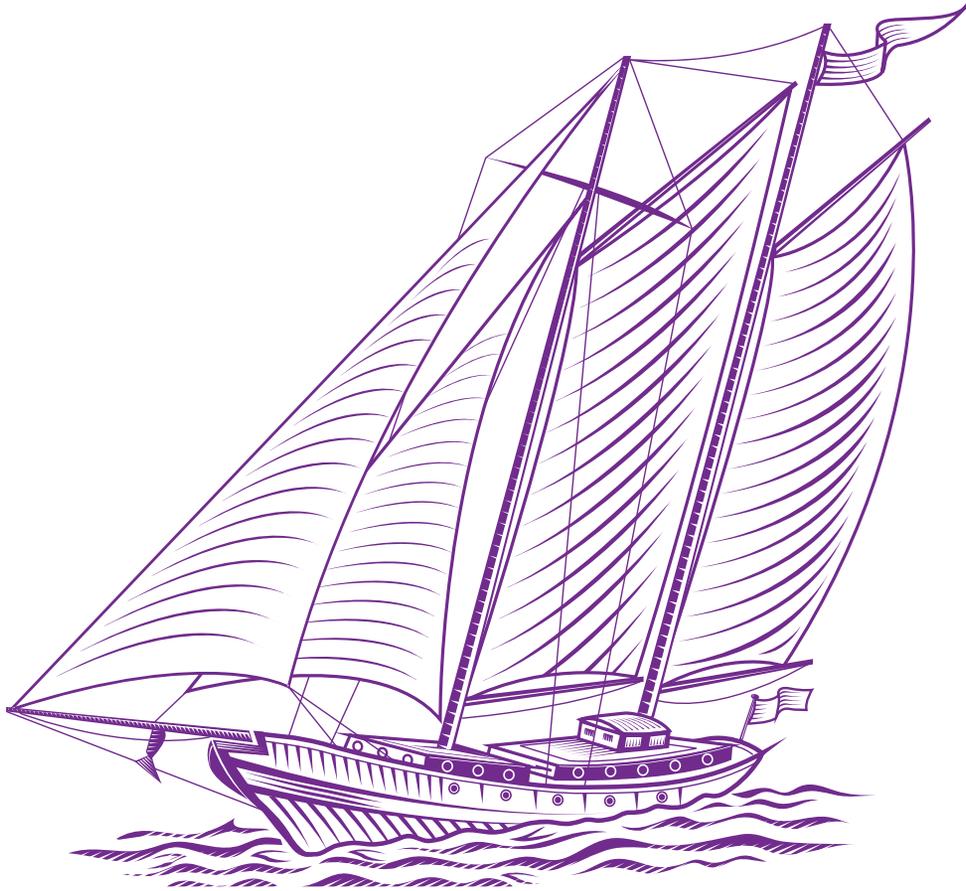




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STRATEGIES AND STRUCTURES OF POLISH SMES

WIOLETTA MIERZEJEWSKA¹

ABSTRACT. The topic of strategy-structure relation has already been widely discussed in the literature but the research so far concentrated mainly on large enterprises in developed countries while not much research has been done on a sample of small and medium-sized enterprises in the so called transition economies. This study aims to answer the question whether the strategy is a factor determining organisational structure in small and medium-sized enterprises and whether the structures of small and medium-sized enterprises applying various strategies have different characteristics. Strategies and related organisational structures of SME were analysed using a sample of 380 companies from the SME sector in Poland. The research was carried out using the CATI (computer assisted telephonic interview) method, which made it possible to analyse a large group of enterprises. Factors determining the organisational structure were chosen on the basis of a literature review. The description of organisational structures was based on the concept of Burns and Stalker, identifying mechanistic and organic structures, the different features in respect of level of formalisation, centralisation, standardisation and organisational structure configuration. Strategies were identified according to their development direction (diversification, internationalisation). Unfortunately, the findings of this study show very weak statistical relations between strategy and organisational structure dimensions. This may be associated with other factors influencing the structure of small and medium-sized enterprises, and requires further study. However, in managers' opinion, applied strategy is one of the most important structure-creating factor.

Keywords: strategy, organizational structure

JEL classification: M1: Business Administration; M10: General

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Introduction

Organisational structure is a system of certain elements and their relations which should make it possible to attain goals of an enterprise. Organisational structures have been evolving along with the changes occurring in enterprises. If we look at the development of industry, certain stages or directions of enterprises development can be distinguished. These directions of development were accompanied by changes within enterprises. Sometimes these changes were introduced in advance to maintain a high level of enterprise operational efficiency, and sometimes the changes were forced by both internal and external factors. It can be stated however that organisational structures were evolving similar to enterprise management.

The issue of organisational structures is very important and up-to-date, although recently scientific publications are more concerned about network structures, while organisational structures are less exposed. The research on organisational structures can be divided in: a) research identifying organisational structures; b) research on structure-creating factors; and c) research on effects of applying a specific organisational structure. The first type includes research which analyse organisational structures in respect of parameters that describe them. It was specific for the first stage of development of management sciences [e.g. Pugh et al. (1968)]. The second and the third type of research on organisational structure are concentrated on investigating the relations between specific parameters or structure types and some elements typical for an enterprise activities. These are both economic indicators and applied action strategies [e.g. Dalton et al. (1980); Pleschko (2006); Tata et al. (1999); Galetić et al. (2000)].

A considerable amount of research on organisational structure is dedicated to structure-creating factors. Research on structure-creating factors considers both internal and external factors. External factors are

identified with the environment in which an enterprise operates. The previous studies prove the existence of relation between the environment uncertainty and the shape of organisational structure. And such environment uncertainty is understood as the level of the organisation's managers' perception of changes in the external environment. Environment uncertainty should result in greater flexibility of activities, although not all research confirm this (Koberg & Ungson, 1987; Bourgeois et al., 1978). Burns & Stalker (1961) published an important study on the impact of the environment on the organisational structure, where they introduced the idea of two extreme forms of organisational structure, depending on the type of environment in which an enterprise operates. The authors identified an organic structure in the case of a dynamic and complex environment, and a mechanistic structure in the case of a stable and certain environment. A mechanistic organisation is rigid and stable, while organic organisation, opposed to the former one, is very adaptable, flexible and changeable. They also suggested that the organic structure would prevail in situations of high information complexity and lack of dependence on resources. Mechanistic structure, on the other hand, would prevail in enterprises operating in sectors with low information complexity and whose activities are conditioned by access to specific resources (Lawrence & Dyer, 1983).

External structure-creating factors are also related to national culture within an enterprise operates. The studies highlighted the diversification in respect of organisational structure parameters of enterprises from different countries (Crozier, 1964; Lincoln et al., 1986).

Much more research is dedicated to internal structure-creating factors such as: age and size of an enterprise; applied production technology and development of information and communication technologies; strategy; employed people. The relations between those factors and organisational structure were investigated among others by Woodward (1965), Perrow (1970), Aldrich (1972), Kimberly (1976), Blau et al. (1976), Koberg &

Ungson (1987), Meier & Bohte (2003), Hensel & Glinka (2006), Zammuto (2007), Brzozowski (2010).

Definitely most research has been dedicated to the dependence between strategy and structure. The pioneer of research on dependence between strategy and structure was Chandler (1962). He had noticed that the development of a company necessitates constant application of different organisational structure, since coordination of various activities within structure applied so far becomes more and more difficult as growth progresses. Development of an enterprise contributes to the growth of scope, number and complexity of actions undertaken by its administration. The research of Chandler was further developed by a group of researchers under the leadership of Scott (1973) from Harvard Business School. They proved that strategy changes consisting in shifting from a single product type production to diversification were accompanied by changes in enterprises' organisational structure. Reconstruction of an enterprise structure into a division or a holding results in changes concerning certain levels of formalisation, centralisation, information flow or control of individual units. Williamson (1975) also indicates that more complex enterprises, applying advanced strategies, should introduce restructuring changes enhancing activities efficiency. Implementation of more complex strategies leads to changes in the area of internal control, extent of power delegation and application of coordination mechanisms. The changes concern also centralisation or decentralisation of certain decisions. Ciborra (1996) indicates that not only specific strategy, but also the development method (alliances, mergers and acquisitions) influence the organizational structure.

Wrigley (1970), Rumelt (1972), Donaldson (1982), and Zakrzewska-Bielawska (2008) also carried out research on the relation between structure and strategy. They analysed enterprises' structures applying diversification as their development strategy. Research results

prove that diversification requires a radical change of organisational structure. Research on changes in organisational structures of enterprises in the internationalisation process was carried out by Kraśniak (2012). He described the nature of organisational structure changes in the internationalisation process by analysing dimensions of organisational structures. It turned out that only the relation between internationalisation and configuration dimension could be identified. However, there was no such relation between the dimensions of centralisation, formalisation or specialisation.

Above mentioned researchers studying the strategy-structure relation indicate that strategy changes are not the only factor causing structural changes. Additionally, such factors are: expanding knowledge about enterprise organisation and new structure types, as well as growing competition and environment changes. It should be highlighted that a considerable amount of research includes analyses of influence of internal and external factors on the shape of organisational structure. Zakrzewska-Bielawska (2008) carried out such research, which resulted in listing factors that could influence the shape of organisational structure. Also Lichtarski (2011) indicates that external factors are mainly stimuli, while among internal factors there are many ones with two-direction influence and barriers that have a negative impact on the implementation and development of task-related structures.

