladesh

Mohammad Saiful Islam is Lecturer (Banking), Leading University, Bangladesh.

(2003) argued that commercial banks have a critical role to emerging economies in which most borrowers have no access to capital markets. Commercial banks which are functioning well accelerate economic growth whereas poorly functioning commercial banks are obstacle to economic progress (Khan and Senhadji, 2001, Richard, 2011). Financial performance is a subjective measure of how well banks are utilizing their assets from primary mode of business and generate revenue. This term is also used to measure overall financial health of a firm over a certain period of time, and are useful to compare similar firms in the same industry or in comparison to industries or sectors in aggregation.

The theme of non-performing loan (NPL) has fascinated more attention in recent decades especially in asian countries. Non-performing loan means those financial assets from which banks no longer receive interest or installment payments according to schedules. Banks have sophisticated impaired loans before the event of bankruptcy. Hence, the huge amount of bad loans in the banking system generally consequences bank failure. The NPL constitutes the problem of economic stagnation. The minimization of NPL is an obligatory condition for improving economic growth. Non-performing loan is a major worsening factor for the performance of banks more than a decade in the banking sector of Bangladesh (Ahmed, 2005). NPL is viewed as an obverse mirror image of an ailing unprofitable enterprise (Muniappan, 2002). Well capitalized banks face lower need to external funding and lower bankruptcy and funding costs; and this facilitates into profitability (Bourke, 1989; Abreu and Mendes, 2002; Naceur, 2003). Malimi (2017) found that capital adequacy and profitability posed insignificant impact on non-performing loans whereas loans to asset ratio and interest margin had a significant influence.

In several existing literatures mostly show the impact of NPL on profitability. Research evidence rarely found that has taken into consideration the impact of NPL on return on asset (ROA). Besides, no evidence has been found that can show the forecasted required level of controlled NPL against targeted level of ROA. To meet up the gaps of existing literatures, **the aim of research paper** is to investigate the impact of NPL on ROA in the banking sector of Bangladesh. Besides, another objective of the research paper is to develop a regression model to forecast the required level of controlled NPL for four categories of bank against the desired level of targeted ROA.

The paper consists of following four sections. Section 2 depicts the literature review to find out research gap which is followed by the research methodology in section 3. Section 4 describes the statistical results and discussions. Finally, section 5 concludes the paper together with recommendations.

## 2. Review of Literature

Islam and Nishiyama (2016) described the moral hazard problem between the bank management and the depositors as well as the bank management and the shareholders. They showed that the adverse selection of borrowers by the bank significantly increase the bank's credit risk. NPL can be orchestrated as the signal of banking crisis (Reinhart and Rogoff, 2011). There is strong relationship between the credit risk and the household disposable income, rate of unemployment and the monetary conditions of a country (Rinaldi and Sanchis, 2006). Keeton and Morris, 1987 investigated that banks face greater loss for excess lending in higher risk. Banks credit portfolios are significantly ascertained



by the regulatory capital and the management quality of banks in the developed and emerging economies (Ahmad and Ariff, 2007).

Messai and Jouini (2013) detected the problem loans as negatively related with the growth rate of GDP, the profitability of banks' assets and positively with the unemployment rate, the loan loss reserves to total loans and the real interest rate. Economic growth and real interest rate are significant determinants of bad loans in the sub-saharan african countries (Fofack, 2005). Muniappan (2002) argued that a bank with high level of NPL is forced to incur carrying costs on non-income yielding assets that not only strike at profitability but also at the capital adequacy of a bank, and in consequence, the bank faces difficulties in augmenting capital resources. Kwack (2000) found that the 3-months LIBOR interest rate and NPL rates of banks were the major determinants of the asian financial crisis.

Balango and Rao (2017) showed that there is a significant relationship between performance (in terms of profitability) and the amount of non-performing loans (in terms of loan performance and capital adequacy) where non-performing loans have significantly negative impact whereas capital adequacy ratio has positive and relatively insignificant impact on return on asset (ROA). Lata (2015) found that non-performing loans of state owned commercial banks is very high where they held more than 50% of total NPL of the banking industry in Bangladesh from FY 2006 to FY 2013. Mondal (2016) examined that non-performing loan is negatively sensitive to inflation rate and interest rate spread and positively sensitive to GDP and unemployment rate.

Alam et al. (2015) identified the causes (fund diversion, political and board of directors' interference, political instability, engagement of corrupt bankers, aggressive banking due to enhanced competition, falling in real estate business, weak monitoring and lack of coordination of related parties) of significant increase of non-performing loans with their impact on the sustainability of the banking industry of Bangladesh. Akter and Roy (2017) investigated that non-performing loan was very high holding more than 50% of total loans which had significant negative impact on net profit margin of listed banks in Dhaka Stock Exchange (DSE) for the year 2008 to 2013.

### **3. Research Methodology**

This study aims at assessing the NPL status and its impact on ROA of banking industry of least developed country as Bangladesh.

#### **3.1 Sample Size**

The initial sample size of this study is 40 consisting of NPL ratio against ROA ratio data of last 10 years generated from four categories of banks- SCBs, SBs, PCBs and FCBs.

#### **3.2 Sources of Data**

The research paper is based on secondary data only. The kernel of the research was developed based on secondary data which were collected from annual reports (from 2008 to 2017) of Bangladesh Bank. Table-4 of appendix represents numerical data used for the study.

#### **3.3 Data and Description of the Variables**

The dependent variable is return on asset (ROA) ratio and the independent variable is non-performing loans (NPL) ratio.

### 3.4 Test of Hypothesis

In this study, following hypothesis have been developed:

$H_0$ : The coefficient of determination in the population is zero.

$H_1$ : The coefficient of determination in the population is not zero.

Due to the nature of variables and availability of information, analysis of variance (ANOVA) has been used to test the above hypothesis. The statistical method of F-test has been used at 5% level of significance to identify whether there is significant relationship between return on asset (ROA) and non-performing loan (NPL). In this regard, null hypothesis will be accepted if the calculated p value is greater than 0.05 and null hypothesis will be rejected if the calculated p value is less than 0.05 at 5 percent level of significance.

### 3.5 Linear Regression Model

Linear regression model has been developed using SPSS. The standardized regression model is:

$$ROA = \alpha_0 + \beta_1 NPL \quad (i)$$

Where, ROA is the dependent variable which is to be estimated against NPL,  $\alpha_0$  = intercept which represents the estimated value of ROA when NPL is zero,  $\beta_1$  = average change in ROA for each percent change in NPL. NPL is the independent variable that is fixed in advance.

## 4 Statistical Results and Discussions

For econometric analysis, return on asset (ROA) has been considered as dependent variable and non-performing loan (NPL) has been taken into consideration as independent variable. Findings of the study have been categorically discussed in the following subsections:

### 4.1 Results of Test of Hypothesis

From the table-1 of appendix, it has been found that the p value is 0.000 which is less than 0.05. Hence, the null hypothesis is rejected. As a result, there is significant relationship between the independent variable named non-performing loan (NPL) and dependent variable named return on asset (ROA). Besides, the value of  $R^2$  is 0.656 according to table-2 of appendix which indicates that there is positive correlation between the independent and dependent variable.

### 4.2 Results of Regression Analysis

Based on the equation (i) the fitted regression model has been constructed as,

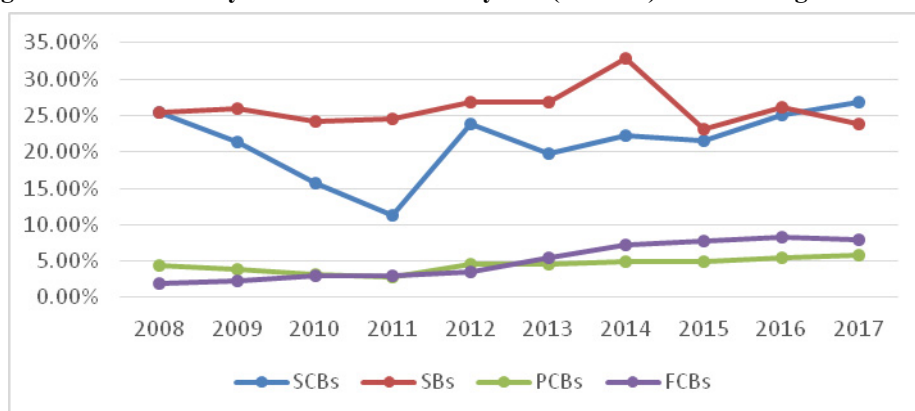
$$ROA = 2.609 + (-0.810) NPL \quad (ii)$$

According to table-2 of appendix, the value of coefficient of determination,  $R^2$  is 0.656 or 65.60% which indicates that around 66% of variation in the dependent variable (ROA) can be explained by the independent variable (NPL) in the above mentioned

regression model. The value of adjusted  $R^2$  is 0.647 or 64.70% which suggests that addition of other independent variable can make significant contribution to explain the variation in the dependent variable.

### 4.3 Trend Analysis

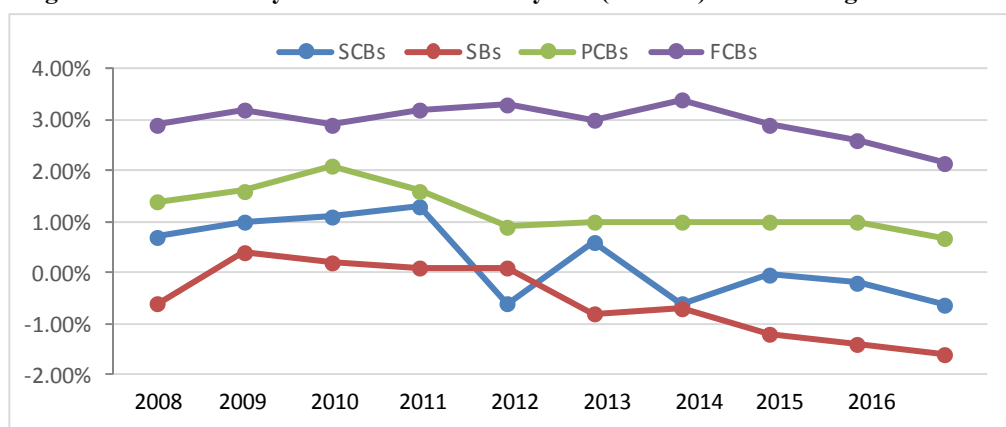
**Figure 01: Trend analysis of NPL of last ten years (2008-17) in four categories of bank**



Source: Annual Report 2008-2017, Bangladesh Bank

Above figure provides information about past ten years NPL ratio of four categories of bank namely SCBs, SBs, PCBs and FCBs where SCBs and SBs have gradually increasing but rapidly fluctuating NPL compared to other categories of bank. It can be clearly seen that NPL is higher in both SCBs and SBs whereas SCBs had plunging NPL in earlier four years. Later on their NPL started increasing dramatically. The NPL of both PCBs and FCBs is also increasing gradually in recent years. Noticeably, the trends are upward which indicate that the non-performing loans are rising in all categories of bank together.

**Figure 02: Trend analysis of ROA of last ten years (2008-17) in four categories of bank**



Source: Annual Report 2008-2017, Bangladesh Bank

The above graph denotes information about previous ten years ROA of four categories of bank. It is clearly seen that specialized banks have ROA with negative figure which is result of increased level of NPL as evidenced from the value of  $R^2$  (64.70%). Besides, state owned banks have downward return on asset which are half of the private commercial banks in most of the years that is also a consequence of the upward movement of NPL level. It is also clear that private commercial banks maintain positive ROA. Noticeably, foreign commercial banks have highest ROA among all categories of bank but they are also facing downward movement due to their lending behavior. Astonishingly, the return on asset in all categories of bank shows downward trend indicating that majority of assets are getting non-performing.

## 5 Conclusions and Recommendations

It has been found from the study that NPL ratio has statistically significant negative impact on ROA ratio. However, NPL ratio covers only 65.60% variations in ROA but as a single variable it seems a significant determinant of ROA. Hence, banks need to control the NPL ratio with proper credit assessment and recovery measures mainly in state owned commercial banks and specialized banks as asset utilization problem is acute in these two categories of bank resulting gradual declining ROA even negative especially in last four years. However, controlling NPL ratio for both these categories of bank is urgent need as the trend analysis also shows that NPL and ROA of both these categories of bank are deteriorating rapidly compared to other two categories of bank. It has been recommended that it will be more difficult for the banks to maintain targeted level of ROA with reasonable lending interest rate maintaining regularly interest rate spread of 5 percent if the loan assets cannot be utilized properly to generate return. Hence, banks need to be well furnished to face the challenge of asset utilization by focusing on controlling NPL ratio urgently.

## References

- Abreu, M., and Mendes, V., (2002), Commercial Bank Interest Margins and Profitability: Evidence from E.U Countries. *Porto Working Paper Series*. Pp. 1-10.
- Ahmad, N., H., and Ariff, M., (2007), *Multi-country study of bank credit risk determinants*. International Journal of Banking and Finance (IJBF), 5(1), pp. 35-52. ISSN 1675-7227.
- Ahmed, K.T., (2005), Management of Non-Performing Loans, *Bank Parikrama BIBM*, 30(2), pp. 51-65.
- Akter, R., and Roy, J.K., (2017), The Impacts of Non-Performing Loan on Profitability: An Emperical Study on Banking Sector of Dhaka Stock Exchange. *International Journal of Economics and Finance*; 9(3), pp. 126-132. <https://doi.org/10.5539/ijef.v9n3p126>
- Alam, S., Haq, M., and Kader, A., (2015), Nonperforming Loan and Banking Sustainability: Bangladesh Perspective, *International Journal of Advanced Research*, 3(8), pp. 1197-1210, ISSN 2320-5407.

- Balango, T.K., and Rao K.M., (2017), The effect of NPL on profitability of banks with reference to commercial bank of Ethiopia, *Business and Management Research Journal*, 7(5), pp. 45-50.
- Bourke, P, (1989), Concentration and other Determinants of Bank Profitability in Europe, North America and Australia, *Journal of Banking & Finance*, 13(1), pp. 65-79. [https://doi.org/10.1016/0378-4266\(89\)90020-4](https://doi.org/10.1016/0378-4266(89)90020-4)
- Chowdhury, T.A., & Ahmed, K., (2009), Performance Evaluation of Selected Private Commercial Banks in Bangladesh. *International Journal of Business and Management*, 4(4), pp. 86. ISSN 1833-3850 (Print) ISSN 1833-8119 (Online). <http://dx.doi.org/10.5539/ijbm.v4n4p86>
- Fofack, H., (2005), Non-performing loans in Sub-Saharan Africa: Causal Analysis and Macroeconomic Implications. *World Bank Policy Research Working Paper No 3769*. Retrieved from [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=849405](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=849405) [Accessed on 10 May, 2018]
- Greuning, H., and Bratanovic S.B., (2003), Analyzing and Managing Banking Risk: A Framework for Assessing Corporate Governance and Financial Risk, The World Bank, 2<sup>nd</sup> edition, Washington DC, 2003.
- Islam, S., and Nishiyama, S.I., (2016), The Determinants of Non-Performing Loans: Dynamic Panel Evidence from South Asian Countries, *Tohoku Economics Research Group*, Graduate School of Economics and Management Tohoku University, Japan.
- Keeton, W.R., & Morris, C.S., (1987), *Why Do Banks' Loan Losses Differ?* *Economic Review*, 72(5), pp. 3-21.
- Khan, M.S., & Senhadji, A.S., (2001), Threshold Effects in the Relationship between Inflation and Growth. *IMF Staff Papers*, 48(1), pp. 1-21.
- Kwack, S.Y., (2000), An Empirical Analysis of the Factors Determining the Financial Crisis in Asia, *Journal of Asian Economics*, 11(2), pp. 195-206. [https://doi.org/10.1016/S10490078\(00\)00050-6](https://doi.org/10.1016/S10490078(00)00050-6)
- Lata, R.S., (2015), Non-Performing Loan and Profitability: The Case of State Owned Commercial Banks in Bangladesh. *World Review of Business Research*, 5(3), pp. 171-182.
- Malimi, K., (2017), The Influence of Capital Adequacy, Profitability, and Loan Growth on Non-Performing Loans a Case of Tanzanian Banking Sector. *International Journal of Economics, Business and Management Studies*, 4(1), pp. 38-49.
- Messai, A.S., and Jouini, F., (2013), "Micro and Macro Determinants of Non-Performing Loans". *International journal of economics and financial issues*, 3(4), pp. 852.
- Mondal, T., (2016). Sensitivity of Non-Performing Loan to Macroeconomic Variables: Empirical Evidence from Banking Industry of Bangladesh. *Global Journal of Management and Business Research*, 16(4), pp. 21-28.
- Muniappan, G.P., (2002), The NPA Overhang-Magnitude, Solutions, Legal Reforms. *Reserve Bank of India Bulletin*, pp. 18-19. Available at [https://www.rbi.org.in/scripts/BS\\_SpeechesView.aspx?Id=104](https://www.rbi.org.in/scripts/BS_SpeechesView.aspx?Id=104) [Accessed on 10 July, 2017]
- Naceur, B.S., (2003), "Bank Capitalization and Performance in Tunisia", *Universite. Librede Tunis*, Avenue Khereddine Pacha, 100(2). pp. 1-10.
- Reinhart, C.M., and Rogoff K.S., (2011), From Financial Crash to Debt Crisis. *American Economic Review*, 101(5), pp. 1676-1706. <https://doi.org/10.1257/aer.101.5.1676>