The research mentioned above covered mainly large enterprises. There is no research on structure changes that occur under the influence of strategy in SMEs. Even fewer articles can be found on the comparison between the strategy and changes in the structure of large enterprises and SMEs respectively. It turns out that enterprises, irrespective of their size, tend to implement integrated strategy focusing both on costs and quality. The changes of organisational structures however are directed towards more intense formalisation and simultaneous decentralisation

(Spanos et al., 2001). It is also indicated that SMEs have an advantage over large enterprises due to their increased ability to introduce organisational changes, resulting from flatter and less formal organisational structure (McDonald & Wiesner 1997).

The identification of this research gap determined the present research on the structures of SME. The aim of the article is to answer the question whether strategy is a factor determining organisational structure in small and medium-sized enterprises and whether the structures of small and medium-sized enterprises applying various strategies have different characteristics. The question was answered on the basis of quantitative research on the structures of Polish SME. Subsequent sections of the article describe the method and research sample, and the research results.

Research method and sample

An analysis of strategies and factors determining the structure was conducted on a sample of Polish companies in the SME sector. It represents a part of a larger research project devoted to the identification of the organizational structure of this group of companies, carried out between 2012 and 2013².

The research project was based on a quantitative method and consisted of 380 computer assisted telephonic interview (CATI)³. CATI method offers the possibility to analyse a large group of enterprises with relatively low costs. The standardisation of interviewing technique

² W. Jakubowska, *Ewolucja struktur organizacyjnych w teorii i praktyce*[*The Evolution of Organizational Structures In Theory and Practise*], Raport z badań statutowych SGH [Research report], Warszawa 2013

³ Interviews were carried out by the company named "Indicator. Centrum Badań Marketingowych".

is also an advantage, which minimises the number of mistakes and increases quality of interviews. The disadvantage of CATI method in respect of the subject of research is given by its form and duration. The CATI research provided a data base, which, after revision, became an empirical material for further analysis. The analysis of the empirical material concerning specific research elements consisted in examining both the rate of dispersion of variables and the relations among them.

The study was conducted on three layers, which are distinguished by the number of employees in the company and which corresponded to the three groups of firms: micro, small and medium enterprises. The micro enterprise category accounted for 33.4% of the sample, the small enterprises accounted for 33.7% of the sample, and medium-sized enterprises accounted for 32.9% of the sample.

The main respondents in the study were business owners (104 respondents), a president or a deputy president (109 respondents) and a director-general or a deputy director-general (108 respondents). There were also respondents such as a director or a deputy director of the department (58 respondents) and one person authorized by the persons listed above. The structure of analysed companies was quite diverse. The companies were diversified in terms of revenue: 35% of companies generated an income of less than 8 million PLN, 32.9% have the income between 8 and 40 million PLN and 30.5% of the companies reached an income from 40 to 200 million PLN. Only a small percentage of companies declared an income of over 200 million PLN.

In respect of the business profile the largest share in the research sample were the manufacturing companies (39.7%) and service providers (33.4%). Trading companies had a slightly smaller share (20.6 %). 6.3% of companies were operating in administration sector.

The analyzed companies were mainly companies with domestic capital (72.4%). Only 15.3% were companies owned exclusively by foreign capital, and the remaining 12.4% were companies with mixed capital.

Results and discussion

Research results made it possible to formulate answers for the research question formulated at the end of introduction and which arose from the gap identified in the literature area of structure-creating factors specific for SME. Below the author attempts to answer the following specific questions: What are the major structure-creating factors according to managers of SMEs? What is the development strategy of SMEs - is it diversification or internationalisation? Does development strategy influence the shape of organisational structure of SMEs?

What are the major structure-creating factors according to managers of SMEs?

The first step was to analyse how managers of SMEs evaluate the influence of some structure-creating factors. A list of structure-creating factors was drawn up on the basis of literature review. An attempt was also made to distinguish both factors related to enterprises' environments (macroeconomic situation stakeholders' requirements, dynamics of the sector changes, legal and financial system) and factors related to the internal part of an enterprise (applied strategy, size and age of an enterprise, technology, competences of employees and managers, organisational structure). As a result, a list was created enabling identification of factors that Polish SME managers consider to have the most influence on organisational structure.

Table 1: Influence of some factors on organisational structure
(% of answers)

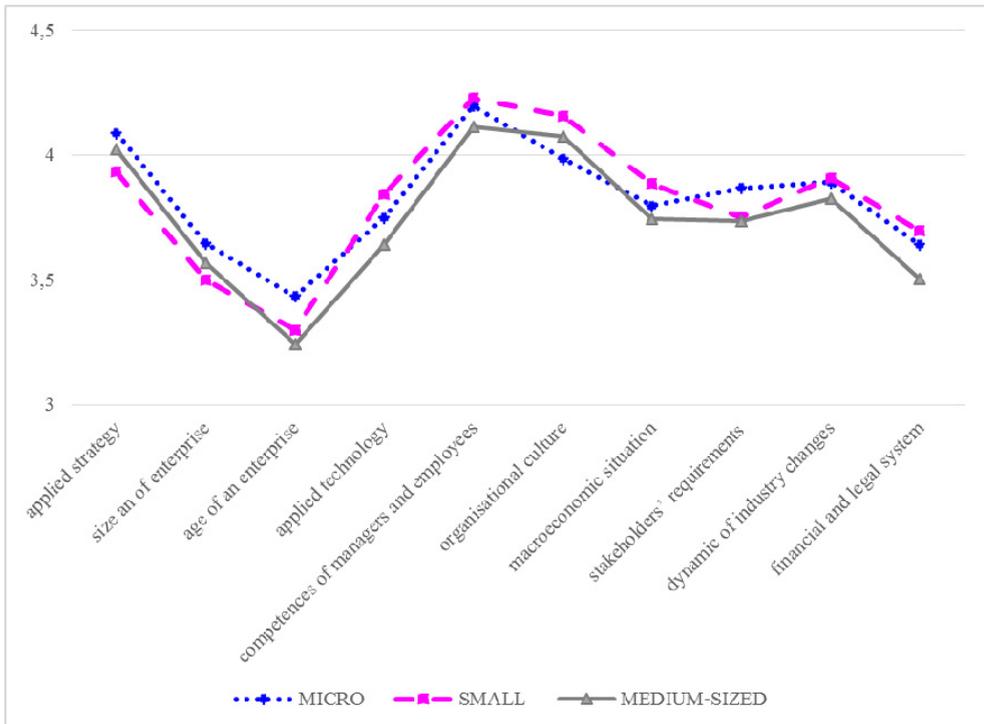
Evaluation of significance Structure-creating factors	definitely low	rather low	neither low nor high	rather high	definitely high
applied strategy	2.4%	3.2%	23.9%	31.8%	38.7%
size of an enterprise	7.9%	11.3%	25.0%	27.4%	28.4%
age of an enterprise	12.4%	13.9%	25.5%	25.3%	22.9%
applied technology	6.1%	7.4%	25.3%	28.7%	32.6%
competences of managers and employees	0.8%	1.6%	21.3%	31.6%	44.7%
organisational culture	1.6%	2.4%	24.2%	31.1%	40.8%
macroeconomic situation	5.0%	6.6%	24.7%	30.0%	33.7%
stakeholders' requirements	4.7%	7.6%	25.5%	28.7%	33.4%
dynamics of sector changes	5.0%	6.8%	21.6%	28.9%	37.6%
legal and financial system	7.4%	10.5%	25.0%	27.6%	29.5%

N=380

The above data indicate that all the factors are to a considerable extent significant from the SME managers' point of view. It can be however noticed that three groups of factors are definitely more significant than the rest. These are, first of all, the competences of managers and employees, the organisational structure followed by applied strategy. This analysis also leads to the conclusion that the factors related to the enterprise internal environment are more significant than those related to the external environment. This proves that SMEs do not focus on their external environment and do not consider it to be a significant factor shaping their internal organisation.

A comparison of average evaluations of individual factors significance has been made to reflect SME managers' opinions more adequately. The rates have been presented on a 5-point scale, however extreme rates occurred in individual situations. The analysis results are presented on the figure below.

Figure 1. Average rates of evaluation of the influence of some factors on the organisational structure of enterprises under research



N=380

Generally, the perception of significance of specific structure-creating factors in micro-, small and medium-sized enterprises is similar. Apparently, micro-enterprises pay special attention to applied strategy,

size and age of an enterprise. This can result from the fact that these entities are often at an early stage of development and the three listed factors have a considerable influence on an enterprise's organisation at that stage. Among small enterprises, the highest average rates, compared to other entities, have been given to such structure-creating factors as technology, competences of employees and managers, organisational structure and macroeconomic situation. Medium-sized enterprises did not differ from the other entities. The rates of their managers were similar or lower than the rates of managers of micro- and small enterprises.

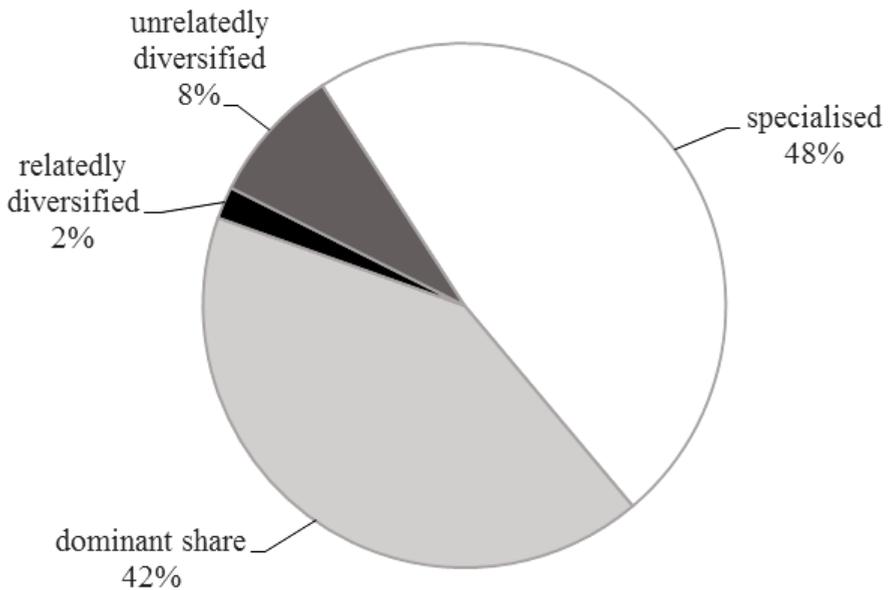
To sum up, it can be stated that according to managers, both external and internal factors play a significant role in shaping organisational structure. And the evaluation of significance of internal factors is much more uniform. These factors are considered to be important and each category listed in the research was similarly significant from the point of view of managers. The evaluation of significance of internal factors is much more diversified. Factors with the highest rates are those related to the social subsystem of an organisation and applied strategy. On the other hand, conditions related to the size and age of an entity are insignificant. The above observations inclined the author to focus on one of the three most important structure-creating factors, i.e. the applied strategy.

Development strategy of SMEs diversification or internationalisation?

A universal problem of each enterprise concerning the development strategy is represented by choice between diversification and internationalisation. Only the large enterprises, due to their resource potential, are able to apply both diversification and internalisation strategy. Simultaneous development by means of both diversification and

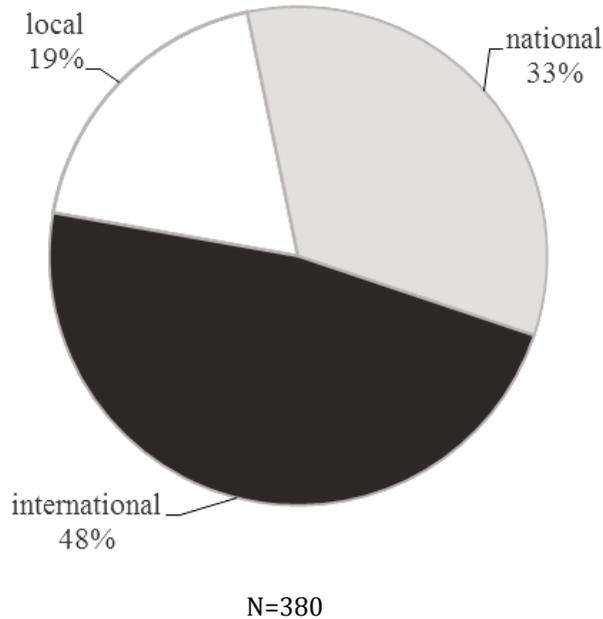
internationalisation is much more difficult for smaller entities, although it is not impossible. Such a double-track development is possible due to changes in economy and technology. The research has identified what strategic option is chosen by SMEs: do they diversify or internationalise? It has turned out that the majority of analysed entities operate in one single sector or have a dominating share in one sector (Figure 2).

Figure 2. Scope of sector activities of SMEs



N=356; 24 lacking answers

Polish SMEs rarely diversify their activities. Only 10% of the entities under scrutiny have been classified as diversified entities. Interestingly, unrelatedly diversified SMEs were definitely prevailing. Diversification is therefore not a popular strategic option. The analysis of geographical scope of the entities' activities also yielded interesting results (Figure 3).

Figure 3. Scope of geographical activities of SMEs

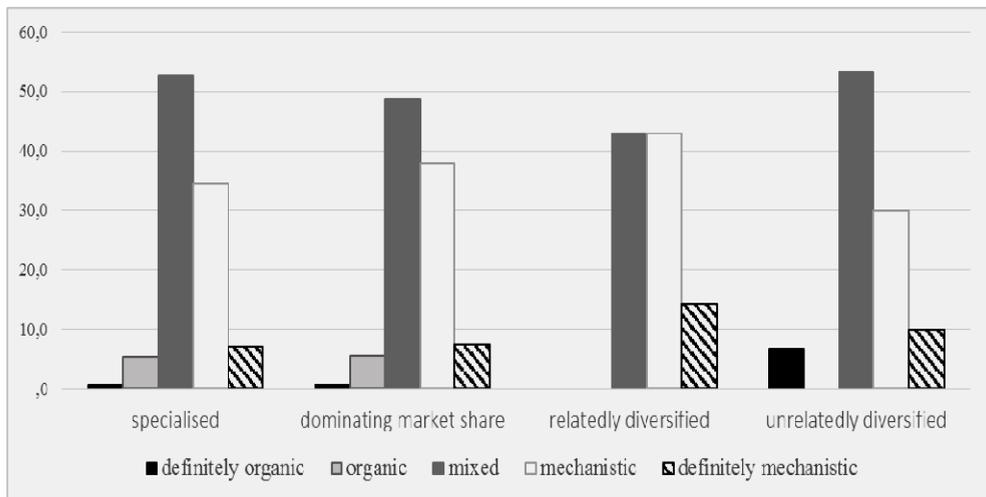
Polish SMEs operate both on local and international markets. It turns out that international activities of Polish SMEs are relatively extended. As much as 48% declare such activities. Slightly less than 19% of SMEs say they operate only on local markets. It can be therefore stated that Polish SMEs are more willing to develop by internationalisation than diversification. The first path of development is definitely easier and more secure (less risky) to implement by SMEs, maybe because of IT technology development and functioning of the Common Market. The problem with the choice of strategy development in the case of SMEs is solved by choosing the internationalisation strategy.

Does development strategy influence the shape of organisational structure of SMEs?

According to the reference literature, applied strategy is one of the most important factors shaping an enterprise's organisation. Therefore, it can be assumed that entities applying various strategy also have various organisational structures. The analysis of structures of SMEs applying various development strategies refers to the model of organic and mechanistic structures, according to the concept of Burns and Stalker (1961). Mechanistic and organic structures differ in respect of the level of formalisation, centralisation, standardisation and configuration of organisational structure (Pugh et al. 1968). Assuming that each of these dimensions (features) can have two extreme values, we can talk about a perfectly flexible (definitely organic) or extremely inflexible (definitely mechanistic) structure.

First, it has been verified whether organisational structures are different in specialised and diversified enterprises (Figure 4).

Figure 4. Diversification strategy and organisational structure of SMEs



N=356; 24 lacking answers

It should be noticed that there are no distinct differences between enterprises that apply diversification strategy and those which are more specialised. Irrespective of applied strategy, mixed structure dominates within the analysed enterprises.

Such mixed structures prevail among enterprises applying extremely opposite strategies: industry specialisation and unrelated diversification. It is worth noticing that among unrelatedly diversified enterprises there were most enterprises with definitely organic structure. This results from the fact that carrying out business in many different sectors necessitates decentralisation, delegating power to lower levels - features specific for organic structures.

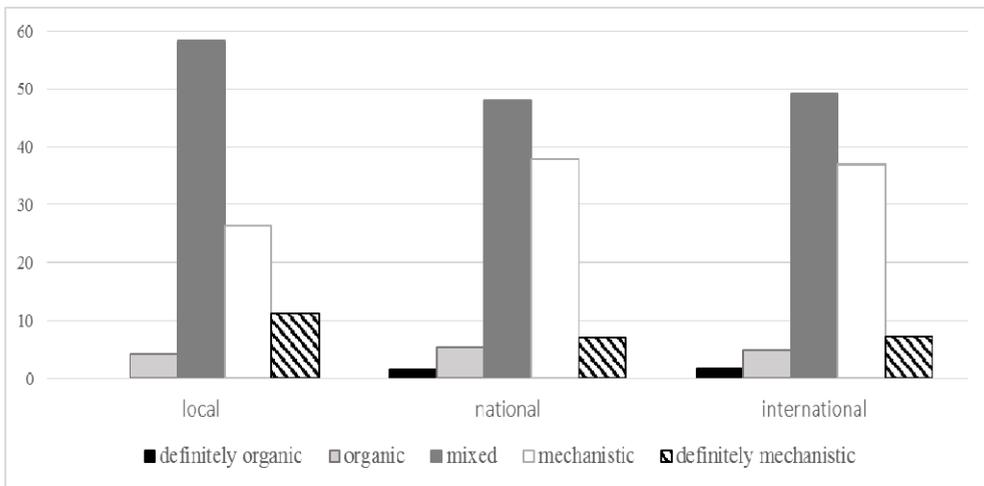
The enterprises with organic structure occur also among specialised entities with dominating share of the market. This situation is related to a smaller scale of business and smaller size in respect of number of employees. Interestingly, among unrelatedly diversified enterprises there are most entities with mechanistic and definitely mechanistic structure. Related diversification requires considerable coordination of actions to reach a synergistic effect. This can be related to the mechanistic structure, which is featured by formalisation, centralisation, specialisation, standardisation and numerous hierarchy levels.