- Richard, E., (2011), Factors that cause non-performing loans in commercial banks in Tanzania and strategies to resolve them. *Journal of management policy and practice*, 12(7), pp. 50.
- Rinaldi, L., and Sanchis, A.A., (2006), Household Debt Sustainability: What Explains Household Non-Performing Loans? An Empirical Analysis (January 2006). *ECB Working Paper*, No. 570. Available at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=872528](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=872528) [Accessed on 12 July, 2017]

## APPENDIX

Table -01

ANOVA <sup>a</sup>					
Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	53.097	1	53.097	72.477
	Residual	27.839	38	.733	.000 <sup>b</sup>
	Total	80.936	39		
a. Dependent Variable: ROA					
b. Predictors: (Constant), NPL					

Table -02

Model Summary <sup>b</sup>										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.810 <sup>a</sup>	.656	.647	.85593	.656	72.477	1	38	.000	.512
a. Predictors: (Constant), NPL										
b. Dependent Variable: ROA										

Table -03

TABLE 65

Coefficients <sup>a</sup>													
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	2.609	.235		11.105	.000	2.133	3.084					
	NPL	-.115	.014	-.810	-8.513	.000	-.142	-.088	-.810	-.810	.810	1.000	1.000

a. Dependent Variable: ROA

Table -04

Year	NPL (%)				ROA (%)			
	SCBs	SBs	PCBs	FCBs	SCBs	SBs	PCBs	FCBs
2008	25.4	25.5	5.0	1.9	0.7	-0.3	1.3	3.1
2009	21.4	25.9	4.4	2.3	1.0	-0.6	1.4	2.9
2010	15.7	24.2	3.9	3.0	1.1	0.4	1.6	3.2
2011	11.3	24.6	3.2	3.0	1.3	0.2	2.1	2.9
2012	23.9	26.8	2.9	3.5	-0.6	0.1	1.6	3.2
2013	19.8	26.8	4.6	5.5	0.6	0.1	0.9	3.3
2014	22.2	32.8	4.5	7.3	-0.6	-0.8	1	3
2015	21.5	23.2	4.9	7.8	-0.04	-0.7	1	3.4
2016	25.1	26.0	4.6	9.6	-0.20	-1.2	1	2.9
2017	26.8	23.8	5.8	7.9	-0.63	-1.4	1	2.6

Source: Banking Regulation and Policy Department, Bangladesh Bank.

# THE INFLUENCE OF FISCAL PRESSURE ON PERFORMANCE ADMINISTRATION OF THE FISCAL SYSTEM IN ROMANIA

Nedelescu Dumitru Mihai\*,  
Croitoru Elena Lucia\*\*

## Abstract

*In both, literature and practice, the terms of competitiveness, modernization, coherence and efficiency are increasingly used when it comes about the tax system in general, with its components, and especially with the first component, the tax system. In this regard, it is envisaged to set fiscal policy on a normality by targeting a competitive, coherent and efficient tax system that maximizes efficiency for a nation's economic and social life under controlled fiscal pressure. Thus, we believe that the problem of efficient administration of the entire fiscal system and not only of the fiscal activity had to be posed, which would lead to a fiscal optimum, which all states, including Romania, are looking for.*

**Keywords:** *fiscal pressure, fiscal system, tax, competitiveness*

**JEL Classification:** H24, H25, H27

## 1. Fiscal revenues- the main component of the fiscal system.

In a market economy, taxes and duties as part of the tax system are one of the most important fiscal policy instruments that the state uses in social and economic activities. From the analysis of the budgetary laws in Romania, between 2008 and 2017, it can be noticed that the public financial revenues come from 92-95% of fiscal revenues (taxes, duties and other fiscal contributions), so fiscal pressure plays an important role in achieving the fiscal optimum.

---

\* Author Nedelescu Dumitru Mihai is Lecturer at the Romanian American-University, Bucharest, e-mail: nedelescu.dumitru.mihai@profesor.rau.ro

\*\* Author Elena Lucia Croitoru is Assistant Professor at the Romanian American-University, Bucharest, e-mail: lucia.croitoru@profesor.rau.ro



**Table no. 1 Main components of the fiscal system**

Year	State Budget	Corporate tax	Income tax	VAT	Excise duties	Custom duties
2008	95305,3	13039,9	18413,9	40873,6	13660,5	970,7
2009	86883,8	10617,1	18551,4	34322,4	15518,6	679,4
2010	95937,6	10090,9	17858,3	39246,0	17247,1	592,3
2011	106357,7	10289,2	18849,4	47917,4	19025,7	669,3
2012	113952,6	10824,7	20732,4	50516,0	20171,6	707,5
2013	117688,6	10893,2	22514,0	51827,0	21016,5	620,0
2014	123145,7	12190,3	23441,7	50878,5	24000,6	643,0
2015	137461,3	13772,7	26337,9	57132,2	25918,0	816,0
2016	137467,7	15394,7	27454,0	51675,1	26854,9	882,7
2017	142404,3	14691,3	29930,2	53543,7	26491,1	933,3

Source: 2008-2017 reports, [www.anaf.ro](http://www.anaf.ro)

In the period 2008-2017, the structure of tax revenues reveals that the highest share is the VAT followed by the Income Tax. The lowest contribution to fiscal revenues is recorded in the corporate tax and customs duties. If, in the case of customs duties, there is an explanation regarding the low volume of revenues paid to BGCS due to the fact that Romania's main trading partner is the EU countries, in the case of the corporate tax this evolution is difficult to explain from the point of view of the tax authorities.

**Table no. 2 Fiscal revenues by category**

Year	Direct taxes	Indirect taxes
2008	35140,3	56467,1
2009	32935,3	51176,0
2010	35739,2	57659,3
2011	36743,6	68286,4
2012	42335,1	72102,1
2013	45302,1	74083,5
2014	49051,0	76165,0
2015	53974,5	84639,2
2016	58055,0	79412,7
2017	61436,2	80968,1

Source: 2008-2017 reports, [www.anaf.ro](http://www.anaf.ro)

As we can see in table no. 2, both direct and indirect taxes have an ascending evolution, but, indirect taxes with a higher share in the total revenues. This unfavorable evolution of the direct taxes is explained by the fact that in the real economy there was no actual real economic growth that supports the increase of the profitability of the economic actors and implicitly of the employees. Thus, the tax base related to corporate tax and income tax had a continuous degradation and implicitly there was a decrease in the direct tax participation in the constitution of the public financial resources of BGCS. In the case of indirect taxes, this upward trend is due to the increase in the VAT rate towards the end of the analysis period and the change in the level of excise duties on a series of products with an increased share in the consumption of economic actors and the population.

## 2. The influence of fiscal pressure on the formation and administration of public financial resources

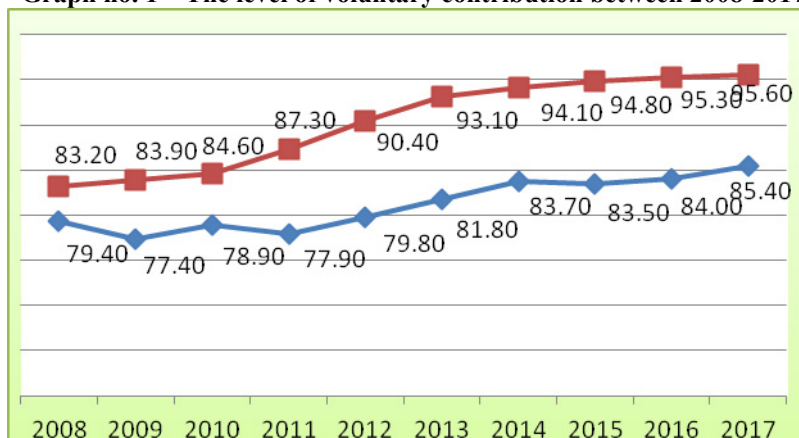
The fiscal pressure implies certain limits of taxpayers' supportability. These limits are imposed by the responses of taxpayers who can resist the increase in mandatory levies by reacting through evasion, fraud, production cutbacks, or even riots. If, up to a certain point in time, the tax is paid voluntarily by the taxpayer, at some point when taxes exceed certain limits of supportability, phenomena are created that seriously impose the state's resources in terms of collecting revenues.

Thus, fiscal pressure is defined by [Brezeanu P. (2009)] as the "relative expression of the tax burden borne by the taxpayer". Also, some authors [Talpos I, Enache C. (2001)] appreciate that the pressure "signifies how overwhelming the taxes are, or, in other words, how big the tax burden is on the taxpayer's shoulders."

Regardless of the way of defining, [Ungureanu M.A. (2013)] consider that the fiscal pressure can be interpreted from the perspective of taxpayer and state:

- *“From the perspective of the taxpayer.* Tax pressure expresses the degree of taxpayer's submission to the tax burden imposed by law. The magnitude of the fiscal pressure, in this case, shows what percentage of the income, which is the taxable matter, will be taken away for the general needs of society. The increase in the fiscal pressure coefficient indicates an increase in levies to the state budget and, respectively, a reduction in the revenue left to the taxpayer.
- *From the perspective of the state receiving the tax.* The magnitude of fiscal pressure indicates what part of the national income created by taxpayers is to be formed in tax revenue. For the state, the increase in fiscal pressure means an improvement in the public expenditure financing mechanism, while a fall in fiscal pressure influences the level of the budget deficit.”

**Graph no. 1 – The level of voluntary contribution between 2008-2017**



Legend:

Voluntary compliance to payment

Voluntary compliance to filling tax declarations

Source: 2008-2017 reports, [www.anaf.ro](http://www.anaf.ro)

Fiscal pressure is burdening, taxpayers are trying to circumvent the law and the state put pressure on them through new taxes or increasing existing ones plus excessive bureaucracy. However, as we can see in Graph no. 1, in the analyzed period, the level of both voluntary compliance to payment and to filling tax declaration grows. But is interest to notice that the level of voluntary compliance to filing tax declaration is higher than the voluntary compliance to payment and the difference is about 10%.

In the view of many specialists, the main cause of the increase in fiscal pressure is the continuous increase of public expenditures, the evolution of which is subject to certain economic, social and political "laws". Any significant increase in the level of taxation and, implicitly, in binding levies can bring competitiveness risks, ie price increases, declining self-financing, investment, and modernization.

Fiscal pressure on its optimal level particularly preoccupied the american economist A. Laffer, who plotted (Laffer curve), based on an idea by A. Smith - tax rates, which, if too high, could destroy the basis on which taxation is based.

Laffer estimates that there is a threshold for fiscal pressure, which can generate a reduction in tax revenue if it is overcome and may lead to taxpayer discouragement from investing, producing, working, saving.

According to the Laffer curve, the sum of mandatory withdrawals is an increasing function of the tax rate (the tax pressure rate), only up to a maximum threshold corresponding to the maximum level of the curve, after which it becomes a decreasing function of this rate, going until the cancellation if the rate reaches the theoretical level of 100%.

Laffer's curve, however, remains a purely theoretical representation of the facts presented, which does not allow for accurately identifying the measure of this tax threshold M, at which fiscal pressure can be considered excessive. This threshold varies depending on territorial and economic circumstances, so that the tax system in a particular country will be left or right on the M point [Mara E.R. (2009)]. Also, this threshold differs not only from one tax system to another, but also from one tax to another and according to taxpayers and its ability to bear the fiscal pressure.

Laffer's curve can be divided into two areas: zone I: the left area (normal or permissible area) in which the increase in the tax rate ensures the increase of receipts and zone II: the area on the right of the M point considered optimum point (the inadmissible area) where any increase in the tax rate has the effect of reducing the revenues and the correlation between the two becomes indirect.

Laffer estimates that when the maximum level is exceeded, through a reduction in fiscal pressure, it is possible to increase the yield of mandatory levies, thus re-investing the economy.

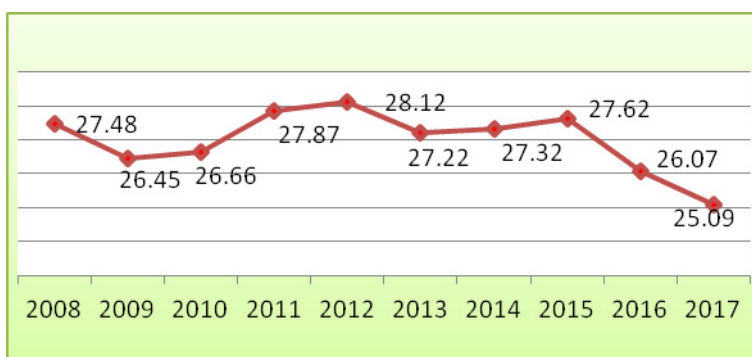
In fiscal practice fiscal revenues are mainly identified with taxes and duties, which represent the oldest and most traditional means of financing available to the state for the fulfillment of its functions and tasks, while at the same time constantly evolving. In addition, the public authority also calls for the introduction of special levies, called contributions, to ensure adequate social protection for people in difficulty.

Public finance theorists who consider social contributions as tax levy are based on the inclusion in the BGCS of the public budgets fed by the mandatory collection of these contributions, ie the state social security budget, the national health insurance budget, the

unemployment fund and other special budgets. Although social contributions are burdensome for subjects they incur as are required by law.

In view of the above, we consider it necessary to use two concepts, namely: the comprehensive concept of *mandatory levies* that includes all taxes, duties and contributions that determine the general consolidated budget; the concept of tax levy, which relates only to taxes and duties that determine state budget revenues and local budgets.

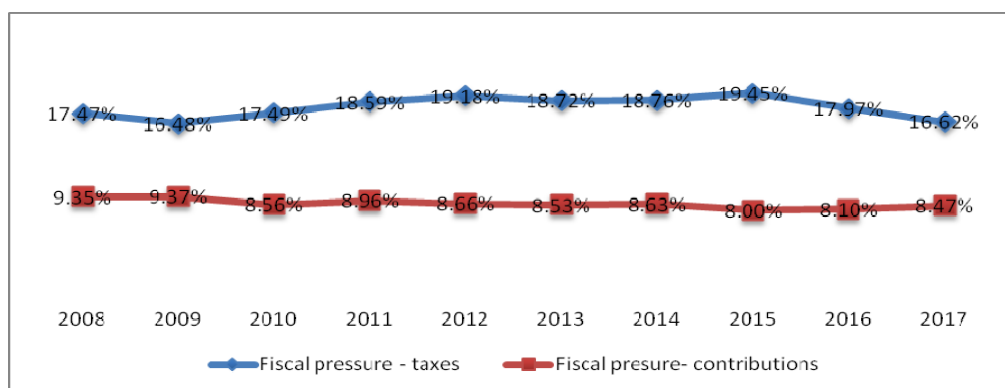
**Graph no. 2 Evolution of fiscal rate**



Source: 2008-2017 reports, [www.anaf.ro](http://www.anaf.ro)

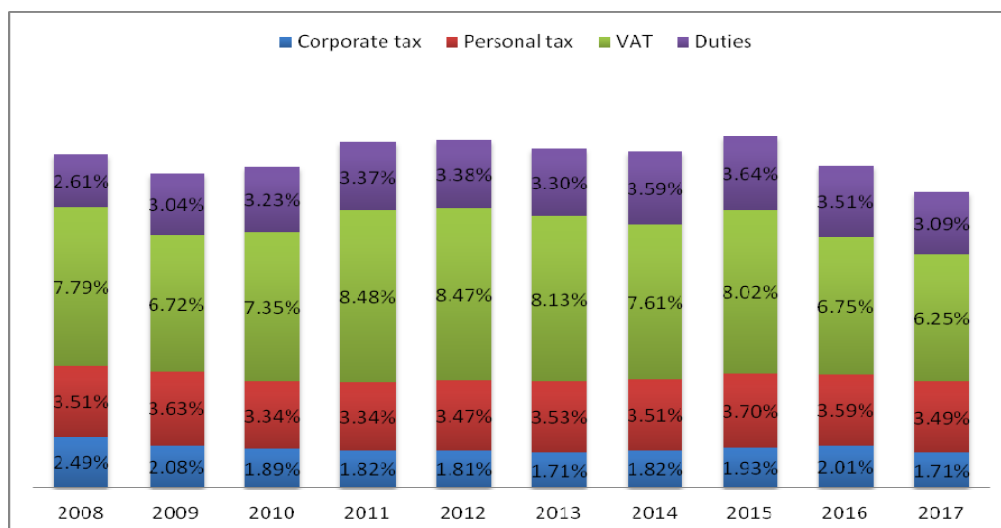
Graph no. 2 shows that in analyzed period (2008-2017) the evolution of fiscal rate, calculated by report between total fiscal revenues and GDP it's relatively constant, with an average of 26,99%, a minimum of 25,09% in 2017 and a maxim of 28,12% in 2012.