The second step was to verify whether enterprises with different reach of their business have various organisational structures. Local, national and international reach was distinguished. The analysis results are presented on the figure below.

A mixed structure is dominant in all enterprises, irrespective of their reach, although most enterprises with mixed structure are among those operating only on their local market. The number of entities with mechanistic structure increases with the growth of business reach. It can be a consequence of the need to coordinate actions internationally. Interestingly, a definitely mechanistic structure occurs mostly in small

enterprises with local reach. This can be related to an enterprise owner's will to fully control the business. No entity with definitely organic structure has been found in the category of enterprises with small scale business. It can be assumed that these entities still had not undergone leadership style crisis described by Greiner (1998).

Figure 5. Internationalisation strategy and organisational structure of SMEs



N=380

The above analyses show that a relation between strategy and structure cannot be found unanimously. It is also not confirmed by statistic tests analysing the existence of relation between strategy (of diversification or internationalisation) and structure type (definitely organic, organic, mixed, mechanistic, and definitely mechanistic). It has been therefore additionally verified whether there is a relationship between SME development strategy and organisational structure dimensions (Table 2 below).

Table 2: Development strategies and organisational structure dimensions

		internationalisation	diversification
centralisation	Spearman's correlation coefficient	.009	-.038
	Relevance	.429	.236
	N	380	356
formalisation	Spearman's correlation coefficient	-.033	.054
	Relevance	.262	.155
	N	380	356
standardisation	Spearman's correlation coefficient	-.041	-.022
	Relevance	.215	.338
	N	380	356
configuration	Spearman's correlation coefficient	.053	-.006
	Relevance	.151	.457
	N	378	355
specialisation	Spearman's correlation coefficient	.010	.063
	Relevance	.420	.117
	N	380	356

Source: Own work.

Unfortunately, this approach has not provide any results either. No relation between diversification level and organisational structure dimension has been found. Also, there is no such relation between geographical reach of business and organisational structure dimensions. Applied development strategies do not influence organisational structure of the analysed enterprises.

4. Conclusions

Organisational structures of enterprises have evolved over time from simple solutions towards more complex and sophisticated systems. Changes that have occurred in the structures of enterprises have been caused by numerous factors, such as strategy, type of environment, applied technology and other. The research carried out in this field is diverse in respect of the scope and the perception of the examined factors determining the organisational structure. The bulk of the existing research is dedicated mainly to the relation between the strategy and structure and revealed that the enterprise's effectiveness is influenced by the adaptation of structure to the strategy.

The one of the main finding of this study is the conclusion that, in the SME managers' opinion, applied strategy is one of the most important structure-creating factor (right after competences of managers and employees and organisational culture). It turned out that factors related to the enterprise internal environment are more significant than those related to the external environment. This proves that SME managers do not focus on their external environment.

Influence of the development strategy on the organizational form of enterprises is very well described in the literature (see introduction). Particularly, enterprises that applied diversification strategy should introduce structural changes. But it turned out that Polish SMEs rarely diversify their activities. The surveyed enterprises more often implemented internationalisation strategy. The internationalisation strategy should also influence the organizational structure. But the research prove very weak relations between development strategy and organisational structure dimensions. Possibly, the lack of strong relation between strategy as a structure-creating factor and the intensity of organisational structure feature is caused by the fact that the measurement

of its rate has been too general. It can be also related to the slow development of analysed entities and lack of necessity to introduce structure changes.

The second assumption relates to the fact that the influence of factors mentioned in the reference literature on the structure has been usually verified in large enterprises. Unfortunately, in micro-, small and medium-sized enterprises there can be totally different conditions, such as the owner's decisions.

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SPILOVER EFFECTS FROM FOREIGN DIRECT INVESTMENT TO LOCAL SMES. AN EMPIRICAL STUDY

NICOLAE MARINESCU¹

ABSTRACT. Foreign direct investment (FDI) is known for having a diversified impact on the host economy. Some of its potential outcomes are represented by spillovers to local enterprises. The aim of this paper is to analyze the spillover effects of FDI in Romania to local small and medium-sized enterprises (SMEs) by means of a case study. The present research is an empirical study and, as such, contributes insights into the literature on FDI in Central and Eastern European countries (CEECs), providing additionally a link between FDI and SMEs. The paper starts by reviewing the literature on FDI with regard to spillover and linkage effects on SMEs in the local economy. The second section focuses on the particular linkages between FDI and SMEs and their characteristics in the CEECs and Romania. The third section of the paper investigates the case of a large industrial foreign affiliate in Brasov County and the way it contributed to the performance of local SMEs in terms of turnover and employee growth. Several results of the empirical study are highlighted. The final section presents some conclusions and pinpoints the contribution of this study to the existing literature.

Keywords: SMEs, FDI, spillovers, linkages, CEECs

JEL Classification: F21, M21

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Introduction and Literature Review

Foreign direct investment (FDI) is known for having a diversified impact on the host economy. Some of its potential outcomes are represented by spillovers to local enterprises, mostly small and medium-sized enterprises (SMEs).

The spillover effects generated by FDI carried out by multinationals on the local SMEs in host economies received a fair share of attention in the theoretical and empirical literature, but with mixed results. This issue surfaced in the literature in the '60s. The first author to systematically include spillovers among the possible outcomes of FDI was MacDougall (1960), who analyzed the welfare effects of FDI.

Since then, several empirical studies examining spillovers from FDI found positive evidence, some rather not (a useful review is provided by Gorg & Greenaway, 2001). The difference in results suggests that the ability of firms in the host country to benefit from foreign technology is not automatic as it is affected by various economic and technological factors (Moosa, 2002). The most important factor has to do with the absorption capacity of local SMEs; to what degree they are able to interact and to learn from TNCs was shown by Blomstrom & Kokko (2003) in their seminal work on spillovers from FDI.

Some of the best-known spillover effects include: positive externalities in production through inter-industry linkages which upgrade the local supplier base, international marketing networks that can overcome barriers for exports into foreign markets, clustering of related firms, transfer of innovation and R&D activities, higher productivity by means of training of human resources, increase in sophistication of local demand, and stronger competition to the ultimate benefit of the consumer. The pecuniary element of spillovers is quite difficult to measure though (Jovanovic, 2006).

The literature differentiates between ‘pecuniary’ and ‘non-pecuniary’ spillovers. The former arise when a multinational affects the conditions of supply and demand for goods and services by another firm. Even in the absence of any knowledge transfer, the increasing demand of intermediate goods enables production on a larger scale, and thus improves the cost competitiveness of supplier firms. If the local SME benefits from assistance to meet quality requirements its performance will be further enhanced. Non-pecuniary externalities are commonly known as ‘technological spillovers’, arising from labor market exchanges, demonstration effects, etc. (Dunning & Lundan, 2008).

When it comes to the impact of FDI, one has to differentiate though between horizontal, forward, and backward spillovers. Horizontal spillovers are technological spillovers from the multinationals to other firms in the same industry. Forward spillovers are spillovers to firms consuming the products made by the multinational. Backward spillovers occur when multinationals induce higher productivity or share technology with suppliers (Jensen, 2006).

Whereas several authors praise the linkages between multinationals and local SMEs for productivity spillovers, technology transfer, and increased demand arising from the supply activities of local firms, others criticize FDI for crowding out effects and of pre-empting the development of local SMEs. Negative effects usually arise when foreign affiliates and SMEs compete either in product or in factor markets. Positive effects occur mostly from cooperation between the two entities.

FDI by multinationals is considered to be a major channel for the access to advanced technologies by developing countries. Knowledge transferred from the transnational company (TNC) to its subsidiaries may leak out to the host country, giving rise to an externality known as the spillover effect from FDI.

Various channels for spillovers have been suggested: labor turnover from multinationals to local firms; technical assistance and support to

suppliers and customers; the demonstration effects on local SMEs in issues such as export behavior, and managerial practices (Moosa, 2002).

The potential for technology transfer is one of the most cited positive outcomes of FDI. According to Markusen (1995), multinationals tend to be important in industries and firms with four characteristics: high levels of R&D relative to sales, a large share of professional and technical workers, products that are new and/or technically complex; and high levels of product differentiation and advertising.

Technology transfer, learning about markets and acquisition of labor skills can arise in many different ways as, for example, employees working in TNCs move to national firms bringing specific technological and managerial knowledge, or as suppliers of intermediates to the TNC acquire the technological specifications and procedures used by the TNC (Barba Navaretti & Venables, 2004).

Feenstra & Hanson (1995) examined the effect of FDI on the relative demand for skilled labor in Mexico. They found the growth in FDI to be correlated positively with the relative demand for skilled labor. This is consistent with the hypothesis that outsourcing by multinationals has contributed significantly to the increase in the relative demand for skilled labor in the North – South perspective.

FDI also influences the host economy via inter-industry linkages. To the extent that TNCs establish links with local SMEs, for supplying raw materials, parts and components, they can improve employment and revenues of SMEs. Apart from these backward linkages, subsidiaries of TNCs and SMEs can also engage in forward linkages by cooperating in distribution activities.

However, backward linkages are the most powerful channel to spill over technology and production techniques from multinationals to host countries (UNCTAD, 2001). China is a major example that updated technology via FDI as well as the training of human resources improves the general economic performance of domestic firms.

Investigation on Spillovers in the CEECs

When the Central and Eastern European countries (CEECs) began the transition from a centralized economy to a market economy at the beginning of the '90s, FDI was expected to bring a host of benefits to the recipient economy including capital and, most importantly, transfer of knowledge which should trigger technological change.