**Graph no. 3 – Fiscal pressure based on taxes and contributions**



Source: 2008-2017 reports, [www.anaf.ro](http://www.anaf.ro)

From graph no. 3 we can observe that the evolution of fiscal pressure in both cases is constant. Thus, the fiscal pressure based on taxes is higher than based on contributions, the level is double.

**Graph no 4 – Fiscal pressure based on corporate tax, personal tax, VAT and duties**

Source: 2008-2017 reports, [www.anaf.ro](http://www.anaf.ro)

Graph no 4 shows that in the analyzed period (2008-2015) the fiscal pressure, calculated on the main types of taxes contributing to the constitution of the public financial resources of BGCS, present the following evolution:

- the highest rates of fiscal pressure (6.25-8.48%) are registered in the case of VAT because it is the main tax contributing to the constitution of the public financial resources (the weight of VAT in the total fiscal revenues in 2008-2017 is of 29%);
- at the opposite end, there is corporate tax that shows the lowest tax pressure (1.17-2.49%) on the taxpayers (the share of the corporate tax in the total tax revenues in the period 2008-2017 is 7%).

### 3. Conclusions

As a result, we can state that a tax system can be managed in a performance-efficient manner under fiscal efficiency, if all three of its components tend towards harmonization, competitiveness and consistency.

Therefore, in the philosophy of efficient tax administration, we must take into account the limited nature of public financial resources, which still have a growth trend, this tendency being conditioned by the increase in public expenditures due to the general social needs of the ever-increasing society.

In conclusion, the main strategic objectives of public institutions with attributions in the efficient management of public financial resources should be structured as follows:

- reducing the volume of arrears, especially preventing the creation of new arrears;
- introduction of quality standards for the services provided;
- initiating the process of dematerialization of the fiscal file;
- stimulate on-line submission of electronic declarations and payments;
- establishment of electronic attachment to third parties;
- stimulate on-line submission of electronic declarations and payments;

- communication of administrative documents to taxpayers via e-mail.
- increasing the effectiveness of administrative sanctions (ensuring a unitary treatment of taxpayers, depending on the degree of voluntary compliance);
- implementation of electronic commerce control;
- the expansion of IT and the improvement of the computer systems used in the fiscal inspection activity (updating and updating of the database with special fiscal cases identified, implementation of the IT security policy);
- cooperation with the national structures with attributions in the fight against fiscal fraud;
- improving the control act;
- prevention of tax evasion at the collection stage; to increase enforcement measures, with emphasis on the application of seizures.

## References

- Alexandru, F., (2000), *Eficiență-echitate în materie fiscală*, Tribuna Economică, nr. 22 din 31 mai 2000.
- Brezeanu, P., (2009), *Fiscalitate. Concepte, teorii si abordari practice*. Editura Wolters, București.
- Dobrotă, G., Chirculescu, M.F., Analiza presiunii fiscale și parafiscale în România și în Uniunea Europeană, *Analele Universității “Constantin Brâncuși” din Târgu Jiu*, Seria Economie, 4/2010.
- Hoanță, N., (1997), *Evaziunea fiscală*, Tribuna Economică, București, 1997.
- Mara, E.R., (2009), *Finanțe publice. Între teorie și practică*, Editura Risoprint, Cluj- Napoca.
- Moșteanu, N.R., (2008), *Fiscalitate*, Editura Universitară, București, 2008.
- Talpos I., Enache C., (2001), *Fiscalitate aplicată*, Editura Orizonturi Universitare, Timișoara.
- Toader, S., (2007), *Evaziunea fiscală în Romania în perioada de tranziție*, Editura PRO Universitaria, București.
- Toader, S. (coord.), (2010), *Fiscalitate. Reglementare și practică fiscală*, Editura Universitară, București.
- Ungureanu, M.A. (coord.), (2013), *Politici și Practici Financiare*, Editura Universitară, București.
- Văcărel, I., (2007), *Finanțe publice*, ediția a VI-a, EDP, București.
- Croitoru E.L., (2017), “Taxation trends in the last countries who joined European Union: Romania, Bulgaria and Croatia”, *Romanian Economic and Business Review*, Volum 12, No. 3, ISSN 1842-2497, pp. 28-36 Bucharest, Romania.
- Legea 571/2003 privind Codul Fiscal, publicat în MO 927/2003 cu modificările și completările ulterioare.
- OG 92/2003 privind Codul de procedură fiscal, publicată în MO 941/2003, republicată în MO 863/2005 și rectificată în MO 974/2005, cu modificările la zi.
- www.mfinante.ro
- www.anaf.ro

# VENTURING INTO A NEW CULTURE – MAIN CHALLENGES

Roxana Bîrsanu\*

## Abstract

*Cultural exchanges have been around since the dawn of humankind; every new millennium and every new century have enriched them with new layers of meaning and complexity. In the past century, intercultural interactions have taken up speed due to an intricate blend of economic, industrial, social and technological factors. Nevertheless, precisely due to their complexity, these relationships have also been defined by a series of challenges that need to be overcome for efficient and mutually beneficial exchanges to be possible. This paper aims to investigate a series of such communication barriers, as well as the mechanisms through which they operate as threats to smooth intercultural communication in the absence of adequate and valid strategies to fight misunderstandings, ambiguity and confusion when two or more cultures come into contact.*

**Keywords:** *intercultural communication, challenges, competence, culture*

**JEL Classification:** Z10.

## 1. Introduction

The world is as diverse as it is large, and yet cultural diversity gives meaning to this immense pool of people, ideas, beliefs, values and artefacts. Exchanges among people belonging to distinct communities, groups and cultures have been a reality since the beginning of humankind, being driven by economic, social, political, educational or technological factors. But the advent of new and fast changing technological inventions in the last decades has made it easier and faster for people to connect all over the world; hence, the increased need for mechanisms necessary to cope effectively and appropriately with the distinct and sometimes downright divergent views on the surrounding world that people have inherited/formed/appropriated. Intercultural communication is the topos where cultural differences are most visible and it is also the place where misinterpretations, stereotyping and ethnocentrism are most likely to occur (cf. Georgiu 2010).

As can be noticed, intercultural interactions have quite a long history, but the concept “intercultural communication” started to receive increasing consideration from researchers in the fields of culture, communication, sociology etc. when it became apparent that cross-cultural differences and solutions on how to manage them effectively needed to be addressed in an organised and coherent manner. Scientists have strived thus to analyse and find answers to questions such as: How is it possible for persons belonging

---

\* Roxana Birsanu is at the Romanian American University in Bucharest. E-mail: roxanabirsanu25@yahoo.com

to different cultural backgrounds to communicate effectively? What influence does intercultural interaction have on people? Which is the appropriate behaviour in such situations? How do we make ourselves understood when we have to communicate with people with a distinct system of reference in terms of values, customs, beliefs etc.?

American anthropologist Edward T. Hall is credited to be the first who used the concept in one of his seminal books, *The Silent Language* (1959). It was in the seventies that intercultural communication turned into a field of study and an academic discipline in its own right. Its interdisciplinary nature stems from the fact that it relies on and brings together notions and methods of study from various other fields such as anthropology, sociology, cultural studies, psychology, communication and linguistics.

The complexity of the intercultural communication process resides, on the one hand, in the diverse nature of the communication participants – international tourists, exchange students from universities with distinct curricula, business people, migrants and researchers involved in international projects. On the other hand, there is the rich baggage that each of these actors carries with him/her in their interactions with the others: their personal traits (which pertain to an individual's personality, profession, etc.) and their social and historical features which are deeply embedded in their culture (and which they inherited and acquired through education, observation or simply subconscious assimilation). The greatest challenge is for all these communicators to create a communication event in which conflict is reduced to the minimum and the message is carried across successfully.

According to one definition of intercultural communication, it “occurs when a member of one culture produces a message for consumption by a member of another culture. More precisely, intercultural communication involves interaction between people whose cultural perceptions and symbol systems differ enough to influence the communication event” (Samovar et al. 2013, 8). These differences in perceptions and symbol systems and, actually, in all the elements that make up the above-mentioned cultural baggage of a person can turn into just as many stumbling blocks of communication. The degree to which they influence the communication event and the outcome of this influence depend on a number of factors, among which some of the most relevant are the participants' awareness of differences and their openness to deal with them effectively. Hall claims that “Difficulties in intercultural communication are seldom seen for what they are. When it becomes apparent to people of different countries that they are not understanding one another, each tends to blame it on “those foreigners”, on their stupidity, deceit or craziness” (Hall 1959, 15). It is always more convenient to see the others as the source of difference, but however frustrating foreignness may prove to be sometimes, for the sake of successful communication it is useful to also see ourselves as the Other. This change of perspective is a good exercise to embrace differences and to realize that actually our perception on the world and reality does not hold the value of absolute validity.

Nobody can claim that the contact between individuals pertaining to distinct cultures is easy. There is even a similarity-attraction hypothesis, according to which there is a higher likelihood for people to prefer the company of other persons with whom they share important features – hobbies, skills, age, language, beliefs etc. But “since cultural identification by definition categorises people according to the idiosyncratic



characteristics which distinguish them from other groups, it follows that cross-cultural interactions occur between individuals who are likely to be dissimilar on at least some of these salient dimensions” (Ward et al. 2005, 9).

In this paper, our aim is to look at a number of issues that may pose a threat to successful intercultural communication. In fact, every aspect in which one’s own culture manifests itself fully might represent a potential obstacle to communication across distinct groups/communities/individuals. We should mention that the higher the level of cultural specificity, the higher the likelihood for it to generate if not a cultural clash, at least certain gaps that need to be filled through negotiation and cooperation.

## 2. Analysis

Communication is one of the favouring factors that have ensured the progress of humanity. The exchange of ideas, opinions, techniques, methods and strategies for survival, work and cooperation has greatly contributed to the picture of the world as it is today and will continue to shape its form in the future. However, the communication flow has not always been smooth and has often been disrupted by a number of stumbling blocks. It is a known fact that not even interpersonal communication that occurs even among individuals sharing the same cultural heritage and patterns of behaviour and thinking is devoid of challenges. Imagine how much more challenging communication must be when it occurs among persons pertaining to different cultures!

The challenges of intercultural communication may be organised on levels of relevance, depending on the extent to which they impact the outcome of the communication event and on how readily identifiable they are to communicators. *Verbal communication* holds one of the top positions of relevance in the context of intercultural exchanges and it is also visible at the surface of the communication process. Edward T. Hall expresses clearly why language, one of humans’ favourite tools for communication, can simultaneously turn into a barrier: “The paradox of culture is that language, the system most frequently used to describe culture, is by nature poorly adapted to this difficult task. It is too linear, not comprehensive enough, too slow, too limited, too constraint, too unnatural, too much of a product of its own evolution, and too artificial. This means that the writer [in our case, communicators in general] must constantly keep in mind the limitations language places upon him” (1959, 57).

As can be noticed, Hall finds numerous faults with this communication tool which is language and which, paradoxically again, is a human feat by definition. But he is right, since the linguistic barrier can take many forms and can impede communication to varying degrees, from simple misunderstanding and frustration (in casual conversations, when travelling for pleasure, when receiving/offering directions) to diplomatic crises (in case of mistranslation of official documents or cases of misinterpretation).

The obstacle represented by language is defined by multiple factors. One is the mastery of the common language that is supposed to be used by interlocutors. This involves language fields such as grammar, syntax and vocabulary. The use of language adjusted to the audience/interlocutor in terms of vocabulary relevance or education level may increase the chances of a successful exchange of information. Another important element refers to jargon (use of specialised terminology – sports, medicine, technical

branches etc.) and slang; these are categories of language that might pose comprehension problems for persons sharing the same language, let alone when there is transfer from one language into another. Again, being aware of the interlocutor's familiarity with the topic of conversation is of utmost relevance, as is the degree of formality of the interlocutors' relationship in the use of slang. Finally, dialects and accents are also to be considered potential problems in communication. One may have a very good command of English, but when faced with a speaker of Cockney or of some pidgin variety, the interaction may be seriously affected.

Difficulties may also appear depending on whether communicators use spoken or written language. Most problems occur in the case of written language, when expressing formality. Users should be aware that each language has its own standards of expressing it which have to be complied with for effective communication to occur. For instance, the salutation formula in an English business letter includes the term "dear" (as in "Dear Mr. Jones"), which can be used even if the receiver is unknown ("Dear Sir/Madam"). The same term is unacceptable, though, in formal correspondence in Romanian, Spanish or French.

While verbal communication may be a barrier with a certain degree of expectancy (everyone knows the level to which they master a foreign language and, if there is no knowledge of the interaction language, they know that a translator/interpreter is needed), the situation is different in the case of *nonverbal communication*. This form of communication comprises many components: body language, proxemics, haptics, chronemics, but also seating arrangements, furniture, or elements such as pauses and silence. In the case of nonverbal communication, the difficulty resides in the variability of the meaning assigned to all the above-mentioned elements across cultures. The variability scale is very wide, and ranges from positive to negative interpretations attributed to the same nonverbal cue. A relevant example is the victory sign, which has positive connotations in the USA and negative ones in some Arab countries. To further complicate things, the interpretation of the V-sign differs drastically in the UK, where it is positive if the palm faces the receiver and negative if the palm faces the signer.

While pauses have more or less international values (we pause when we want to emphasize a point or a concept, when we want the content to set in with the audience or when we signal that we expect our interlocutor's intervention), silence has more complex and nuanced values. Western cultures do not have a high appreciation of silence, and it is often quite difficult to assign a certain meaning to it, since it can signal lack of interest or agreement, but also anger or contempt. Not the same can be said about most Asian cultures, where silence is used as a highly valued component of communication. "One of the basic building blocks of competence, both linguistic and cultural, is knowing when to speak in a particular community. Therefore, to understand where and when to be silent, and the meaning attached to silence, is to gain a keen insight into the fundamental structure of communication in that world" (Braithwaite qtd. in Samovar et al. 2013, 302).

In Japan, for instance, communicators are expected to infer much of the meaning of an exchange from what is left unsaid. Silence is also considered a useful strategy for avoiding conflict and awkward situations, but also instils credibility in the listeners, since it is believed that someone who speaks a lot does so in order to fill up space with useless information. Yet another interpretation of silence prevalent in Eastern societies is also

common to Nordic ones, which use absence of talking and interfering as a sign of interest and respect. Imagine, thus, an encounter between an Indian and a Spaniard; their interaction would end up in complete failure unless they do their homework in intercultural specificity beforehand. Awareness of silence patterns is of particular relevance in business, where faux pas caused by such examples of ignorance in cultural issues might completely break the deal.

The relationship and the depth of knowledge we have of our own culture with its inherent value systems and beliefs dictates to a certain degree the way we perceive other cultures with their own systems, forms of manifestation and patterns of behaviour. Whenever people are not certain about the worth of their own inherited cultural values, they tend to regard members of another cultural community with the same degree of uncertainty. In order to make sense of their own universe and of that of others, they resort to stereotypes. *Stereotyping* is assigning attributes to groups of people based on general assumptions and presuppositions related to features and behaviours of those other groups.

The formation of stereotypes is influenced by a variety of factors such as mass media, family and friends or education experience. There are positive sides to stereotyping, which create expectations and help us cope with new situations – all Germans are hardworking, all neurosurgeons are bright, old people are more patient. But, when it is taken to the extreme, stereotyping generates discrimination, contempt and difficulties in establishing solid relationships. An example of stereotype which has been quite recently generated and which is mentioned by Patel et al. refers to the image reflected on all Muslims by the tragic events of September 11<sup>th</sup> at the Twin Towers of New York. In the aftermath of the tragedy, a new stereotype of Muslims emerged according to which they are all terrorists, with unpleasant consequences for them, from customs checks to immigration-related issues (2011, 144). Many times, intercultural interactions start off from such stereotypes and the personal experience in an intercultural context may confirm, generate or destroy such preconceived opinions.

Ready-formed and inflexible views of a distinct cultural system may take quite a radical turn under the form of *ethnocentrism*, a filter through which people judge the non-members of the groups to which they belong. Ethnocentrism is “the notion that one’s own culture is superior to any other. It is the idea that other cultures should be measured by the degree to which they live up to our cultural standards. We are ethnocentric when we view other cultures through the narrow lens of our own culture or social position” (Nanda and Warms qtd. in Samovar et al. 2013, 239). Obviously, adopting an ethnocentric perspective while trying to get engaged in intercultural interactions not only impedes a successful outcome of the communication event, but may also prevent it from happening altogether.

Ethnocentrism is deemed to have three levels: positive, negative and radical. The first one, which reflects a person’s preference for one’s own culture, is natural and may even prove to have beneficial results; foreigners might be tempted to with and become better acquainted with the specifics of a culture with such loyal members. The negative aspect reflects the tendency towards the assessment of other cultures; one’s own culture is used as a unit of measurement for any other societies/communities. Finally, the radical form of ethnocentrism is most detrimental to any attempts at intercultural communication and collaboration, since the adepts of this ethnocentric view consider not only that their

culture is superior to any other, but that they are of the opinion that their own system of values, practices, behaviours, attitudes should also be adopted by other societies/groups.

Finally, another important roadblock to effective intercultural communication that should be addressed is *culture shock*, which is actually a natural phenomenon that accompanies any first encounter with the realities of a distinct culture. The term was first introduced by anthropologist Kalervo Oberg in the sixties who approached it as a “malady”, a negative reaction to a new and unpleasant environment or/and situation. However, since the sixties research on the topic has much advanced, and nowadays culture shock is no longer considered to be a reaction/phenomenon to fear, but to expect as part of the process of adjustment to a new culture.

However, culture shock is not easy to deal with, especially when you have to function in a new cultural/social/linguistic environment, and can seriously affect interaction with your culturally others at least in the first stages. Marx mentions the following reactions as part of the culture shock experience: anxiety, frustration, inadequate social conduct, sense of isolation, confusion about one’s own values and, in more extreme cases, depression (1999, 5).

The field literature mentions four basic stages of culture shock: honeymoon, the hostility stage, the recovery stage and the adjustment. The above-mentioned reactions usually occur in the second stage, after the initial euphoria of coming into contact with a different culture wears out and leaves room for the sense of frustration and being excluded by the members of the group/culture/society in which you wish to integrate. It is the stage when one subconsciously cancels its social and emotional availability to interact with the members of the new cultural group and looks for members of the in-group to which s/he belongs.

Culture shock affects all categories of persons involved in intercultural interactions – exchange students and staff, business people, tourists, migrants and refugees. The impact of culture shock has varying degrees (from the severe ones, which end up in the inability to adjust to the new environment to milder forms) and a variable duration (from a few weeks to several years). However, there are solutions for overcoming culture shock faster, so that one can fully enjoy the great experience of interacting with a culturally distinct group/community. Here are some suggestions: people should do their homework before leaving and try to find as much information on the new culture as possible; it is useful to expect culture shock to happen, irrespective of the location and the (geographical or cultural) distance between one’s own culture and the new one; persons experiencing this should give themselves time to adjust and should not engage in too many work projects as a means to isolate themselves from the challenges of the new environment; and finally, the positive aspect of culture shock should not be ignored – once you experience it, there are better chances to adapt faster to other culturally different situations and encounters.

### **3. Conclusions**

Venturing into a new culture is an exciting experience which has, however, its challenges and which represents a potential for frustration, anxiety and awkwardness. Before departing on this adventure, one should be prepared that they would be faced with barriers in terms of unknown and potentially strange behaviour patterns and customs,

language, nonverbal communication styles and the inevitable stress that accompanies the transfer to a new environment and new communication partners.

That is why it is of paramount importance to be well aware of two main issues that define any intercultural exchange: that differences do exist and are visible at various levels of everyday life (from interpersonal interactions to symbols, practices and mores that define the two interacting cultures), and that these differences are likely to cause a series of ‘symptoms’, most of them uncomfortable, but which are part of the process of adaptation and acceptance. This process benefits immensely the acquisition of intercultural communication competence skills. “A competent intercultural communicator is one who has the ability to interact effectively and appropriately with members of another linguistic-cultural background on their own terms” (Samovar et al 2010, 384).

In order to manage this effective and appropriate interaction in an intercultural context, one should improve (or even acquire) a series of communication competences. Understanding one’s own culture is one of the most important, as we all have this tendency to look at another society/community through the lens of our own cultural heritage. Another skill refers to increasing the awareness of one’s own communication style, which is actually the manner in which one presents oneself to others, but also how one reacts to Otherness in all its complexity. This form of self-awareness helps people monitor themselves and control their behaviour in a manner that shows sensitivity and acceptance of differences.

Practicing empathy is also a step forward toward becoming interculturally competent. This translates into the emotional availability to think as the Other, to adopt his/her perspective of the world and accommodate it into one’s own cultural framework. Active listening, which is a means to demonstrate respect and consideration to the other communicators’ opinions and behaviours, as well as the adoption of a flexible communication style are other strategies that can turn any potentially difficult and challenging intercultural encounter into a successful and enriching experience.

## References

- Georgiu, G., (2010), *Comunicare interculturală. Probleme, abordări, teorii*. București: Editura Comunicare.ro.
- Hall, E.T., (1959), *The Silent Language*. New York: Doubleday & Company, Inc.
- Marx, E., (1999), *Breaking Through Culture Shock*. London: The Electric Book Company.
- Patel, F., Li, M., Sooknanan, P., (2011), *Intercultural Communication. Building a Global Community*. London: SAGE Publications Ltd.
- Samovar, L., Porter, R., McDaniel, E., Roy, C., (2013), *Communication between Cultures*. 8<sup>th</sup> edition. Boston: Wadsworth.
- Samovar, L., Porter, R., McDaniel, E., (2012), *Intercultural Communication. A Reader*. 13<sup>th</sup> edition. Boston: Wadsworth.
- Ward, C., Bochner, S., Furnham, A., (2005), *The Psychology of Culture Shock*. 2<sup>nd</sup> edition. New York & London: Routledge.

# THE BEHAVIOR OF DISTRIBUTORS FACE TO FACE WITH THE NEEDS OF THE MODERN CONSUMERS

Diana Soca\*

## Abstract

*Technological breakthroughs, along with the diminishing of boundaries between TV, social media and mobile phones allowed distributors and marketers to come up with revolutionary ways of identifying and understanding customers, radically altering the nature of communication with them.*

*In today's global economy, partnerships between resellers and manufacturers are more and more frequent, with the purpose of both improve customer relationship management and to sharing mutually beneficial marketing strategies.*

**Keywords:** *Consumer behavior, merchandising, marketing techniques, strategic partnerships*

**JEL Classification:** M31, M37

Nowadays, consumer behavior has changed significantly under the impact of new technological breakthroughs that have led to an unparalleled diversification of product and service offers and multiplication of distribution and communication channels.

The modern consumer wants the goods purchased to be accompanied by as many services as possible. He is in a permanent competition with time, often buying time (eg. half-food or fast-foods). He is no longer willing to waste much time browsing through stores, but rather looking for direct and interactive distribution channels.

As a result of technical progress and the development of telecommunication, the current consumer is increasingly drawn to on-line commerce, easily accessible through all kinds of devices and gadgets like desktops, laptops, tablets and smart phones.

In a recent report, Euromonitor International, the global market research company, portrays the current consumer as "zealous in making the best choices, hyper-informed, armed with technology and less interested in brands and status. They migrate with unprecedented ease between stores and products, in their rush to new value, which brings additional challenges to brands that want to create a relationship with it, or to aspire to its loyalty. For them, it does not necessarily mean low prices, but it is a complicated equation of new offers and services".

Also, market research has highlighted the fact that Internet and online buyers tend to be more loyal to a brand that actively requests their opinion and then incorporates suggestions in the portfolio of products, personalizing their offer. Once they have experienced the acquisition of on-line products, the buyer gets to make acquisitions more efficiently and better than before, and his perception is that it saves money. Researchers

---

\* Diana Soca is at the Romanian American University in Bucharest.

emphasize the importance of smart phones as they become the main tool in the purchase process.

Transparency is an important purchasing criteria for consumers. People want to know where, when, how and by whom the products were made, and this information makes them feel better about their consumption decisions.

Seven key pillars have been identified through customer research that prompts customers not only to return to a store, but also to recommend it to their family and friends. Each of them is an aspect of buying experience. These pillars are: communication, services, promotion, price, brand affinity, rewards offered and ease of shopping. Improving client-centricity leads to increased sales. Clients desire trust and transparency, ease in the acquisition process and a range of relevant products at fair prices.

Fierce competition coupled with declining prices and aggressive promotions, have changed the buyer's behavior and forced distributors to reinvent. In the digital age, the store is modelled on a whole range of technologies that have a common goal: to create an environment that is convenient for the client and differentiates it from the competition. Even though the proximity formats, franchises, rural concept stores and smaller cash and carry formats persist, more and more on-line shops have emerged. Kiosks located in major retailer stores, mobile devices where product research can be done, ads and current discounts on display and free Wi Fi, these are just some of the ingredients that make a modern store successful.

In order to respond to the consumer's tendency to save time, many European retailers have already introduced non-stop working hours and advanced payment technologies: contact cards, multifunctional cards (that can be debit, credit or prepaid cards) or mobile phone payments.

To increase sales in stores, merchants need to implement merchandising techniques combining the emotional factor with the attractiveness factor.

The emotional factor is related to the shopping environment, which should integrate images, colors, lights, sounds to provide a pleasant and fun experience for buyers, as shopping today is considered more than just a necessity and an enjoyable way of spending time.

The attractiveness factor implies the usage of techniques such as cross merchandising or promotional campaigns for consumer education, as well as advertising, practical demonstrations, various shows, sampling, or various services before, during or after the buying process. All of these are designed to support customers in the acquisition process giving them as much information as possible to ensure they make the right choice.

Cross merchandising is the practice of grouping various product categories that can be consumed together, thus saving the customer some time and generating additional sales. In a grocery store, for example, these associations can be made: beer and chips, salty snacks and carbonated beverages, liqueurs, wines, cheeses and fruits etc. To ensure success for cross merchandising the following ground rules need to be applied:

- always group product categories that are connected;
- promote cross merchandising in the store by properly signalling each shelf;
- create a central theme for each promotional action.

Combining cross merchandising with consumer education campaigns can bring a long-term profit to both the seller and the producer, especially if both parties join forces in a strategic partnership.

Promotional campaigns for consumer education represent an investment in long-term success, a healthy development that enables the distributor to improve customer retention. If the producer reaches out to the retailer and they rely on each other in this process, the chances of success are even greater.

Depending on the specifics of the store, the customer profile and the market trends, a food retailer for example, can plan the following customer education campaigns:

- consuming 'bio' products - can be achieved through suggestions for recipes offered to consumers (which include natural, less processed, low-sugar, no E-products), through specially designed areas dedicated to healthy products, cooking shows or tasting
- eating frozen products (especially in winter) - showcasing in the store how frozen vegetables and fruits preserves their vitamins, properties and taste
- consuming Romanian products, consumers being more and more interested in local products with tradition such as: milk, meat and meat products, fruits, vegetables, wines, etc.
- cooking at home - is a trend encouraged by TV shows and culinary blogs, and is done by teaching customers how to prepare their own food, favorite cocktails (using scotch whiskey, vodka, bourbon, bitters) or fresh drinks through demonstrations and culinary shows in the store
- stopping food waste by educating the consumer to buy less and more often, thus scattering less

An example of a strategic partnership between distributors and manufacturers made in Romania for the development of marketing and for improving customer relationship management is Carrefour's commitment to the Romanian fruit and vegetable producers.

With over 10,100 stores in 34 countries, the Carrefour Group is the world's second-largest retailer and No. 1 in Europe. In Romania, Carrefour has 173 stores, including 27 hypermarkets, 92 supermarkets, 44 proximity stores and one on line store. For this partnership, Carrefour wants to be as close as possible to local manufacturers to set up as much collaboration as possible. Carrefour specialists assess the ability of manufacturers to meet the logistics and quality criteria needed to become suppliers for the chain. The Carrefour Group has also launched the "Carrefour Varasti Giurgiu County" agricultural cooperative, the first of its kind, founded with a retailer. Thus, Carrefour Romania brings a medium and long term contribution to the development of Romanian farmers and the communities they are part of.

### **Conclusions**

To be effective today, a marketing actor must manage to identify opportunities and at the same time find solutions to the challenges of the market. Efforts to have effective campaigns are successful for those brands that optimize their communication and choose



the right tools and channels. Multi-channel trading will become a global retailer standard and is the key factor in the success of many companies. Strategic partnerships between distributors and manufacturers bring multiple benefits for both economic operators and consumers.

### ***References***

- Y. Claeysen, A. Deydier, Y. Riquet, (2009), *Marketingul direct multicanal*. Prospectarea, fidelizarea și recâștigarea clientului, Editura Polirom, București.
- Th. Purcarea, (2011), *Managementul relațiilor cu clienții*, Editura Carol Davila, București.
- Th. Purcarea, (2007), *Distribuție și merchandising*, Editura Carol Davila, București.
- Th. Purcarea, M.Ratiu, (2007), *Comportamentul consumatorului*, Editura Carol Davila, București.
- Magazinul Progresiv, martie 2017.

# FISCAL IMPULSE – COMPONENT OF THE STRATEGY FOR R&D INVESTMENTS STIMULATION IN PERSPECTIVE OF BOOSTING THE COMPETITIVENESS OF EUROPEAN UNION

Iuliana Militaru\*

## Abstract

*Fiscal policy began to be used actively in promoting and developing Research&Development (R&D) investments for some time, in European Union (EU) and elsewhere, but, for Romania, as member of EU for nearly 10 years now, this matter is one of sensible importance – not in the least, because EU itself (and as the state-like entity it stands for today) makes good use of fiscal policy in achieving the above-mentioned aim, and also because EU demands a continuous increase of R&D investments from every member state. From this perspective, emitting the right fiscal impulse is of paramount importance – especially if it is done the right way.*

**Keywords:** *fiscal impulse, research&development, investment*

**JEL Classification:** E62, H21

## Content

The end of 20<sup>th</sup> century (AD), respectively beginning of 21<sup>st</sup> century recorded, respectively *still* records what can be denoted as the second, respectively the third industrial revolution: first, *information society*, then – i.e., in present day – *knowledge society*.

Given the fact denying or, *in extremis*, opposing these revolutions does *not* seem to turn into an efficient, or even desirable (economic) strategy it is rather clear solution to the need of *adapting* to these revolutions – as first step – is, inclusively for Romanian society/economy, building up these two societies *inside* Romania: we can develop (in our case) these societies in Romania as well, in order to *use* them, in our profit.

As far as long term (macro) economic strategies go, the challenge is designing and using a strategy for achieving the goal of (continuous) growth of investments in research and development (R&D) – also, in the long term. From this point of view, since Romania is, today (2016) as well, a member state of European Union, it must obtain, as quantities are concerned, not only a high level of goods and services produced by real economy (e.g. PIB increase = economic growth), but also a high(er) level of knowledge. But, the latter is based on engaging in research and development activities and projects – from which it becomes obvious a rise in quantity of knowledge must be preceded by a rise in quantity *and quality* of R&D.

---

\* Iuliana Militaru is Associate Professor at the School of Domestic and International Business, Banking and Finance, Romanian-American University. E-mail: iuliana.militaru@rau.ro

These investments are, of course, *per se*, an economic phenomenon, which means using fiscal policy for propping up such investments' trends is, basically – and from a theoretical perspective –, a sound approach. This, however, doesn't mean the *practice* of R&D investment has at its core simple mechanisms – or that it begets clear and unequivocal *results*.

This is world practice – and not only European Union practice, which comprises, as one might aptly presume, Romanian one. But, due to the fact the strategy for stimulating R&D investment (in perspective of competitiveness rise as recorded for European Union) we analyze in this study has to do, for the most part, with phenomenon of R&D investment *in Romania*, it is necessary, to begin with, to outline a fitting perspective for all computations and comparisons below; and for this, it is needed to describe present circumstances in what R&D investment in Romania is concerned.

According to Eurostat (2016) data<sup>1</sup>, Romanian economy expenses related to research and development were defrayed up to following levels:

I) *Total* research and development expenses – 0.48% of GDP<sup>2</sup>;

II) Research and development expenses defrayed *in public sector* – 0.16% of GDP.

This values can and must be compared to those recorded for the other states comprising European Union, with useful results for this analysis.

One of the most important result is the evidence that, as far as European Union states are concerned, value of *total* research and development expenses, or, in other words, relative value of R&D expenditure (i.e. ratio in total GDP) records a minimum value of 0.44% and a maximum value of 3.25%, whilst the value of research and development expenses defrayed *in public sector*, that is relative value (again, ratio in total GDP) of public expenditure concerning R&D tax *incentives* sometimes is non-existent, respectively, when it does exist (e.g. when it is not a null one), it doesn't drop below 0.0002%.

The following table comprises values for all EU states concerned:

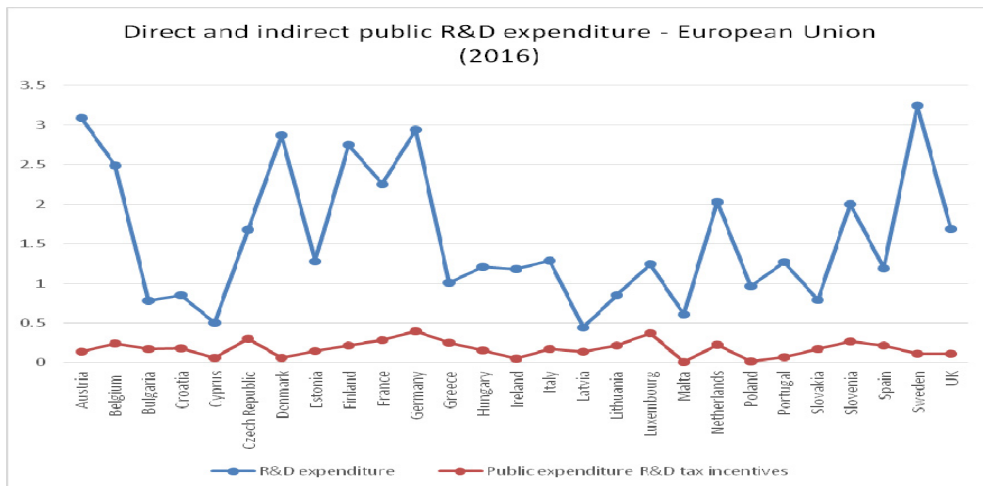
Country	R&D expenditure (% GDP)	Public expenditure R&D tax incentives (% GDP)
Austria	3.09	0.14
Belgium	2.49	0.24
Bulgaria	0.78	0.17
Croatia	0.85	0.18
Cyprus	0.5	0.06
Czech Republic	1.68	0.30
Denmark	2.87	0.06
Estonia	1.28	0.15
Finland	2.75	0.22
France	2.25	0.29

<sup>1</sup> <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsc00001&plugin=1>.