The failure of several domestic privatization schemes in the CEECs led to the widespread recognition that FDI proved a better vehicle for restructuring than domestic capital. Thus, most of the CEECs, in need of technological modernization, upgrading of infrastructure and acquisition of new skills, welcomed FDI in order to attain potential spillovers in their many forms.

Nicolini & Resmini (2010) investigate evidence for spillovers across the CEECs and find that FDI-induced spillovers are significant in Romania and to a lesser extent in Bulgaria; but they are not significant in Poland, where the technological gap between foreign and local firms is so narrow that it produces competition effects rather than technology spillovers. Finally, in Romania spillovers accrue to SMEs when foreign affiliates operate in high-tech manufacturing, while large firms are able to reap spillovers only from low-tech multinationals.

Damijan et al. (2003) using a large panel of data from eight CEECs, found that FDI represents indeed an important channel of technology transfer in the Czech Republic, Estonia, Poland, Romania and Slovenia.

Looking for spillovers from FDI in Romania, Voinea (2003) finds that new technologies are more likely to be transferred through FDI when the foreign affiliate operates in a pro-competitive environment. When the environment is anti-competitive, there are perverse incentives to gain monopoly rents not through innovation, but through market power inducements.

Moreover, the level of technological skills of the local human resources and the existing infrastructure play a major part for a successful absorption of new technology. The type of linkage between the foreign affiliate and the local SMEs is also essential for how important that relationship is within the whole network of the respective TNC.

Public policy should not be too restrictive so as to prevent the multinational of 'disclosing' its technology, but a strong enforcement of intellectual property rights should be in place. This has been a thorny issue in the CEECs, where the institutional framework didn't provide (especially in the first years of transition) an efficient system to prevent unwanted knowledge diffusion. Finally, the technological gap should not be too small (so as to leave space for improvement) or too wide (so that the spillover can be absorbed).

An authority on FDI in CEE, Klaus Meyer investigates spillovers in the case of Estonia and finds their magnitude quite significant. However, spillovers depend on the characteristics of incoming FDI, the recipient firm's size, its trade orientation and its ownership structure (Sinani & Meyer, 2004).

According to an empirical study on Romanian firms carried out by Javorcik and Spatareanu (2008), FDI correlates with the higher productivity of local firms in upstream industries. The authors argue that partially foreign-owned firms are more likely to contract with local SMEs than wholly-owned subsidiaries.

Empirical research reveals that in Romania the sectors with above average FDI penetration have recorded the highest productivity growth. However, FDI penetration only explains a part of the productivity gains in those sectors; furthermore, these gains are not automatically translated into welfare gains, as local companies existing on the market prior to FDI entry have usually been forced into downsizing. Also, FDI driven sectors have improved trade performance and specialization. By

contrast, the FDI induced specialization is for vertically differentiated products competing on price, not on innovation (Voinea, 2003).

Positive spillovers are easily visible in the case of manufacturing, especially the car industry, which experienced a profound penetration of FDI. Few would approve that carmakers such as Skoda or Dacia would have fared better under national ownership as compared to foreign ownership. Even if in the initial period the terms of the privatization contracts have not been fully met (in the case of Skoda) or there were massive displacements of local suppliers (in the case of Dacia), the major progress of both companies by means of technological transfer, managerial skills, training of employees and marketing tactics proves the virtues of FDI.

Car manufacturers often transferred all parts of the supply, production and distribution chain to CEE. What they have kept for themselves is their major R&D activity that remained in the home country for the time being. Most investors benefitted from investment incentives or special investment packages offered by the countries. In return they offered an investment program aimed at production growth, new job creation, training of local employees and development of the supply base in the country (Djarova, 2004).

Teaming up with foreign affiliates and the benefits associated with the subsequent technology transfer allowed many Czech SMEs, acting as car parts suppliers, to keep their domestic market share and also participate in European and worldwide distribution networks.

Skoda's suppliers were obviously required to meet high quality standards. Thus, Volkswagen's policy to build up a network of local suppliers resulted in half of their suppliers being Czech. About 50 joint ventures between Western component producers and Czech suppliers were formed as a spin-off of Volkswagen's investment in Skoda (Djarova, 2004).

The Hungarian affiliate of Suzuki followed a strategy of purchasing a wide range of raw materials, parts and components from primary and secondary suppliers in Hungary. By 2001, besides its own 2,100 employees, its indirect impact generated employment to 31,000 persons in 263 companies (UNCTAD, 2001).

In Romania, Renault's acquisition of Dacia and its phenomenal success afterwards generated an impressive growth of the horizontal automotive industry. Dacia's suppliers provide more than 100,000 indirect jobs. An evidence of vertical spillovers through backward linkages is the increased demand for intermediate products due to Renault's FDI entry, which allowed local suppliers of car parts to reap the benefits of scale economies.

The large foreign affiliates in the automotive sector have transferred new technology and have implemented in Romania modern management and logistics techniques such as Just-in-time, Kaizen, Six Sigma and other tools for continuous quality improvement. All of them invested in the training of their own employees and provided training and technical assistance to SMEs which act as their suppliers, thus establishing mutually beneficial relationships.

As Marinescu & Constantin (2010) show, the technology transfer also translated into higher technological content of exports, resulting in an increased competitiveness and better export opportunities for local companies.

A Case Study on Spillovers in Romania

The empirical part investigates the case of a large industrial foreign affiliate in the County of Brasov, Romania (named hereafter SC Romania, for confidentiality reasons) and its linkage to suppliers of raw materials, components and services, which are local SMEs. The study analyzes the

impact of the multinational company by looking at the way in which it has contributed to the performance of some local SMEs in terms of turnover and employee growth, thus generating spillover effects.

According to official statistics (Brasov Trade Register Office, 2012), foreign affiliates employ almost 40,000 persons in Brasov County, out of a total 160,000. The largest investor is Germany with around 700 registered companies and almost 20,000 employees. Brasov County has a good reputation for producing automotive parts. Some 5-6 large foreign affiliates and several small ones have chosen this location.

One of these large foreign affiliates, SC Romania, cooperates with more than 420 local suppliers for raw materials and various services, most of them SMEs. According to data from the company, 188 are located in Brasov County itself (for proximity reasons to the plant) and other 234 are spread around the country, most of them being located in the capital city, Bucharest (SC Romania, 2014). According to its in-house regulations, all suppliers have to comply with certain quality requirements, which are first checked by means of a potential analysis. After granting approval as collaborators for the multinational, the same criteria are checked again on a semester basis.

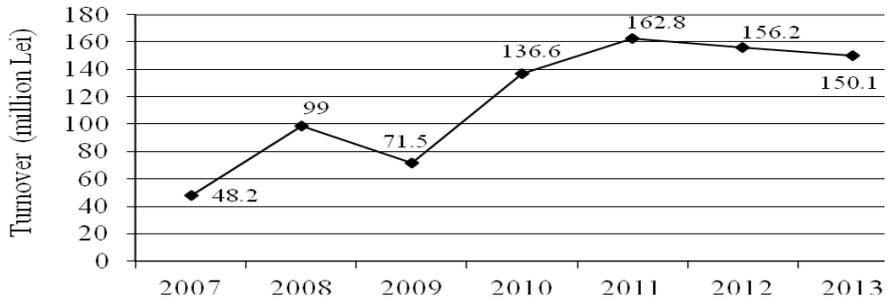
The SMEs acting as suppliers for the affiliate share the following characteristics:

- Meeting deadlines: high flexibility, reliability and competence in solving the problems that pertain to the strengths of the affiliate;
- Cost responsibility: price setting by suppliers is a very important issue in manufacturing – therefore, the affiliate expects transparency in this respect;
- Quality responsibility: quality assurance is based on the „zero-defects” philosophy and on the continuous improvement of costs, quality, sales terms and service provided. For certain areas, quality certifications such as ISO 9001 and ISO TS 16949 are required as a pre-condition to be granted supplier status;

- Environmental protection: adhering to environmental regulations and norms is a minimum condition imposed on suppliers. An ISO 14001 or EMAS certification is advised or even compulsory in several fields. By means of the high standards imposed by SC Romania on the local suppliers, the quality and efficiency of the partnering SMEs increased as well. Further research of company data also reveals that a significant part of the total staff employed by SMEs acting as subcontractors for SC Romania work in fact for the multinational. This highlights the fact that besides having a positive impact on the employment rate in the region by hiring directly a lot of staff for its plant (SC Romania is one of the top employers in Brasov County), it also generated indirect jobs by means of subcontracting activities to local SMEs. Due to consistent amounts of orders placed to subcontractors, local SMEs were driven to hire additional staff.

The analysis of employee activities in subcontracting firms for SC Romania shows that out of 3,800 employees in these SMEs, around 760 persons work in operations related to the multinational, i.e. 20% of the total staff. Out of the 760 employees performing work for SC Romania in several local SMEs, one-third are directly involved in production activities and two-thirds supply services or are involved in administrative tasks. In the latter category we can cite firms such as Electromagnetica SA, Olin Foods, Brasov customs etc. The production part comprises supplying SMEs such as: Becotek Metal SRL, Matec CNC-Technik SRL, Asam SA, etc. For a more specific analysis, the case study comprises two of the more important subcontracting SMEs for SC Romania: Becotek Metal SRL (produces pipes and casting reels) and Matec CNC-Technik SRL (produces spherical joints and reels). The evolution of turnover and the average number of employees for the period 2007-2013 are investigated so as to highlight the impact of SC Romania on the two suppliers.