<sup>2</sup> It must be observed even if there aren't, at this moment, any published date as to public spending (e.g. *budgetary* spending) involved in using fiscal enticements for research and development, there is, at least, a drafted *plan* for accomplishing *annual evaluations* as regards recording such data.

Country	R&D expenditure (% GDP)	Public expenditure R&D tax incentives (% GDP)
Germany	2.94	0.40
Greece	1.01	0.25
Hungary	1.21	0.16
Ireland	1.18	0.05
Italy	1.29	0.17
Latvia	0.44	0.14
Lithuania	0.85	0.22
Luxembourg	1.24	0.37
Malta	0.61	0.01
Netherlands	2.03	0.23
Poland	0.97	0.02
Portugal	1.27	0.07
Slovakia	0.79	0.17
Slovenia	2.00	0.27
Spain	1.19	0.22
Sweden	3.25	0.11
UK	1.69	0.11

A graphical illustration of all these numbers is obtained through following figure:



Source: authors' processing of data from *A Study on R&D Tax Incentives. Annex: Country fiches (FINAL REPORT)*, European Commission, The Hague, November 14, 2016

The rise, in absolute and relative (e.g. ratio in total GDP) terms, of these expenses – which one might assume at the very least *tends to* equate with measurable stimulation of investment in research and development in an economy, in fact in *any* economy (inclusively, that is, in Romanian economy) – is, if the condition stated above is fulfilled, an explicit goal of every strategy concerning stimulation of R&D investment (in *every* economy), for whose Romanian materialization, so to speak, a number of dedicated bills were passed, starting with year 2008.

This being said, firms which work in R&D field are legally supported, even today (2016), with *fiscal enticements* applicable to gross profit, which mainly consist of following two deductions:

- (A) a supplementary deduction, of up to 50%, of expenses thereinto eligible (this supplementary deduction is applied quarterly or yearly, according to firms' needs);
- (B) employ of accelerated depreciation method for equipments and tools used in research and development.

To all this there is one more possibility, that of obtaining specific structural *community* (e.g. paid for by European Union) funds, for which Romanian state would offer co-financing.

All these fiscal tools, specifically designed so as to make it easy for Romania's economy (which, and this is worth underlying, exists, from 2007, *also* as member of European Union) to obtain a (sensible) growth of knowledge quantity (inclusively through an increase in R&D investment) imply sensible financial efforts – at least as far as quantitative component of fiscal enticements goes –, and this is especially true for the period after 2007, for Romania, and for whole of EU, for some time now.

European Union, if it doesn't have, *yet*, a unitary strategy – i.e. applicable to *all* EU states, whilst taking into account social, cultural and economic specifics of each state – for stimulating efforts set towards accomplishing research and development has, at least, *a tendency* to finance R&D investment – tendency based on following principles:

- I. accessing/drawing down of private investments – e.g. *from outside* European Union – for research and development;
- II. stimulation of private investments (from inside EU) for research and development;
- III. employing qualified *labor force* in research of development<sup>3</sup>.

On the other hand, using fiscal policy for financing R&D investment in whole of European Union, at least in short term, through an emission of a fitting fiscal stimulus (i.e., of the nature of fiscal enticements as those described above) is less exercised, on average – which does *not* mean such tools should be less used. This is not resulting from the very nature of fiscal enticements *per se*, but because:

- (1) *investing* in research and development may not turn out *proportionally* as a rise in quantity of knowledge recorded for the economy and society of the state in which such investment takes place – at microeconomic level;
- (2) opportunity cost of *public* spending – i.e. at macroeconomic level – generated by defrayment of the cost of (fiscal) enticements set up for R&D development can be unsustainable, or disproportionately high, if measured against 'quantity' obtained research and development (e.g. against value of *innovation index*<sup>4</sup>).

<sup>3</sup> Between 2005 and 2013, firms located in European Union recorded a growth of 18.2% in employees' numbers – predominantly as regards companies embarking in research and development activities.

<sup>4</sup> In this paper, size of this index is computed according to methodology used by Bloomberg (2014), respectively OECD, Main Science and Technology Indicators Database.

Emission of a fiscal stimulus, at least in a state which is member of European Union, does not guarantee, *ipso facto*, a favorable result will be forthcoming – even if this stimulus was designed as a part of a strategy conceived for stimulating R&D investment, with the ultimate aim of increasing competitiveness for a certain (market) economy (inclusively that of European Union). This happens because, *inter alia*, any firm located *outside* Romania is perfectly capable of:

- 1) investing financial funds for whatever research and development one of its subsidiaries carries out, so that, afterwards, to be able to
- 2) declare to Romanian fiscal administration an oversized value of those financial funds, in order to
- 3) pay in Romania a (much) smaller tax, ***the return*** of this fiscal evasion *strategy* being transferred oversees – *to* the parent company and in its exclusive own benefit.

As to the strategic advance proper of using fiscal enticements to prop up R&D dynamics, we do take notice of the fact present literature observes such fiscal tools have *a* value – in other words, on one hand, 1€ yielded by commercial fructification of research and development results is worth *more* for economic growth than 1€ of foregone tax revenue<sup>5</sup>, and, on the other hand, fiscal enticements designed for research and development animate, so to speak, innovation phenomenon<sup>6</sup>.

The economic and financial mechanism put into motion by a fiscal impulse will not *necessarily* bear an increment in knowledge, or in the ‘quantity’ of technical and scientific innovations. In first place – this very statement is basically a fact, not an opinion –, fiscal policy is *not*, and cannot be in any conceivable future, a substitute for economic development (and growth) – especially this being the case for sensible investments of (important) financial funds in real economy, not in the least in what R&D activities are concerned.

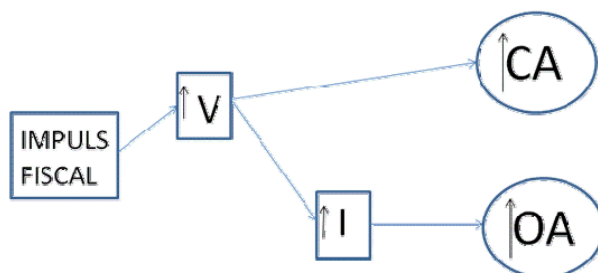
Fiscal stimulus is specifically designed to spur on the investment phenomenon in an economy to the extent in which, as aftermath of its emission, taxpayers will be able to command some extra revenues, yielded by their trade in a direct or indirect manner – in this case, due to expenses in decline –, revenues which they *can* invest. This, actually, produces a rise in aggregate demand (viz. demand of *whole* economy), the matching rise in aggregate *supply* being but the output of such economic phenomenon as rise of investment amplitude.

The graphical representation of this economic mechanism is following figure (where V stands for taxpayers’ revenues, I size of investment, CA – aggregate demand and OA – aggregate supply)

---

<sup>5</sup> See Lokshin and Mohnen (2012), respectively Mulkay and Mairesse (2013).

<sup>6</sup> I.e., Czarnitzki et al. (2011) and Ernst and Spengel (2011).



Fiscal enticements for research and development, from this perspective, we consider could act in a more efficient manner in Romania if they would be granted, as Austria's practice proves it *can* be done properly, not for research activities proper, but for the *profits* yielded by commercial exploitation of these sort of activities: as it happens, for profits gained from (commercial) patent exploitation.

A reason for adopting such measures is the fact firms' *incomes* – this being empiric fact herein – *were*, at least, taxed, *globally*, starting with year 1990, in an upturn, even when (as it *did* happen – in Romania) profit (corporation) tax quota was reduced – even if one does *not* takes into account all deductions made available for computing value of their dues, *research and development deductions* included. Consequently, and more often than not, Romanian firms chose, so to speak, tax adaptation over 'mundane' development (e.g. investments), putting R&D investment on a very lower point of their priorities list.

Thus, a very important particular of this study, maybe the most important of them all is analysis of long-term perspectives offered by *public* financing system of *private* R&D investment. What the literature reveals in case of this topic is the proof ***it can be accomplished differently***, other than by making explicit – and, maybe, intensive – use of fiscal policy, in order to attain final goal which, in this case, in obtaining a rise in knowledge quantity.

Such examples are possible to identify both inside European Union and outside it. Germany's innovation index, for example, according to Bloomberg (2014) methodology for computing size of innovation index (maximal size = 100) <sup>7</sup>, is as high as (approximately) 87; it must be taken into account, if this value is anything to go by, the fact Germany's *public* expenditure for R&D tax incentives equals 0% GDP. Against this (possible) European benchmark, U.S.A. spends *publicly* 0.20% GDP for R&D tax incentives, its innovation index being recorded in the same time frame to be as high as 91.

Against this backdrop, Austria is arguably the state which succeeded an optimal, that is optimal-as-average, performance, given that, on one hand, its public cost as to financing its R&D tax incentives amounts to 0.50% GDP, whilst its value of innovation index stands at level of 80.

## Conclusions

The main conclusion of this paper it fiscal stimulus can successfully be a fine component of the strategy for stimulation of R&D investment, but this is true only *if* following conditions are fulfilled:

<sup>7</sup> Cf. [www.bloomberg.com/visual-data/best-and-worst/most-innovative-in-the-world-2014-economies](http://www.bloomberg.com/visual-data/best-and-worst/most-innovative-in-the-world-2014-economies).

- (I) assuring *long term* stability for fiscal policy – and especially for all fiscal enticements prepared for boosting up research and development activities, so as to allow companies to build themselves – and for themselves – a *long term* R&D strategy;
- (II) designing and applying a coherent fiscal policy, which does not need to ‘alleviate’ any drop in profit (corporation) tax quota with a direct or indirect rise of fiscal pressure as concerns firms;
- (III) consolidation of fiscal discipline *and* diminishing of tax evasion, in order to shut out the possibility public spending a state charges itself with for sustaining of R&D investment will not turn, against that state’s will, into a ‘gift’ offered to another state – or to other states and, last but not least,
- (IV) fiscal stimulation, not only of research and development activities *and* innovation-related operations, but also of actions taken for commercial exploitation of these activities/operations.

### ***References***

- Antoniou Predescu, (2012), *Impozitarea veniturilor și creșterea economică*, Editura Universitară, București.
- Schiller, B.R., (2003), *The Economy Today (9th edition)*, The McGraw-Hill Companies, Inc., New York.
- European Comission, (2014) – *EU R&D SCOREBOARD. The 2014 EU Industrial R&D Investment Scoreboard*.
- European Comission, (2014) – *A Study on R&D Tax Incentives (FINAL REPORT)*.  
<http://www.bloomberg.com>  
[www.oecd.org/sti/msti.htm](http://www.oecd.org/sti/msti.htm)



# RESEARCH ON THE MANAGEMENT OF RURAL TOURISM RESOURCES IN THE SOUTHERN PART OF ROMANIA

Ștefan Petrică,  
Istrate Ana Mihaela,  
Popescu Liliana\*

## Abstract

*In the present study we will try to offer an overview of the immense treasure of Romanian touristic resources and to contribute to a better knowledge of rural tourism of Romania and, in particular, of Călărași county.*

*Research goals of this chapter – The market integration of the touristic product is ensured by strengthening the private business organization, where the natural processes go hand in hand with the economic mechanisms in such a manner, able to create an organic balance between the supply and demand.*

*Expected results - this paper represents a diagnosis of the evaluated arguments, presenting a possible strategy for the development of rural tourism, in the Southern part of Romania.*

**Keywords:** *agriculture, rural tourism resources, development, management, rural tourism, market, tourism potential*

**JEL Classification:** Z32.

## 1. Introduction

The knowledge, research and development of rural areas represent activities of vital importance for a nation, both with respect to the rural dimension, expressed as land owning, but also with a view to the population involved in productive activities, social and cultural services, and tourism.

On a global level, economic progress forces domestic economies and local communities to adapt, in order to maintain and develop economic and social competitiveness, through restructuring, not only in the rural areas, but also with regard to the way it is operated and capitalized. All these changes, together with the latest news in the field of leisure time spending, represent the bases for the development of tourism in

---

\* Ștefan Petrică is lecturer at the University of Agronomic Sciences and Veterinary Medicine, Bucharest, Romania.

Istrate Ana Mihaela is lecturer at the Romanian-American University, Bucharest, Romania.

Popescu Liliana is associate professor at the University of Agronomic Sciences and Veterinary Medicine, Bucharest, Romania.

the rural areas. All these aspects have increased the mobility and independence of tourists, from urban areas. The conversion of rural areas into tourist destination should be made progressively.

In recent decades the EU regional development policies, corroborated with the national policies have guided tourism towards rural areas, taking into consideration the positive effects and implications of such a plan. From the analyses accomplished by the World Tourism Organization becomes evident that rural tourism develops at a faster rate than the overall international tourism.

## 2. Methodology

Lately, a certain number of Romanian and foreign tourists oriented towards rural tourism recreation areas. The explanation lays in the multitude of advantages offered by these new recreation and refreshment opportunities, with a lower level of service charges, farther from the noise and stress of the civilized world.

But the development of rural tourism requires a major tool for the development of rural areas, meaning that all these activities need to be managed from an economic/managerial perspective. Only this way we can emphasize the theoretical and practical aspects for the development of rural tourism, but also Romania's options of European integration through rural tourism.

Rural tourism, as an economic option, can contribute to the sustainable development on local, regional and national level, through activities labeled as strategic objectives, such as:

- Sustaining the use of touristic resources;
- Maintaining the natural, cultural and social diversity of the rural areas;
- Integrating rural tourism into the strategic planning of national, regional and especially local development.
- Sustaining local economies in the socio-economic development of communities, but also in protecting the environment and its cultural values;
- Involving local communities in the tourism sector, through support groups of initiative, for the development and promotion of local tourism;
- Consulting specialists, authorities, and members of the local communities, in the development of rural tourism and local economy.

The development of rural tourism, in the rural areas of Romania is mandatory, both on an economic and social level. Effectively, rural *tourism contributes to the economic life of the village*, by developing the village on the long run, in a close connection with agriculture, local infrastructure, environmental protection and the diversity of jobs, all these aspects being able to boost the development of rural tourism (Alecu, 2006).

### 2.1. Brief presentation of Călărași County

Along the years, Călărași County experienced all stages of development known by the human civilization. The material evidence brought to light by accidental and systematic archeological excavations, as well as the documentary attestation, all are the proof of Romanians long existence into this region, as well as an evidence of the unit in

time and space of indigenous people. From the material remains of the Neolithic culture, from Boian and Gumelnița, as well as archeological discoveries from the Geto-Dacian population, until the beginnings of the Middle Ages, experts concluded that on the major river valleys, as well as around the important lakes of the county, there have been built powerful human settlements, which continue their development even today, compared to the territories in between the river banks, which have started being populated only in the modern times, especially after the agrarian reforms of 1864 and 1921.

Positioned on the South-Eastern extremity of Țara Românească (Muntenia) region, Călărași County was involved in the political and military events of the times, in the fight for freedom and independence of the Romanian nation. Thus, during the reign of Michael the Great, the inhabitants of this area recorded the fact that Romanian armed forces attacked, in the winter of 1594-1595, in Dobrogea and the Balkans, the Turkish towns. The nobleman Preda and Radu Buzescu attacked Hârșova, while counselor Mihalcea attacked Silistra, in January 1595, passing through Lichirești (the old name of the municipality of Călărași), attacked Turtucaia, and crossed the frozen Danube river at Oltenița, (settlement certified by documents since 1523). Later, in the 17<sup>th</sup> century Constantin Brâncoveanu created a cavalry detachment, at the gates of Silistra, at Lichirești. The settlement, which later took the name of the detachment (Roșiori), had an ascending evolution, becoming the administrative residence of Ialomița County, in 1883, being transformed into a town. At the same time, modern history of Romania records important economic, social and political events related to Călărași. Today, we can say that the most developed branch is agriculture, because of the extended agricultural areas and the use of the rotated cultures of plants. Finally, large quantities of grains and products of animal origin are exported through the harbors of Oltenița and Călărași (Alexandrescu, 1980). Yet, we can speak about an extensive industrial development after the First World War, the most important economic points in Călărași being the Ștefan Vineziu Systematic Mill, while in Oltenița we can find similar institutions, such as Dunărea Mill, with 196 employees.

Călărași County is placed in the South-Eastern part of Romania, on the left bank of Danube river, on the border with Bulgaria; in the southern part it intersects the 44° north latitude parallel, and the 27° eastern latitude meridian. The county has 5088 square kilometers, 2.13% of Romania's surface (Iova, 2012).

The administrative organization of the territory comprises 2 municipalities, 3 towns, 50 townships and 160 villages. The residence of the county is the municipality of Călărași, with a population of 70.000 inhabitants. The overall number of inhabitants of the county is 324.617 people, which represents 1.5% of the country's population; the number is distributed as follows: 120.270 people in the urban area, representing 37% of the county's overall population, and 204.410 people in the rural area, the equivalent of 63% of the county population. The population density is 64 inhabitants/ square km.

The Romanian Plain (Bărăganul), represents the dominant relief; we can observe the widely developed river meadows and terraces, along the Danube and Argeș rivers. The lowest relief is represented by the Danube's Meadow (Lunca Dunării) and Balta Ialomiței. As far as the weather is concerned, summers are extremely hot and dry, while the winters are cold, with strong blizzards. In the Danube's Meadow (Lunca Dunării),

summers are hot while the winters are warmer than the rest of the plain. The absolute values registered have been of +44° Celsius on August 10, 1991 and +31° Celsius, on January 9, 1938, which are a proof of the temperate continental climate.

The hydrographic network of the county is completely tributary to the river Danube. Besides the rivers Argeș and Dâmbovița, which, with their lower sector, can drain the South-Western part of the county, the other less important rivers belong to the inland network of rivers. Among the minor rivers we can mention Mostiștea, with its springs in the Ialomița County, Berza and Zboiul.

Călărași County rivers are usually of an anthropogenic nature, being represented by ponds, mostly spread in the Mostiștea valley, and its tributaries, on Rasa, Luica, Zboiul, Berza and Pasărea. Among the natural lakes we should mention mainly the river estuaries, placed along the Danube's banks, as well as the lakes Mostiștea, Gălățui and Potcoava, positioned on the lower valley of the Berza River. Meadow lakes, which were more numerous in the past, are represented today only by Ciocănești and Iezer Călărași, in the Danube's Meadow, Mitreni in the meadow of the Argeș River, and Tătarul in Dâmbovița's meadow.

The main natural wealth is represented by the agricultural land, representing 84% of the County's overall surface. The county's soils are mainly in the category of carbonated black earth (7,1% of the tillage), semi-carbonated black earth (19,5%), cambic black earth (34,9%), clay illuviated chernozem (5,8%). All these categories of black earth belong to a category of soils with good and very good properties, allowing agriculture at a large scale, especially for grain crop production. The alluvial soils are present especially in the river meadows.

As far as the flora is concerned, the steppe is the vegetal formation that once covered most of the surfaces, grasslands being sought by shepherds during winter time. At present, the patches of forest are made up of species of oak, *Quercus cerris*, a species of oak, *Quercus frainetto*, and maple, while the groves, along the Danube River, include species such as poplar and willow.

On the Danube River, between the km 368-400 there has been developed a deposit of mineral aggregates (sand, gravel, cobble), which is exploited according to Law 61/1998, Mining Law. The deposit is generated annually according to the level of Danube's waters. In the North-Western part of the county, in the village of Ileana, there is an oil field in exploitation.

The forest vegetation, covering 4.3% of the County's overall surface is made up especially of species of: Euro-American poplar, acacia, gray oak, white willow, field ash, *Quercus robur* oak, elm, linden, and Tartar maple. An important natural resource is represented by fauna, with its multitude of species, with great hunting potential. The fauna is extremely varied, specific for the vegetation zones: the rabbit, gopher, ferret, rat and field mouse, quail, partridge, skylark, a wide range of insects, deer, wild boar, fox, otter, and numerous wading birds. Ichthyofauna includes: carp, pike, catfish, perch, bream, tench, etc (Alexandrescu, 1980).

Affected by the restructuring process, affecting the entire Romanian economy, the economy of Călărași County, has a potential for recovery, based on the following strengths: agricultural potential, technical potential; water resources able to favor fisheries

development, commercial, industrial and tourism activities on the river Danube and the inside rivers; geographical positioning on the country borders and on the intersection of transit routes between Eastern Europe and Asia, direct access to the water ways.

But probably the most important strength of the area is the fact that it benefits from human resources, perfectly trained in the following fields of activity: metallurgy, pulp and paper industry, shipbuilding, building materials, textile industry and food industry.

The industry is mainly oriented towards manufacturing activities. On the county level, main industries are: food and drinks industry, textile industry, pulp and paper industry, nonmetallic minerals industry, metallurgical industry and metal products industry, transport activities industry. As far as manufacturing is concerned, food industry is the most important, during the first six months of the year 2009 contributing by 59.1% to the industrial production of the county, followed by the textile industry with 19.7%, pulp and paper industry with 9.8% and the nonmetallic minerals industry, with 4.2%.

Agriculture represents the main economic activity. The background is represented by the agricultural area 420.780 ha, the equivalent of 2.9% of the domestic agricultural area, Călărași county being the 8<sup>th</sup> county in point of size in Romania. Out of this area, the agricultural land represents 413.135 ha, the equivalent of 4.4% of the national agricultural area, on the 5<sup>th</sup> position in Romania.

Transportation: The main double, electrified railway Bucharest - Constanța passes through the county, with the main rail hub at Ciulnița, while on the South-Western part it is the Bucharest- Oltenița sector. Besides the national roads Bucharest – Lehliu – Călărași and Bucharest – Oltenița, of great importance is the Bucharest – Fundulea- Fetești – Constanța highway. Actually, in Călărași, there are eight transportation routes converging, road, rail and river routes, covering a wide geographical array, ensuring the direct connection between the places from the Eastern part of the Romanian plain and Dobrogea. The river freight and leisure transport on the river Danube is made through Călărași and Oltenița harbors.

## **2.2. The analysis of the natural potential and of the agricultural structures in the rural areas**

The integration of agriculture into the market economy is ensured by a strengthening of the private sector and an economic organization where natural processes combine with economic mechanisms in such a way that they create an organic balance between supply and demand. For this purpose, we need strategies for an open development, able to capitalize the advantages created by the dominant share of private property, ensuring at the same time an intensive development for the accomplishment of a competitive offer of agricultural products and an extended market for all types of agricultural holdings, with a wide access to the products' market and productive factors (Antonoaie, 2002).

As an immediate effect of the application of the Land Law, in the agricultural activities of the Călărași County, the modification of the configuration of the farming units, with a preponderance of small individual agricultural lands, diminished the positive outcomes of the privatization process, generating an economic model less viable in terms of resources and efficiency of activities. These structures determined an intensive use of

the labor force, which in turn determined an extensive layoff of the labor force in other sectors of activity. In the agricultural sector this meant the formation of small agricultural producers, producing both for their own consumption and for sale on the rural market.

From the presented figures we can observe that the overall cultivated area oscillated, with records of 410080 ha in 1995, 392909 ha in 2004, 414803 in 2005, reaching the level of 408548 ha in 2009.

The sunflower crops and those of vegetables have registered the same fluctuations as those of legumes, while the potato crops are on a descending trend, from 1151 ha in 2000 to only 391ha in 2009. It is worth mentioning that beginning with 2005, the cultivated area with green fodder increased year by year, from 12346 ha in 2000 to 21449 ha in 2009.

On the same descending trend is also the orchards surface, which was reduced from 311 ha, to 172 ha, while the vineyards surface, reduced during the same period from 5246 ha to 4965 ha.

By village, the significant mutations regarding the tillage are registered in the big villages such as: Grădiștea (from 15580 ha to 14752 ha), Borcea (from 30363 ha, to 29680 ha), Jegălia (from 10476 ha to 9992 ha), Modelu (from 9887 ha to 9438 ha) etc., while an increase of the tillage is registered in the villages of Budești, Căscioarele, Ulmeni, Vasilați etc., but in a smaller proportion than that of the reduced surfaces. By category of use of the agricultural land, it is significant to observe that certain villages increased their vineyard surfaces even five times, as in the case of: Borcea, Chirnogi, Ciocănești, Cuza Vodă, Jegălia, Dorobanțu, Radovanu, Nicolae Bălcescu, Unirea etc., the only village with a reduced surface of vineyards being Al. Odobescu, from 189ha to 105ha. With regard to the orchard surfaces, we can observe that many of the county villages abolished this crop, even if we observe a significant number of hectares covered with orchards, such as: Lupșanu- 26 ha, Jegălia - 25 ha, Dragalina – 17 ha, Lehliu – 27 ha, Al. Odobescu and Valea Argovei with 16 ha etc., the same villages increasing the surfaces occupied with pastures and hayfields, followed directly by an increase in the number of animals in individual farms than in agricultural associations.

**Table 1. Structure of the land fund, by use**

Specifications	2003		2005		2006		2007		2008		2009	
	ha	%	ha	%	ha	%	ha	%	ha	%	ha	%
The overall land fund	508785	100,0	508785	100,0	508785	100,0	508785	100,0	508785	100,0	508785	100,0
Agricultural surface	426780	83,9	426780	83,9	426696	83,9	426632	83,9	426238	83,8	426230	83,8
Tillage	415779	81,7	416029	81,8	416030	81,8	415966	81,8	414831	81,5	414821	81,5
Pastures	5310	1,0	5281	1,0	5235	1,0	5235	1,0	5954	1,2	6130	1,2
Grasslands	134	0,0	134	0,0	134	0,0	134	0,0	156	0,0	142	0,0
Vineyards and vineyard nurseries	5246	1,0	5120	1,0	5120	1,0	5120	1,0	5118	1,0	4965	1,0
Orchards and orchard nurseries	311	0,1	216	0,0	177	0,0	177	0,0	179	0,0	172	0,0
Forests and other lands with forrest vegetation	21995	4,3	22001	4,3	22001	4,3	22001	4,3	22349	4,4	22052	4,3
Lands occupied with buildings and gardens	14080	2,8	14634	2,9	14718	2,9	14782	2,9	15020	3,0	15531	3,1
Roads and railways	13521	2,7	13158	2,6	13158	2,6	13158	2,6	12923	2,5	12962	2,5
Water and ponds	30215	5,9	29906	5,9	29906	5,9	29906	5,9	29965	5,9	29723	5,8
Other surfaces	2194	0,4	2306	0,5	2306	0,5	2306	0,5	2290	0,5	2287	0,4

SOURCE: Statistical research, DADR Călărași

From the overall surface of de 292154 ha, 112895 ha are exploited in an associated system, 93609 ha are exploited on lease and 85650 ha represent individual exploitations. By land use category, we can observe that in individual farms, from the 85650 ha, 77646 ha represent tillage, 7750 ha vineyards, 198 ha are pastures and hayfields and 56 ha orchards. On the associative holding (S.A+S.C.+A.F.), from the 112895 ha, 112777 ha are represented by tillage, while 118 ha are covered with vineyards; on this type of structures we do not observe orchards and pastures and hayfields. The same situation is met on the trading companies leasing the land, from 93609 ha to only 2 ha of vineyards and 5 ha of pastures, the difference of 93602 ha being represented by tillage. Although most of the county villages use the agricultural land in holdings leasing the land, such as the villages of: Cuza Vodă - 74% on holding and 9% leasing, Lupșanu – 78% holding and 14% leasing, Ulmu – 95% holding, Ulmeni – 81% holding and 9% leasing etc. Yet, there are villages where 50% of the agricultural land is exploited individually, as in the case of: Căscioarele – 85%, Tămădău – 65%, Belciugatele – 60%, Fundulea – 61%, Budești – 59%, Frumușani and Nana – 58% etc. Given the current size of individual holdings in Romania, the rational exploitation of land requires a stimulation of the leasing system, association and concentration of property, through the acquisition of the agricultural land.

The legislation in force allows the increase of the land size of agricultural holdings and encourages the direct exploitation of the land by owner or leaser (Crețu, 2012).

### **2.3. The analysis of the human potential**

The demographic aging of the rural population, as well as that of the overall population, has multiple implications on the agrarian structures, on the quality of the human resources and managerial leadership, on the production units and type of technological progress. In terms of key demographic indicators, the population of the Călărași County presents a series of characteristics which generally gives a balanced character to the evolutionary structures and processes (Tindeche, 2004).

### **2.4. The evolution and demographic structure of the human resources**

Regarding the overall population, the county is on a descending curve, from 341631 people in 1990 to 312879 people in 2009. The same behavior can be observed for the overall population, on environments: urban-rural, as follows, urban population reduced from 131260 people in 1990 to 120483 people in 2009, while the rural population diminished from 210371 to 192396 people, during the same period. That is how the overall population of the county registered a steady decrease. Figures can be found in table 2.4. and are relevant for this situation.

On the general demographic aging trend, the share of population remained relatively constant, with slight variations from 63.0% in 2002 to 6.1% in 2003, while in 2009 it reached 61.5% from the total population; if we refer to the population structure on age groups, we can observe an increase of the segment of people over the age of 60 and over, from 16.6% in 2003 to 17.31% in 2009 (fig. 2.4.), while the population of the 0-14 segment registered a descending trend.

The demographic aging of the rural population, as that of the population in general, has multiple implications upon the agricultural structures, quality of the human resources, managerial leadership, production management and types of technical progress. On the total population, sex distribution is relatively normal: 49.0% men and 51.0% women, with a similar proportion on domestic level (Tindeche, 2004).

### **2.5. Strategies for the rural tourism development of Călărași County**

For the analyzed territory, tourism represents an essential component of the service sector of the rural population, a branch with high development potential in this area. All these, and the fact that rural tourism is part of the tertiary sector, being made up mainly of services provision, determines a natural dynamic, which is also specific for the present conditions of the analyzed region.

We should also mention the fact that tourism industry is characterized by a structural complexity, with multiple services options. This is the main reason why the implementation of the long-term strategies in the field of rural tourism/ rural tourism offers the premises for an accelerated development, both for Călărași County, but also for the economy in general.

It is a necessity to launch a guiding direction in the rural tourism activities, to attract investments and foreign partners (what has been done during the period 1995-



2004), in order to develop a tourism structure, able to raise the living standards of the rural area from South-Muntenia. In order to accomplish this task, we need an adequate strategy, where rural tourism could become an important factor for local development, backed up by a series of priority conditions which need to be defined, such as:

- Maintaining the optimal balance between the ecological, socio-economic and cultural systems of an area, when a developmental process is introduced, to change an area;
- Ensuring additional revenue sources for the local population;
- Diversifying the economic activities by increasing the offer of local products and services, all these leading towards an increase of the tourist attraction in the region;
- Promoting cultural exchanges between people, through mutual respect and understanding, as a key factor for the social cohesion;
- Favoring a coordinated policy for the spatial planning, allowing an improved competitiveness of the economic activities from the disadvantaged areas, as well as improvement and equipment of the infrastructure, both for local population, but also for the visitors in the region;
- Signing partnership agreements with specialized domestic, regional and local organizations, able to facilitate access to the European Union funding policies, for the development of the rural tourism;
- Signing partnership agreements between regional institutions, both in the country and abroad, because only in this manner they can communicate the flux of information regarding the mutations in the field, they can accomplish a mutual promotional campaign of the tourist offer, they can collaborate in training staff and promote a communal point of view;
- Attracting specialists able to offer consultancy on marketing problems, improving the accommodation and catering facilities, on improving the communication with clients, information systems;
- Including a possible list of catalogues or guides, realized by the National Authority for Tourism and the National Association of Ecological, Rural and Cultural Tourism, with regard to the rural tourism offer, including folk, religious and cultural events in the area, which could become arguments for attracting tourists and individualizing regional customs and traditions;
- Financing training and education programs for specialists on traditional crafts and related activities;
- Educating tourists regarding the biological diversity of the region, ways of preserving the nature through the elaboration and publication of rules of conduct for tourists.

In a synthetic manner it can be showed that the strategic planning of the future tourism activities of the region requires knowledge and the implementation of certain perspective elements such as:

- Understanding and satisfying the needs of the new tourist, framed both as real client, but especially as potential client in the respective area;
- For the specific case of Călărași County, the implantation of new strategic objectives for the consolidation of the present markets and development of new areas of rural touristic markets, on national level, but also on the level of the European Union.

- Consolidation of the financing rural tourism activities in the region;
- Constant promotion of a touristic development, by focus on the strengths of the region (Crețu, 2012).

## **2.6. Strategic frame regarding the modifications/ adaptation of the systems in the Călărași County rural tourism**

The trends on a national level, regarding the strategic frame on rural tourism can also be found on a regional level in the Călărași County. These coordinates are determined and stimulated by the following aspects, such as:

- The existence of many villages;
- Maintenance of the rural functionality;
- Preservation of the rural infrastructure;
- Preservation of the traditional lifestyle;
- Preservation of the cultural identity specific to the analyzed area.