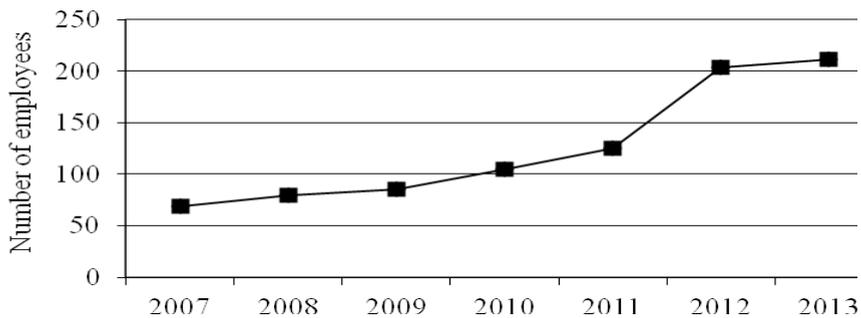
Fig. 1. The evolution of turnover for SC Becotek Metal SRL



Source: Adapted by the author from www.doingbusiness.ro data

SC Romania initiated a subcontracting relationship with Becotek Metal SRL in 2007. The evolution of the turnover of Becotek Metal SRL from 2007 onwards until 2013 has largely been positive (see figure 1). The turnover more than tripled from approximately 48 million Lei in 2007 (the first year when the SME became a supplier for the multinational) to 150 million Lei in 2013. The only year with a sharp drop in turnover has been 2009 (a 38% decrease compared to 2008). This was the year when most of the Romanian companies suffered severe consequences from the widespread financial and economic crisis.

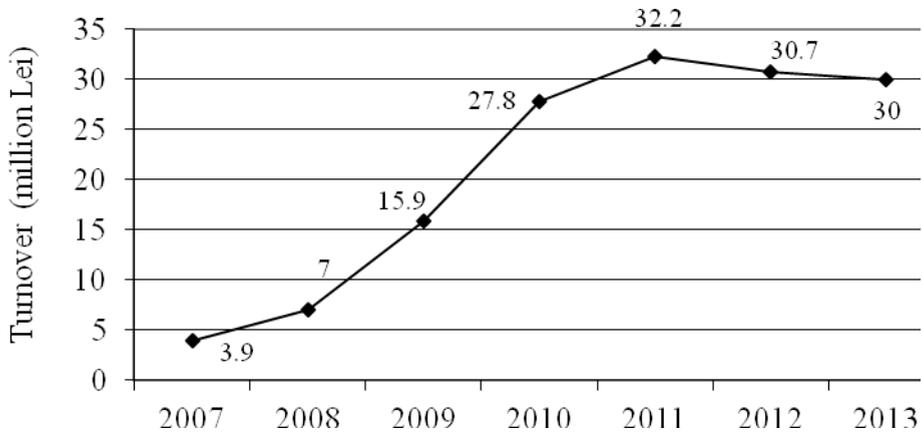
Fig. 2. The average number of employees for SC Becotek Metal SRL



Source: Adapted by the author from www.doingbusiness.ro data

The average number of employees at Becotek Metal SRL also rose consistently over the period (see figure 2). In the first year taken into consideration for the study (2007) the SME counted 69 employees. Their number increased until 2013 to 211 employees bringing Becotek Metal SRL almost on the verge to becoming a large enterprise (according to the EU and Romanian law, companies qualify as SMEs below the 250 mark for employee numbers).

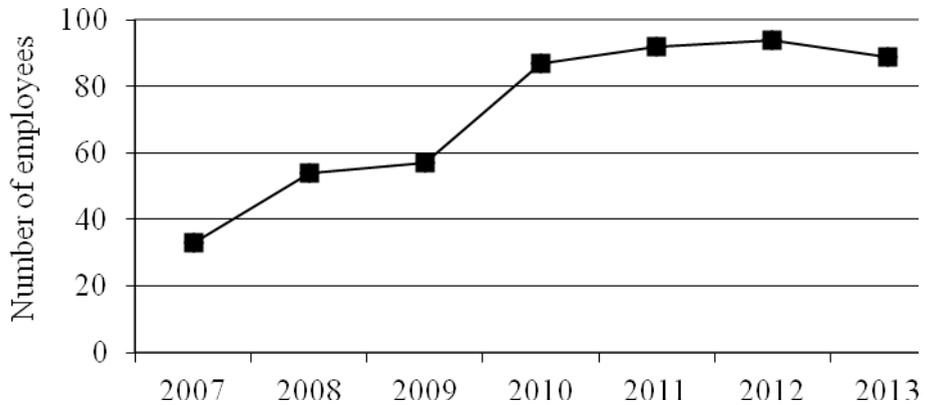
Fig. 3. The evolution of turnover for SC Matec CNC-Technik SRL



Source: Adapted by the author from www.doingbusiness.ro data

In the case of another SME which is an important supplier for SC Romania, namely Matec CNC-Technik SRL, the turnover had a positive evolution, with a significant increase over the period 2007–2011 (see figure 3). The turnover virtually doubled from year to year for a string of three years after the SME became a subcontractor for the multinational. After 2010 turnover growth slowed down and then it remained fairly stable for the next years.

Fig. 4. The average number of employees
for SC Matec CNC-Technik SRL



Source: Adapted by the author from www.doingbusiness.ro data

The average number of employees for Matec CNC-Technik SRL also had a positive development (see figure 4). The most significant yearly growth was registered between 2009 and 2010, when staff rose from 57 to 87 employees.

Both indicators analyzed - turnover growth and employee growth, show positive evolutions over the whole period (2007-2013) for both SMEs acting as main suppliers for the foreign affiliate: Becotek Metal SRL and Matec CNC-Technik SRL.

We can conclude that SC Romania had a significant positive impact on its local supplying SMEs by contributing to the growth of the size of their overall business. The quality of the operations of the local SMEs was also improved by means of the linkages to the multinational. The companies acting as suppliers were gradually forced to adopt, implement and then keep up high standards of production as well as modern managerial and organizational practices such as Fit for Quality, 5S, or Kaizen.

Conclusions

The linkages and the knowledge spillovers towards local SMEs associated with an increase of their productivity are regarded as some of the main ways in which the host country may benefit from FDI.

Furthermore foreign affiliates may also have negative effects for local SMEs when the two categories compete with each other either in product or in factor markets giving rise to crowding out effects.

Though the issue of spillovers is a hotly debated topic, empirical studies so far have not come up with a clear-cut answer about their existence, the factors that influence them and the net outcome of their effects.

In Romania, FDI often forced local SMEs to restructure their activity in order to survive in a very competitive market. The most ambitious ones went through extensive certification and quality processes, in accordance with EU norms. Clear evidence of backward linkages can be detected in the car industry, where a host of car parts makers have become a driving force in Romania's output, employment and exports.

As the analyzed case study on a large foreign manufacturing affiliate in Romania shows, the cooperation with more than 420 local SMEs led to the upgrading of their activities. Modern managerial and organizational practices were imposed by the affiliate on the partnering SMEs. These, in turn, strived continuously to improve costs, quality, sales terms and service, so as not to lose their position as suppliers.

The backward linkages formed between the multinational and the local SMEs were instrumental in increasing turnover, employment, skills of human resources, and managerial capabilities of the domestic suppliers.

While the research is an empirical one, the author is aware that the conclusions drawn from the case study cannot be generalized. However, the study sheds some light on the existence, workings and effects of the backward linkages between a foreign affiliate operating in manufacturing and the local SMEs acting as its suppliers. This contribution adds to the rather scarce number of studies carried out in the CEECs.

The insights from the empirical study are also useful for public policy. Consequently, local authorities should encourage and then strengthen backward linkages between foreign affiliates and local SMEs by solving the different market failures, taking appropriate measures to reduce the technological gap and improve the infrastructure. The increased value-added to the host economy will only accrue if SMEs are supported with financial assistance and information.

The duty of public authorities is to stimulate also the linkages between foreign affiliates and local actors (schools, universities, research centers, etc.), as the benefits of knowledge spillovers through training by foreign affiliates are larger if the technological capability of the host country is high.

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TOURISM GLOBALIZATION. THE CASE OF ROMANIA

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CRISTINA IOANA BALINT²

ABSTRACT. Travel & Tourism is one of the largest industries in the World, its total contribution to world GDP in 2014 was US\$7 58 trillion (9.8%) and sustained over 276 million jobs (including indirect and induced employment). Increased mobility of people, ideas, capital, products, services and information which characterize the phenomenon of globalization affect all spheres of activity especially tourism – the activity that implies movement of people. The purpose of our paper is to analyse the international tourism in the case of Romania both from the perspective of demand and supply. The share of international tourists increased in the period under review, the main source for foreign tourist being the neighbouring countries. Thus, Romania failed to attract an important number of tourists from the countries included in top 10 spender countries (according to a ranking of UNWTO from 2015). The fact that foreign tourists come mainly from neighbouring countries and that the main destinations are the capital and the county residence towns (indicating business travel and also the accessibility of these destinations) leads us to the conclusion that Romania as a tourist destination is not very popular despite the high touristic potential (possessing important natural and cultural resources).