For the specific situation of the strategic objectives of the rural tourism region South-Muntenia, of the Călărași County, this meant knowledge and evaluation of the pre-existent situation, according to the objectives of the domestic development of tourism. For a fast adaptation to these initiatives/ directives, one needs knowledge of the specific structures in accordance with the specific frame on national level, for the period 2007-2026. This frame includes:

- Administrative structures for the coordination of the rural tourism activities/ rural tourism (regarding the role and function of the regional and central institutions, framing rural tourism);
- Planning and infrastructure; this coordinate comprises: access and infrastructure, planned development, implementation to comply to the international standards (for accommodation, tourist facilities, etc.);
- Development of the human resources (through campaigns for awareness of the importance of tourism, combined with training on the attitude towards tourists, both in the public and private sector, on all levels);
- Improvement of the rural touristic products (with special regard to accommodation and local attractions, which require a sustainable development and coordination from the public sector);
- Emphasis on the form of cultural tourism (which in the special case of Romania has an important impact, on the level of cultural events and folk events, religious sites, which require a special collection and transmission of information);
- The activity of the tourist information centers (through signaling systems and tourist centers), statistics and research (connected to a supplementary research, able to complete the requirements of the Tourism Satellite Account system. Thus, we can offer a better evaluation of the general economic impact of tourism, allowing comparison in point of performance with other tourist destinations), destination marketing (an understanding of the marketing mix of the current promotional activities, targeting the specific strategic objectives);

- The environment (the negative practices posing a threat to the country's image);
- Investment policies (it is necessary that the OMT should organize a series of Tourism Investment Forums, with the aim of attracting wider scope investments);
- The legal frame (these frames should be united all together, to remove the abnormalities, so that people could understand easier and increase their possibilities of implementation).

All these trends are mandatory for the formulation and implementation of strategic alternatives.

### **2.7. Strategies and objectives in the rural tourism of the South-Muntenia area of the Călărași County**

With regard to the sustainable development strategy for rural tourism in the analyzed area, it is considered mandatory to know and respect important aspects such as:

- Reduction of the environmental degradation;
- Preservation of the natural and anthropogenic resources;
- Providing additional income for the people in the rural communities with touristic potential;

In order to schedule the development of tourism in the county of Călărași, the following strategic objectives need to be considered:

- The development of touristic products based on the specific characteristics of the area;
- Investments in infrastructure and touristic equipment;
- Continuous training and development of the human resources in tourism;
- Rural touristic promotion and marketing.

Based on these elements, the following general objectives can be delineated, for the strategic development of rural tourism in the region of Călărași:

- The promotion of modern concepts for touristic development;
- The implementation of a modern management, regarding the improvement of the tourist services quality;
- The development of national and regional programs and projects, for the development of tourism;
- Revamping of the tourist offer, increase of the competitive capacity and attractiveness of the domestic and international tourist market;
- The development of a favorable image, backed up by an aggressive promotional policy, with the purpose of increasing the rural touristic demand;
- Ensuring the quantitative and qualitative training of staff;
- The development of new specific rural touristic products, on local and regional level, attracting new segments of tourists;
- The adoption of regulations in the field of rural tourism, on the request of the European Union;

- The evaluation of the fiscal policies regarding their effect upon tourism;
- The adaptation of tourist activities to the domestic and international policies n tourism;
- Sustainable development of rural tourism;
- The promotion of the Călărași area as a tourist destination, highly attractive on international level.

Based on these general objectives, the set of specific rural touristic objectives can be developed, in accordance with the regional character of the Călărași County. They can be considered developmental targets for rural tourism, which can be addressed through common actions, unanimously accepted, focused on the following items:

- The economic development of the rural areas through: restructuring of the businesses in the rural areas; improving the performances of the existing companies, supported by technologies involving production based on alternative agriculture; increasing the sale of goods and services through active marketing techniques.
- Magnification of the infrastructure network in the analyzed area: maintenance of the road network, facilitating access of tourists in the rural areas; extension of water supply and sanitation system; protection of the natural environment and improvement of the quality of life in rural areas;
- Increase of the rural touristic activities;
- The need for an update of the tourist offers;
- The development and improvement of the quality of regional tourist products/ services;
- Qualification and training of the labor force. Regarding the human resource training objectives, the following issues need to be addressed: support and facilitation of the employee and unemployed training; support for the establishment and consolidation of NGO-s an initiative group;
- Knowledge and stimulation of intervention ways such as: specific activities by own forces; indirect facilitation of other organizations and institutions activity; attendance to other institutions activities (development agencies, foundations, etc.).

In the Călărași area rural tourism has an important potential for development. There is a wide variety of hospitality industry options, based on a clean environment, high quality gastronomy and folk rituals in the area. Considering the lower level of basic infrastructure in the rural area, this type of tourism encounters difficulties about international competitiveness. There is a series of strategic objectives that can be suggested, for the development of this type of tourism, in the mentioned counties through:

- Improvement of the general infrastructure in the rural areas, this being an indispensable condition for the promotion of a competitive rural tourism. At the same time, there is considered the rehabilitation and promotion of heritage monuments in the area. Besides the development of the tourist infrastructure, there is also considered the possibility of a financing for rehabilitation projects and development of road infrastructure, as well as utilities.

- Signing of partnership agreements with different specialized organizations, allowing the facilitation of access to the European Union funding scheme, for rural tourism;
- The inclusion of the Călărași County tourist offers into the ANTREC catalog or the tour guides realized by the public authority for tourism, able to individualize the specific of the region;
- The development of the rural tourism offer, by introducing in the tourist offer other villages with high development potential, besides the ones along the Danube River bank.
- The organization of permanent exhibitions in the town of Călărași, where tourists could get in touch with the traditional local art and receive informative fliers about the regions of the Călărași County with the highest potential for development.
- Improvement of the overall degree of attractiveness and accessibility of the localities in the region, through the building or rehabilitation of investment objectives in different profiles (hospitals, schools, shops, etc.);
- Increase of competitiveness for the places that could be taken into consideration for their business potential, by improving the business support infrastructure and foundation of SMEs.
- Increase of the economic and social role of the bordering urban centers upon the rural areas, by the building/ rehabilitation of public spaces and implementation of integrated development programs.
- Enlargement of the directions for the promotion of the cultural and religious tourism, through the Office of the Romanian Patriarchate Pilgrimage and pilgrimage centers such as “St. Parascheva” of the Moldavian and Bucovina Mitropoly and “St. Nicodim” of the Oltenia Mitropoly (Crețu, 2012).

## **2.8. Ways of influencing and implementing the action lines in rural tourism, in Călărași County**

Strategic objectives permanently undergo adaptive changes bi-dimensionally: on the one hand the requirements of the rural touristic market, and on the other, the perceptiveness of the agricultural exploitation towards the rural touristic potential. For the South-Muntenia region analyzed, the problem is to understand the ways rural communities could be influenced by the public administration towards an implementation of the ago touristic activities.

These paths can be separated as direct and indirect.

- a) The direct influence paths are used mainly by the public administration through:
  - Regional factors (infrastructure, public utilities, delimitation of the price levels, etc.);
  - Labor force factors (the stage and improvement of the local experience, qualification and training of staff, etc.);
  - Local taxes (levels)
- b) The indirect paths influence, used by the public administration:

- The development of a positive image of the South-Muntenia region and of the tourist areas;
- Administrative efficiency, by an increase of the rate resulting from the volume of services provided at municipal level;
- Improvement of the quality of living, through facilities for rural tourism households, offered by the public administration;
- Promoting recreation and cultural facilities;
- Ensuring the high quality of schooling in the village;

For the accomplishment of all these objectives we need to know the key factors for a sustainable development of the rural areas of Călărași County. Thus, the delimitating elements, able to favorably influence the implementation of the overall rural tourism objectives, such as:

- The promotion of rarity of the natural elements, which sometimes are unique, in the rural environment;
- Enhancement of the level of rural touristic activities, which are still at a reduced scale;
- Boosting the diversification of activities which need to be made without replacing the traditional activities;
- Rural touristic activities need to be considered as an instrument able to solve the rural tourism services and/or mitigate certain problems of the rural communities;
- Preservation of the traditional elements of the community and environment;
- Getting the benefits from the rural tourism activities, given the existence of a local control, leading towards a strengthening of the local communities.

Implementation of the rural touristic strategic objectives requiring long term efforts, with effects on the agricultural activities with high rural touristic potential. As a specific of the analyzed area, the ways of implementation can be structurally achieved by means of:

- Approval of the policies and tourist plan, as an official document, and for the development of rural tourism in the South-Muntenia region;
- Structuring of development on a 5-year period – programming of the development projects and needed actions (generally called programs of action for rural tourism);
- Efficient organization of the public and private sector, maintenance of a strong coordination between the public sector, the private one and non-governmental institutions, where they are involved;
- The adoption and application of the most appropriate legislation and of the regulations needed for the development of rural tourism on local level; all these include regulations regarding the facilities, standards and general services, but also specifics of rural tourism;
- Protective measurements for the environment, development standards (generally included in the regulations regarding local development) and the

design of touristic guides, with detailed presentation of the rural touristic facilities;

- The establishment of the guided tours and important objectives;
- Efficient and systematic financing of the individual tourist projects;
- Financing of the public sector, for the development of tourist attractions and infrastructure. In specific cases, for this financing, foreign assistance might be needed;
- Attracting investments in the private sector, for the development of rural touristic facilities and services (through investment bonuses);
- Training and improvement of employees, in all tourist activities – the development of the potential human resources for rural tourism;
- Involvement of the local communities in the development of rural tourism;
- Knowledge about the promotional campaigns and efficient implementation of tourist marketing, for the entire region and rural guesthouses;
- Efficient and sustainable management on micro- and macro territorial of the rural touristic level.

### **3. The use of the SWOT analysis in drawing the strategic objectives of rural tourism**

SWOT analysis is a method of analysis for prospect situations, which gives us the chance to know more about the perspectives for the strategic objective of Călărași area. On community level, SWOT analysis is frequently used for the strategic planning.

In the region analyzed with the SWOT analysis we can determine the present situation, focusing mainly on the rural tourism development strategies. The analysis model for the SWOT methodology searches for the delineation/ finding of answers to the possible questions regarding the long-term strategy for the development of rural tourism in the region:

- a) Strengths: which are the advantages for the development of rural tourism in the South-Muntenia region? What should we do in the rural South-Muntenia region in order to develop tourist activities? Which do the favorable characteristics existent in the region at the moment, for the development of certain rural tourist activities?
- b) Weaknesses, which need answers to the following questions, what is badly done in the rural touristic activities? What are doing the others (other rural guesthouses) to improve the situation? Which are the main disadvantages unfolding in the rural tourist activities?
- c) Opportunities of accomplishment of the favorable objectives: which are the positive/ favorable tourist exchanges for the rural touristic guesthouse? When/ how do we find the most favorable opportunities?
- d) Threats, related to answers to the following questions: which are the main requirements hardly to accomplish? Which are the changes that can become a disadvantage for the rural touristic activities, and one cannot compete with?

\* Strengths are based on knowledge about the factors that refer to the following: natural resources of the region, which can become a significant asset for the rural touristic development of the region; the accomplishment of connections with the surrounding areas, and other regions from the South-Muntenia area, the localities being crossed by different road routes, accessible to tourists; the existence of numerous cultural-historical and religious edifices; natural resources and climate conditions favorable for the development of rural tourism services (modern but also ecological), backed up by other non-agricultural activities (small local industry, craftsmanship); increase of the accommodation capacity but also of the standards of quality for the services offered; procurement of high quality agricultural products (organoleptic and green), backed up by the Romanian traditional hospitality; labor force relatively well trained and cheap; the existence of processing capabilities for the agricultural and non-agricultural commodities.

\* Weaknesses can delineate the following factors: insufficient financial resources; the existence of insufficient and temporary promotion conditions for specific rural tourism activities (in the regions with real and high tourist potential); depopulation of the villages and towns; use below the capacity level of the rural tourism units; the existence of a transportation network still underdeveloped; weak and low level of professional training, in the field of tourist services, which results in a lack of certification for tourist services on rural guesthouses; lack of consultancy services for prospect investors in rural tourism, with regard to the lack of tourist information centers and travel signs; on specific regions there can be observed a lack of involvement from the local authorities regarding the preservation of the environment;

\* Opportunities can be delineated from the following factors: the existence of a natural environment, of attractive tourist objectives and of the cultural-historical and religious heritage, which represents the basis for the development of rural tourism (because the rural tourism development programs include specific sub measures); increase of tourist demand for rural destinations; courses organized by ANTREC; development of event and festival tourism; development of the pre-existent rural touristic packages; promotion of the destinations with a long history in the tradition of traditional food products; international acknowledgement of the rural tourism development of the analyzed area; improvement of the infrastructure and utilities of the region; encouragement of new types of tourism (recreation, rural, green); expanding the network of farms and authorized households, for the rural touristic practices; availability of further resources, to be accessed by European Union funding policies (with regard to the possibility of accessing structural funds).

\* Threats, with reference to the following elements: lack of facilities able to stimulate possible investors and lack of guarantee that they will not lose their investments (for example tax exemption during the first decade of activity); reduced number of tourists for certain areas from South-Muntenia region; improper modernization of rural housing; migration of young people towards the developed areas; improper unfolding of rural tourism programs; reduced initiative of the local institutions to the changes and challenges of present day society, leading to a decrease of competitiveness in the region, in favor of other areas; tourist migration towards other regions which operate more efficiently their potential; competition with other tourist destinations already famous; stagnation of economic development on local, regional and national level. (Alec, 2002)



By controlling these four elements presented in the SWOT analysis and grouping them in twos, we can delineate strategies adapted to the specific case of Călărași region, such as:

- S-O (Strengths - Opportunities): pursuing opportunities for services in rural regional tourism, which better fit to the regional strengths;
- W-O (Weaknesses – Opportunities): overcoming weaknesses signaled in the rural tourism activities and pursuing of opportunities;
- S-T (Strength – Threats): identification of the ways to use strengths in unfolding the rural tourism activities, in order to reduce vulnerability to external threats;
- W-T (Weaknesses – Threats): establishment of a defense plan, in order to a situation when the weaknesses become extremely vulnerable to external threats, in the rural tourism activities.

These strategies can be adapted to the Călărași County rural tourism, by placing on local level, not only policies and economic and social strategies, but also operational regional programs for the implementation of services, agricultural/ non-agricultural technologies, use of the labor force, etc. SWOT analysis allows the identification of the internal and external factors able to affect the rural tourism guesthouse, quantifying their impact upon it.

### **3.1. The tourist village, strategic objective for Călărași region**

The complex issue of village functionality, of the traditional and cultural lifestyle of the rural space represents the premises of the implementation of an rural touristic strategy.

Among the basic strategic objectives which need to be adopted in agreement with the requirements imposed by the European Union and the immediate realities of the Romanian rural context. All these can be solved with the help of rural tourism which turn Romanian village into a more functional environment. The strategic objectives are based on the following items:

- The development of a type of rural tourism association, in rural communities, where all the owners have their own initiatives;
- Diversification of the agricultural and non-agricultural production;
- Adoption of the most adequate measures, in order to preserve the natural heritage, specific to the area including the popular and ethno-historical heritage (thus, raises the question of the maintenance and recovery of viable traditional values);
- The adoption of a strategy inside/ outside the European Union, imposing knowledge and adjustment of the Romanian village to the realities of present day life.

Thus, we can say that the strategies for the development of the traditional Romanian village represent an adaptation to a model, created for the real needs of present day Romania. The market niche can be accomplished through the multitude of alternatives, such as:

- The product itself, the South-Muntenia region village, with its multitude of ethno-folkloric manifestations, specific gastronomy, specific natural and anthropic elements;

- The price, with the most advantageous price/ quality ration;
- Convenient access, needed in order to create a competitive advantage for the territorial infrastructure.

Customizing these issues, we can say that the Călărași region village needs to meet the following requirements, in order to become a tourist product:

- delineation of objectives, capitalization of opportunities and remedy of deficiencies, in order to become a real attraction;
- the existence of an internal communication (with regard to the persons interested by the development of the village) and external communication (media and the press, business environment, potential clients, etc);
- coordination of activities as part of a multi-disciplinary team, comprising specialists in different fields of activity, who have a single common task;
- all those involved in these activities need to know and avoid unnecessary risks;
- implementation of an adequate quality standard by assessing the implementation of activities;
- tendency towards a cost decrease by efficient resource allocation.

An important role in the projection of the tourist village of is played by the local community who needs:

- to clearly define the strategic objectives for the tourist village;
- to manage the changes, from the patrimonial rural area into a tourist destination;
- to choose the most appropriate methods;
- to overcome the risks and uncertainty;
- to accomplish the multidisciplinary teams, able to realize the change of the project.

In the analyzed county, such strategic objectives can be launched through a project called: “Vatra Valahă” holiday village, arguing the opportunity, as part of a Traditional Romanian Tourist Village Model. This project is aimed at facilitating access to the authentic traditional Romanian culture, for all those wish to see and experience the healthy lifestyle, traditions, customs and hospitality of the Romanian people from the region of Muntenia.