Keywords: globalization, tourism, Romania

JEL classification: L83

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Introduction

Globalization can refer to a variety of phenomena: politics, technology, consumer behaviour, firm strategy, markets, trade flows and capital flows (Nooteboom 1999 in Mazilu, 2011) that has increased the interdependence between countries, economies and people (Peric, 2005). According to the International Monetary Fund (2000) globalization refers to the increasing integration of economies around the world, particularly through trade and financial flows. It includes as well the movement of people (labour) and knowledge (technology) across international borders.

Due to the geographical scale of the travel & tourism industry, and to increased spatial linkages between places and people from different locations, the tourism sector can be considered one of the exemplars of the phenomenon of globalization (Mpofu, 2009).

The geographical widening of linkages between places has become a major factor in the development of international tourism, leading to the internationalization of tourism, leisure 'culture', a more global flows of tourists, and increased competition (Tribe, 1997; Youell, 1998, in Mpofu, 2009).

There are several driving forces of globalization with a clear impact on tourism, travel and hospitality industries: the liberalization of air transport, the liberalization of trade in services, the economic integration, information and communication technologies, the emerging use of internet for marketing and sales, the regionalization, the multinational and transnational companies, the country image (ILO, 2001; Mpofu, 2009).

The importance of tourism to national economies is well recognized due to its benefits. Many benefits are mentioned in the literature at different levels: social, cultural, economic, political and environmental. From all of these, the economic impact is the most researched and studied (Negrusa et al. 2010). Tourism is frequently viewed as an important engine for the economic growth and development of countries (Brida &

Risso, 2009; Tang & Tan, 2013). The benefits associated with a healthy development of tourism industry are numerous such as revenue income, job opportunities, development of rural areas, infrastructure development, enhanced efficiency through competition, and exploitation of scale of economies at a local level (Choi, Sirakaya, 2005; Cursoy and Rutherford, 2004; Helpman, Krugman, 1980, Krueger, 1980; Li, 2008; Vorlauffer, 1997; Zhang, Gao, 2016).

Despite occasional shocks, international tourist arrivals have shown virtually uninterrupted growth – from 277 million in 1980 to 528 million in 1995, and 1,133 million in 2014, accounting for almost US\$1245 billion of receipts worldwide in 2014. The number of international tourist arrivals worldwide is expected to increase by 3.3% a year on average from 2010 to 2030, reaching a total of 1.4 billion in 2020 and 1.8 billion arrivals by 2030 (UNWTO, 2015).

According to UNWTO (2015) forecasts of the year 2030 arrivals in emerging destinations (Asia, Latin America, Central and Eastern Europe, Eastern Mediterranean Europe, the Middle East and Africa), these are expected to surpass the advanced economies, growing at double the rate (+4.4% a year) compared to advanced economy destinations. In 2030, 57% of international arrivals will be in emerging economy destinations (versus 30% in 1980) and 43% in advanced economy destinations (versus 70% in 1980).

By regions, the largest growth will be seen in Asia and the Pacific, where arrivals are forecast to increase by 4.9% per year (reaching 535 million in 2030). The arrivals will double until 2030 in The Middle East (from 61 million to 149 million) and Africa (from 50 million to 134 million) while Europe (from 475 million to 744 million) and the Americas (from 150 million to 248 million) will register a comparatively slower growth rate.

This paper will investigate the international tourism in the case of Romania. Further this paper is structured as follows: section 2 describes

the methodology used; section 3 provides a discussion of the key findings regarding Romania's Travel and Tourism sector, international tourism demand and supply; section 4 concludes.

Material and method

The purpose of our paper is to analyse the international tourism in the case of Romania both from the perspective of demand and supply. For this purpose we used data from the World Travel and Tourism Council and the Romanian National Institute of Statistics and we used Excel Office program to process it. The period considered was 2000-2014. For a general overview of Romania's Travel and Tourism we analysed its contribution to GDP and to employment. The touristic demand was analysed considering international tourists' flow, in terms of types of preferred accommodation establishments, number of tourists, touristic destinations, continents and countries of origin, and means of transport used. The data referring to the touristic supply include the capital investment in travel and tourism and the existing number of tourist structures and accommodation places. We have analysed both the evolution of the indicators and their variation from one year to the next and in some cases the variation of 2014 relative to 2000 in order to notice the existing trend.

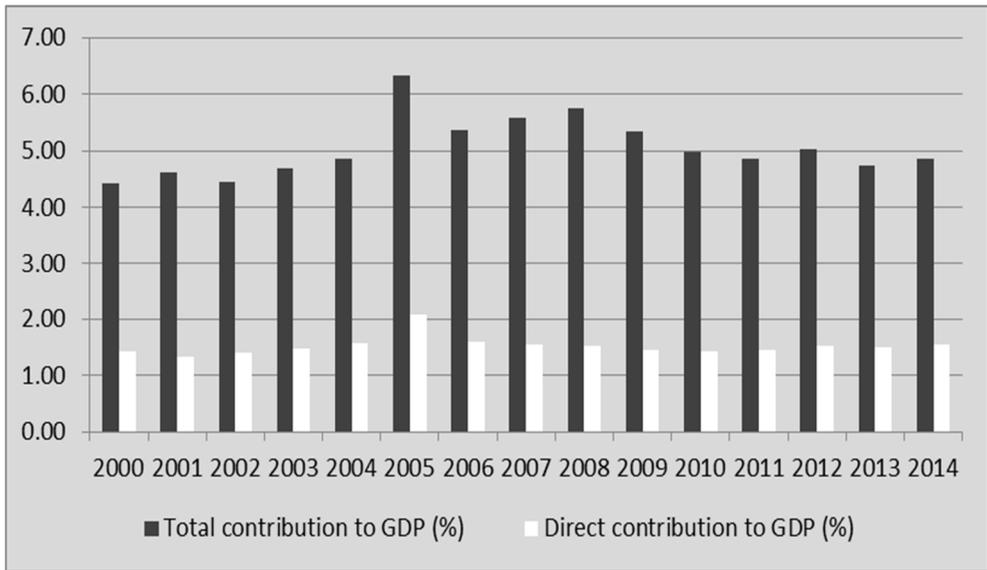
Results and discussion

General overview of Romania's Travel & Tourism

According to the World Travel and Tourism Council, Romania's Travel & Tourism direct contribution to GDP was RON 10.7 bn. (1.6% of total GDP) in 2014, and is forecast to rise by 2.6% to 10.9 bn. in 2015, and to rise by 3.8% pa (per annum), from 2015-2025, to RON 15.9 bn. in

2025. The total contribution of Travel & Tourism to GDP was RON 33.1 bn. (4.8% of GDP) in 2014, and is forecast to rise by 4.5% in 2015, and to rise by 3.8% pa to RON 50.0 bn. in 2025 (5.1% of GDP).

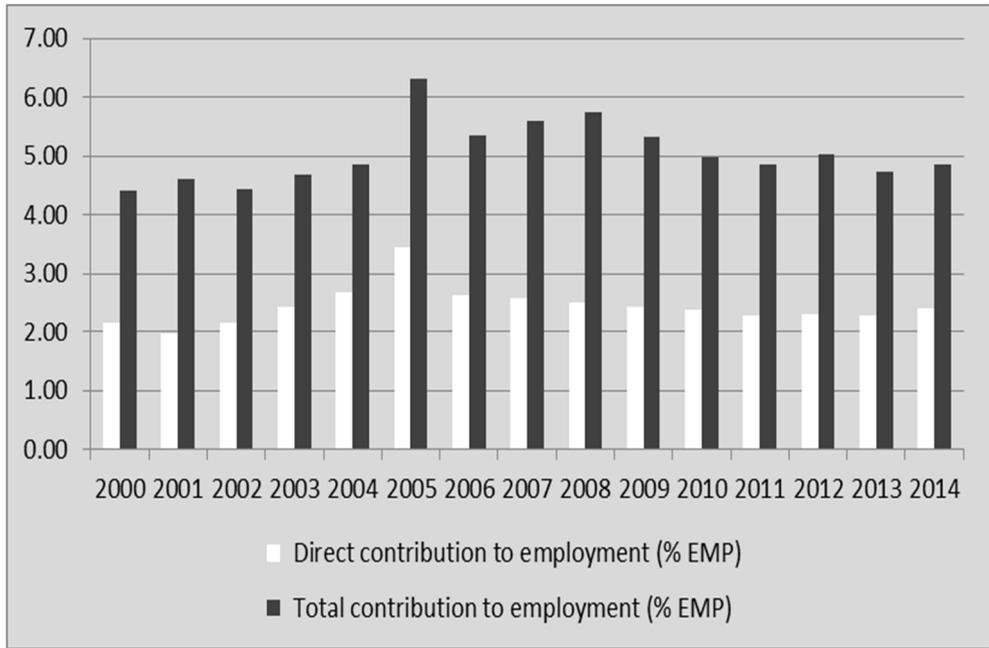
Figure 1. *Evolution of Travel & Tourism contribution to GDP*



Source: WTTC

In 2014 Travel & Tourism directly supported 205,000 jobs (2.4% of total employment). This is expected to rise by 0.6% in 2015 to 206,000 jobs and to 207,000 jobs by 2025. The total contribution of Travel & Tourism to employment was 5.9% of total employment (467,500 jobs). This is expected to rise by 2.7% in 2015 to 485,000 jobs and rise by 0.1% pa to 485,000 jobs in 2025 (5.9% of total).