The pleasure to visit, even only part of these rural settlements, during these present times of intense labor for the urban employer, is hardly possible, especially in today’s struggling times. The stay could be centralized only visiting a single representative site for the Romanian village, encompassing in its structure as in a living picture, the Romanian village from the most flourishing period of its existence, Romanian hospitality and traditional peasant architecture, made up of:

- 1) The ethno-touristic village with a double function, of accommodation and as landmark, with the following components:
  - A number of authentic houses of patrimony, called “the authentic core”, traditional Romanian houses restored and moved to a new protected location. They are moved to the holiday village and are some of the houses which were in an advanced degree of degradation, doomed houses because of the social and economic factors of today’s Romanian society;

- An estate with an cottages built in the traditional peasant architecture, made up of distinctive houses, ecological accommodation facilities with bathroom, built in accordance with the local architecture representative for the historical Vlach region, identical replicas of homes which once were characteristic of our culture, featured on the list of historical monuments of the region, but because of numerous reasons they disappeared, called “replica assembly”.
- 2) The annexes of each house made up of:
    - An annex of the house where there are raised each species of domestic animals (hens, ducks, geese, rabbits, etc.).
    - A craft workshop (woodwork, metalwork, shoemaker, harness, tailoring, pottery, glassware, distiller, bread oven, etc.) and tillage, where traditional agriculture, 100% green is practiced, taken advantage of at the restaurant of the mansion or manor of the Craftsman’s Culture and Creativity Center. At the same time, each house will have a watching dog, taken from the community center (Popescu, 2009).
  - 3) The village center, where the Mansion can be distinguished (the administrative building comprising the reception and the big hall for serving the meals), the Church “of a single wood” (religious service), Turret Tower resting place Cula type (guesthouse), “Draw-well” (wishes well), “Ox cart” (traditional means of transportation), etc.
  - 4) The center for related activities, called the Center for Vlach Popular Creations, where the following tourist objectives could be distinguished: Tavern, Bee (traditions), the village dance (customs), Iocan’s Meadow, which will have the function of a Creative Camp, Meetings hall (meetings with the writers, popular artists, craftsmen), meetings and conferences, book release, popular music auditions, festivity hall, film gala, accommodation and restaurant facilities, “The Millpond” (fishing), “The Village Pub”, “Rounders ground” (rounders – national sport), The sheepfold from the hill (green products), other activities, etc. heating will be 100% green. Waste collection and sewerage are according to the standards required by the gradual Ecolabeling, Green tourism (Bran, 2005).

In order to build a rural tourism guesthouse, comprising all the regional details (Moldavia, Muntenia, Transylvania, Oltenia, Dobrogea) the following elements are necessary: materials, technological and building systems, types of roofing, decorative items for columns, decorative wooden porches, decorative elements for the exterior decoration of the houses.

All these elements lead towards the fundamental strategic objective for the present day rural tourism, in the Calarasi area, that of changing today’s Romanian village into a “tourist village”, integrated into the ethnographic zone”. Thus, we can create a new tourist product, extremely original, comprising the cultural, historical, gastronomic and curative sub-products (Crețu, 2012).

### **3.2. Non-agricultural activities – strategic elements in the development of the tourist village activities**

Identifying the vocation of the rural tourism region, through traditional food products, requires more and more strategies adapted to the food symbolism of the Călărași County. Framed as strategic objectives, well founded to the analyzed rural tourism region, one poses the question of identifying the legal frame for the agricultural exploitation, acquiring traditional products, but which can also provide rural tourism services.

Further on, the aspects regarding the forms of presentation of traditional food products offer are concerned. On regional-territorial level, in the structure mentioned under the aspect of structural types of products (SC, PFA, AF, AP), we can signal the differences between the offers (quantitative/ qualitative, time/ space).

Or, for the efficient valorization of products and successful launch of the offer, one needs to know how to formulate a strategy aimed at specific targets, such as:

- The development of an infrastructure, needed for the economic support and capitalization of the traditional products, by knowledge on the specific types of framing as culinary recipes, adapted to tourists' behavior;
- Supporting the promotional campaigns for traditional food products, specific for different tourist areas, but with a strong vocation on certain traditional food products (as a specific element for regional identity and an economic advantage, competitive on national level and EU level);
- The possibility that the offer be presented in a local traditional shop, where a special relationship between the seller and buyers can be developed. Small producers of traditional products, as representatives of the rural tourism exploitation, meet directly with the consumers and explain them about the products.

As part of the rural tourism activities, traditional products offer represents a solution not only for the potential tourist, but also for the producer.

It is worth mentioning that the production of traditional food products requires farms to fulfill the requirements regarding: work environment, sources of raw materials, water supply; the existence of facilities for the sanitation of containers used in the transportation of raw materials, equipment and devices used in the production process; the staff getting in touch with the raw materials and food products should respect the rules of personal hygiene (Bran, 2005).

An important role in the certification and registration of Romanian food products is played by the logos. The criteria for their use are determined by:

- Identification on the market of the agricultural products or food products recognized as STGs.
- The informative use on communication and information support;
- The property rights belonging exclusively to MADR.

After acquiring protection on community level, the national logo can be used together with that of the community backing up the following rural tourism strategies:

- To identify on the rural tourism market the denomination (IGP/DOP) for the products acquiring protection on national level;

- After acquiring protection on the community level, the national logo will be used together with the community logo;
- National logo can be used as informative or for publicity.

Thus, Călărași County region can also be attractively represented with the help of such traditional products.

With regard to the outcome of the rural tourism services, we can say that, for the owners of the small workshops and small factories from the rural area, it is mandatory that they develop a set of viable strategies, such as:

- The status of a “shop owner” in the rural tourism regions, who are not craftsmen, but owners of the workshops producing products for sale (as well as small factories).
- The existence of shop and small factory owners who were not born in the region and do not live there with the entire family;
- Cases when the craftsmen who were not born in the village or town, but own property and agricultural land give the land on lease or association, in order to develop rural tourism activities;
- The focus and aims of the craftsmen from the rural tourism region are to develop a business (craftsmanship/ rural tourism), and that is why sometimes they have to cope with obstacles in their activity;
- Certain craftsmen have children who are even bachelor students; others wish that their children graduate university and takeover the business from their parents. Some other times the children have already graduated faculty, work in big cities, and are strongly helped by their family to start a business in the new town where they live.
- In most cases, craftsmen have the tendency to develop their business, where more important than satisfaction is achieving the goal (enlarging the business).

We can conclude that the strategic objectives should be to appreciate the values of each village or small town from the South-Muntenia region. We can make an inventory of all these, in order to help guesthouse owners and tour operators to find more about the crafts, laces and interesting activities in the region. A way of preserving the structural evidence of these sources is presented in Table, below.

**Table 2. Names of products and places that can be nominated as strategic touristic objectives in the south-Muntenia region of Călărași and Giurgiu County**

Type/ group of products	Name of the place	Geographical localization	Items that can be purchased
Pottery	Pottery shop, villages located on rivers.	Most localities in the county of Călărași	Vases, bowls, pitchers
Wooden objects	Carpentry workshop, wood carving	Most localities in the county of Călărași	Tools / woodwork
Stone objects	Craftsmen workshop	Most localities in the county of Călărași	Crafted stone objects
Carpets and rugs	On the road, at the workshop where they are manufactured	Most localities in the county of Călărași	Carpets and rugs
Popular fabrics	Fabrics workshop	Most localities in the county of Călărași	Popular clothing
Dairy	Pen space market	Most localities in the county of Călărași	Processed dairy products (cheese, traditional creamy cheese)
Fruits and fruit-derived	Kiosks, stores, at the producer	Most localities in the county of Călărași	Jam
Spirits	Kiosks, stores, at the producer	Most localities in the county of Călărași	Brandy
Bar and restaurant	In the villages, on the tourist routes, inside the farm.	Most localities in the county of Călărași	Food "specialties", various menus, cards
Ethno-folk events	Open space or community center	Most localities in the county of Călărași	Show viewing.

*Source: self-processing*

#### **4. Requirements and new systems for the development of a reference frame in supplying services in. the Călărași County**

In a very short period of time, rural tourism became a certainty in our country, being presented as a complex and well-structured activity, able to satisfy the economic, social, cultural and spiritual needs.

Thus, a new way of spending free time is targeted at four different fields of experience that need to be offered simultaneously: exploration experience, biotic experience, social experience and optimizing experience.

According to these concepts, the need for the development of a strategy on rural tourism became a must, if we take into consideration the requirements, application systems, and the development of a reference frame for the delivery of tourist services.

For the specific case of Călărași County, the requirements and systems for rural tourism services delivery are based on providing a system with three categories of services:

- The system of production of rural tourism services, which represents a managerial function starting from the level of the guesthouse, toward the other levels;

- The support system for rural tourism services, considered as a managerial function, on all levels of coordination, with involvement of the contact staff and operational staff;
- The distribution system (delivery) of rural tourism services, dealt with by the company staff.

All these strategies are based especially on the system of rural tourism services delivery. They are used to assess the interaction with staff and material resources, which can be structurally rendered as: spatial (where the activity takes place), temporal (when do they take place), structural (with reference to the material and social realities that require adjustment in order to comply with the needs of the touristic consumer) (Honțuș, 2005).

The strategies permanently need to follow a process of creativity in ago tourism, which can be accomplished through successive stages, such as:

- The instinctive phase of search, which is placed in the unconscious sphere, without a predetermined scope or design;
- The intuitive phase, when the different forces of the environment are determined, and the connections determining the interferences are observed;
- The awareness, considered the third phase, when the ideas are sorted and selected, and those that are not feasible or cannot find applicability will be eliminated from the rural tourism guesthouse; those procedures or services considered efficient will be kept;
- Logical definition of the new ideas, aimed at developing strategic objectives. These can be continued through operational processes, associated with the analysis of the economic aspects needed in the implementation stage (with reference to the possibilities and costs of implementation and advantage appraisal).

Thus, the need for further strategic knowledge on the implications of the rural tourism activities at the provider and consumer level is created:

- a) The provider takes into consideration the following:
  - The existence of a fair report between the quality and level of classification and price;
  - The creation of a specific, personal environment, for each tourist product;
  - The unfolding of a high standard activity, which will be compared with that of the competitors, included in the itinerary.
- b) The consumer, the client- tourist can benefit from things such as:
  - Possibility to meet new people, different customs and traditions;
  - Different forms of behavior, the hospitality in different regions;
  - The degree of perceptiveness on offering suggestions.

By knowing all these functional characteristics, an efficient strategic frame of development of rural tourism can be created in our country, assuming the existence of a set of economic policy measures, among which we can mention:

- The development of a budgetary mechanism, able to support financially the fixed objectives through a development strategy;

- The creation and continuous training of a legislative frame able to support rural tourism guesthouses;
- The development of a monitoring mechanism, on national, regional and local level, able to follow the sustainable development indicators;
- Improvement of the local capacities in using management and organizations instruments, such as the area and spatial planning, not only for the protected areas, but also for the buffer zones and all the other areas with real rural tourism potential;
- The use of guiding lines, known and used on European Union level, in order to put into application, the quality of services system of certification;
- Support for the agricultural areas, included in the research programs on rural tourism and sustainable development.

This way we can explain the strategic objectives of the rural tourism marketing activities, in the Călărași County, structured as follows:

- Improvement of the activity of the existent products, especially for those related to rural tourism/ food.
- The development of new tourist products, able to capitalize especially the potential offered by the area around these counties;
- The development of a positive, identifiable image, using all the promotional methods and techniques, to satisfy the needs and wants of the tourists, during their stay;
- The qualitative and quantitative improvement of the promotional material and distribution networks;
- The promotion, during the same touristic product (tour) of two or more types of tourism (there can be developed tourist arrangements that can contribute to the wellbeing of the tourist on his/ her stay on the rural tourism guesthouse, in the South-Muntenia region, combined with travel itinerary, with cultural values) either for two or more complimentary tourist destinations.

In order to reach these targets, a county tourism office needs to be set up, which could boost the entire activity in the field, cooperate with the parties involved, and offer the necessary financial support. Human resources are also essential, because developmental programming requires operational activities, with predefined tasks and objectives.



**Table 3. Monthly correlations regarding the arrival influence (x) on overnight accommodation (y), on the rural tourism guesthouses in Călărași County**

No.	Month (according to the period 2007-2010)	Function	Correlation coefficient
0	1	2	3
1	January	$Y = -1354 + 4,88x - 0,00197x^2$	0.93
2	February	$Y = 1695,55 - 2,105x + 0,00186x^2$	0.68
3	March	$Y = 1426,16 - 1,33x + 0,00124x^2$	0.99
4	April	$Y = 7,69 + 1,808 - 0,00026x^2$	0.96
5	May	$Y = -694 + 3,098x - 0,00081x^2$	0.96
6	June	$Y = 475,31 + 0,738 + 0,00017x^2$	0.98
7	July	$Y = -112,21 + 1,802x - 0,00018x^2$	0.98
8	August	$Y = 320,98 + 1,262 - 0,00002x^2$	0.95
9	September	$Y = 233,17 + 1,388x - 0,00019x^2$	0.9
10	October	$Y = 4300,06 - 5,768x + 0,00281x^2$	0.92
11	November	$Y = -561622,4 + 1218,117x - 0,65418x^2$	0.82
12	December	$Y = 2029,93 - 1,167x + 0,00104x^2$	0.94

Source: self-processing

By interpreting the influence of arrival (x) upon overnight accommodation (y), the different values of the correlation coefficient, rendered in table 3, outline two aspects:

- A lower corrective lever for the months of February and November (the values being between 0.82 and 0.68), which can be translated into weaker relationship between arrival and departure;
- A stronger connection between the other months (with values varying between 0.90 and 0.99), in which case the arrivals strongly influence the departures (Tindeche, 2004).

## 5. Conclusion

Rural tourism demands a better knowledge of the present structures. The main types of tourism practiced in Romania, in accordance with the regulations of OMT, can be structured according to the types of classification after tourist origin, source of the tourist service offered, degree of mobility of the tourist, means of transport, travel motivation, socio-economic characteristics of the tourists (Popescu, 2009).

According to the degree of complementarity and specificity, tourist services can be classified as: specific services, direct services, unspecified services, considered connected.

**The complex character of tourism** requires knowledge about all economic, social and ecological components. Rural tourism services are extremely diverse, according to the characteristics of the area, season, and traditions.

**The characteristics and scope of rural tourism** differentiates it from traditional standard, tourism, due to the services, structure of the offer, complimentary activity of tillage, compatibility with mass tourism, etc.

That is why it is absolutely mandatory that a direct coordination line for the rural tourism activities need to be developed, in order to attract investments and foreign partnerships, so that a tourist structure be raised, to improve the living standards of the rural areas of South-Muntenia region, of the two counties.

For the status of the strategic rural tourism objectives of the South-Muntenia region of Călărași and Giurgiu counties, this meant an evaluation and understanding of the present situation, according to the objectives for the national development of tourism. In order to adapt to these strategic initiatives, it is necessary knowledge about the specific structures, in accordance with the national coordinates for the period 2007-2026. They regard:

- Administrative structures for the coordination of the rural tourism / rural tourism activities;
- Planning and infrastructure; these comprise: access and infrastructure, planning of the development, implementation in order to comply with the international standards;
- Development of human resources;
- Improvement of the rural tourism services;
- Focus of cultural forms of tourism;
- The activity of the tourist information centers, statistical and research offices, and marketing of the destination;
- Environment;
- Investment policies;
- Legal framework.

By summing up all these factors we can conclude that rural tourism can add value by: development and support of the rural areas with real touristic potential; the accomplishment of a real touristic product, a regional sustainable development of the region.

### **References**

- Alecu I.N., ș.a., (2002), *Agricultural management in Romania. Past, present and future*, Ceres Publishing House, Bucharest.
- Alecu, I.N., ș.a., (2006), *Agro tourism and agro marketing*, Ceres Publishing House, Bucharest.
- Alexandrescu, C., ș.a., (1980), *Counties homeland, Calarasi, Monography*, Sport-Tourism Publishing House, Bucharest.
- Andrei Ruxandra, ș.a., *Measuring the sustainable development in vision of tourism*, Tourism Magazine, no. 3 (Internet: <http://www.revistadetourism.ro/i>).

- Antonoaie N., Foriș T., Crețu R.C. ș.a., (2002), *Tourism Management. Ecotourism-component of modern tourism*, Psihomedica Publishing House, Sibiu.
- Beciu, S., Popa, O.E., Nistor, Ș., Olteanu V., (2011), *The Socio-Economic Dimension of Rural Development for the North-East Region of Romania*. African Journal of Agricultural Research, ISSN 1991-637X.
- Bran F., Crețu R.F., (2005), *Economic and environmental problems of the Danube and Black Sea*, second edition, ASE Publishing House, Bucharest.
- Crețu, R.C., (2013), *The Certification Systems in Ecotourism*. Scientific Papers Agricultural Management, 15(4), 64.
- Crețu R.C., Ștefan P., (2012), *Agro Resources*, CERES Publishing House, Bucharest.
- Honțuș A., (2005), *Agro touristic planning of territory*, CERES Publishing House, Bucharest.
- Popescu L., (2009), “Live stocks According to Species and Animal Productions in the Calarasi Country in the interval 2000-2007”, co-author, 4 pages, published in the volume of scientific papers, Faculty of Animal Husbandry, USAMV Bucharest.
- Tindeche C., (2004), *Financial and economic analysis of the catering and agritourism units*, CERES Publishing House, Bucharest.
- \*\*\* National Institute of Statistics: „Romania Tourism-Statistical Summary” 2000-2013.
- \*\*\* - Country Vacations Magazine, 2010-2013.
- arhitectonic.blogspot.com
- <http://www.ghiduri-turistice.info>
- <http://www.globetravel.ro/-2013>
- <https://www.google.ro>
- <http://ro.wikipedia.org/>
- jurnaldecălătoriei.net
- ofertelelastminute.wordpress.com
- www.infotour.ro
- www.travelontop.ro
- www.travelwiz.ro.