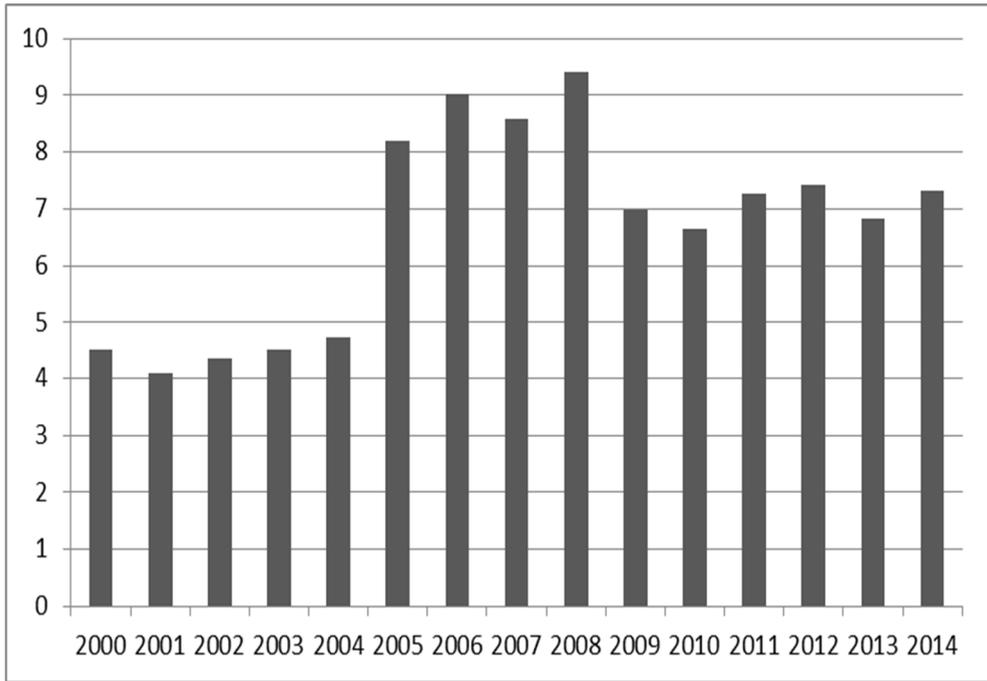
Figure 2. *Evolution of Travel & Tourism contribution to employment*



Source: WTTC

Touristic demand

The data provided by the Romanian National Institute of Statistics shows that foreign visitor arrivals grew with 60.3% between 2000 and 2014 from 5.26 mil to 8.44 mil tourists. According to WTTC, by 2025 international tourist arrivals are forecast to a total of 10.20 million. Visitor exports generated 37.3% of direct Travel & Tourism GDP in 2014 compared with 62.7% for domestic travel spending. Visitor exports generated RON 7.3 bn. in 2014. This is forecast to grow by 7.2% in 2015, and to grow by 6.3% pa, to RON 14.4 bn. in 2025.

Figure 3. *Evolution of visitor exports*

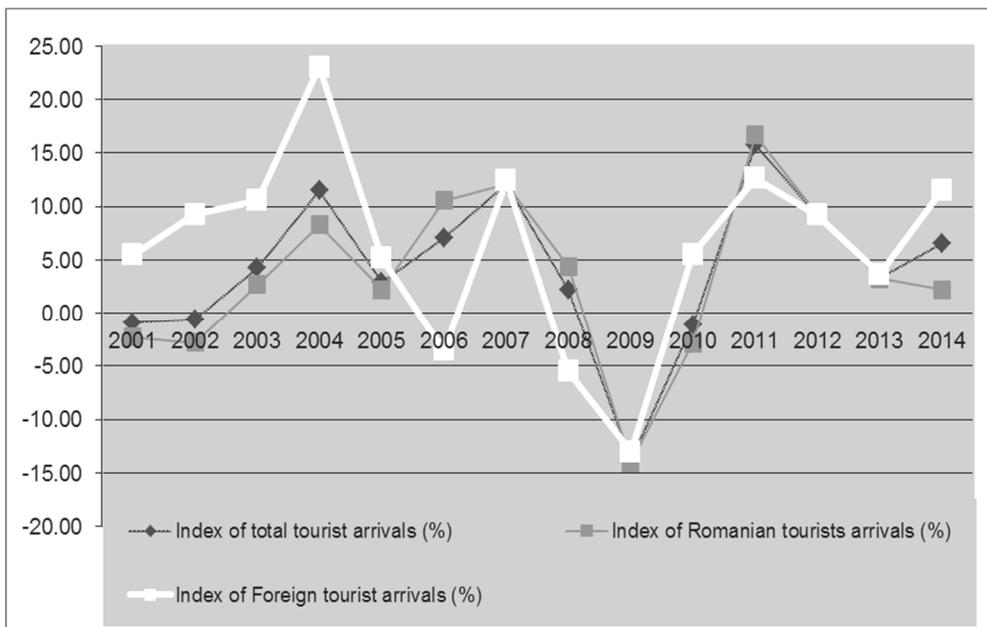
Source: WTTC

The total number of accommodated tourist, increased in 2014 compared to 2000 by approximately 72%, the increase in the number of foreign tourists is almost two times higher than of Romanian tourists (120.2% for foreigners versus 61.6% for Romanians). The increasing number of foreign tourists is distinguished both in absolute terms and as share of total number of tourists, the increase being from 17.62% in 2000 to 22.62% in 2014. The largest share of Romanian tourists was recorded in 2000 (82.38%) while the highest rate of foreign tourists was recorded in 2005 (24.63%).

The analysis of the evolution of the total number of tourists, including Romanian and foreign tourists, between 2000 and 2014, reveals that its dynamic is explained in greater extent by the flow of

foreign tourists. Between 2003 and 2005 the growing trend of the indicator total number of tourists falls between the growing trend of foreign tourists and that of the Romanian tourists. Once the global financial crisis began the indicator total number of tourists marked a sharp decline, the decrease being more pronounced for foreign tourists indicator, the downward trend of Romanian tourists indicator being smaller than the overall index. After an upward trend in the number of tourists in 2010 and 2011, and a decline of the growth rate of the number of both Romanian and foreign tourists in approximately the same pace for 2012 and 2013, the last year of the analysed period shows an important increase of the indicator foreign tourist (more than 11%) and a less significant increase of the total number of tourists while the indicator Romanian tourist arrivals marked a slight decrease of 2.23%.

Figure 4. *Evolution of tourist flow*



Source: National Institute of Statistics

The majority of the foreign tourists who visit Romania are from Europe (92.57% in 2014) followed by tourists from North America (3.48% in 2014), but the differences between the two categories are significant. The most significant increase in the period 2000-2014 is registered in the case of North American tourists (309.47%) and that of African tourists (280%), although in both cases the absolute number of tourists is small (Table 1).

As for the foreign tourists from Europe, most of them come from the European Union (63.92% in 2014). In terms of European Union countries, those with the highest weight are the following: Hungary (19.13% - 2014), Republic of Moldova (16.34% - 2014) and Republic of Bulgaria (15.47% - 2014). At the opposite pole are countries of origin like: Luxemburg (0.02% - 2014), Malta (0.03% - 2014), Estonia and Finland (0.08% - 2014). Considering the growth of the number of foreign tourists between 2000 and 2014 we can observe that the most important increases were in the case of Portugal (2066.67%), Estonia (700%) and Spain (633.33%); thus these extreme figures can be explained by the absolute number of tourists being very small in all three cases mentioned. A decreased number of tourists in 2014 compared with 2000 was recorded only for Russian Federation (12.05%) and Republic of Moldova (11.07%).

Table 1. Arrivals of foreign visitors by continents (%)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Europe	95.44	95.10	94.93	95.51	95.55	94.57	94.25	94.39	94.90	95.09	94.67	94.34	94.15	93.85	92.57
Africa	0.19	0.16	0.19	0.18	0.18	0.21	0.23	0.21	0.20	0.22	0.28	0.29	0.30	0.31	0.33
North America	1.80	1.94	2.15	2.06	2.11	2.64	2.85	2.45	2.17	2.23	2.28	2.39	2.61	2.61	3.48
Asia	2.39	2.63	2.57	2.13	2.05	2.43	2.50	2.75	2.53	2.26	2.60	2.77	2.72	3.01	3.37
Australia and Oceania	0.13	0.12	0.13	0.11	0.11	0.14	0.15	0.18	0.18	0.18	0.17	0.20	0.20	0.21	0.22

Source: National Institute of Statistics

Foreign tourists visiting Romania prefer, at a rate of about 90%, to accommodate in hotels. The largest increase has been recorded in the case of the hostels, due to the fact that a lot of foreign tourists are especially young people who come nowadays in Romania, either to study or to visit. Other accommodation establishments that recorded an increase are the touristic and the agro-touristic boarding houses due to the change in the type of vacation preferred.

Table 2. Foreign tourist arrivals by type of accommodation establishment (%)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Hotels	91.85	90.66	90.08	89.92	89.40	89.30	89.15	88.94	88.18	89.16	89.75	90.13	89.60	89.38	89.99	88.23
Hostels	0.05	0.18	0.56	0.38	0.45	0.23	0.23	0.20	0.28	1.19	1.11	0.92	1.20	1.15	1.38	1.80
Motels	2.46	2.11	2.42	1.96	1.94	1.55	1.31	1.46	1.33	1.13	0.99	1.08	0.92	0.93	0.82	0.73
Touristic villas	1.55	1.60	1.58	1.59	1.44	1.55	1.94	1.68	1.78	1.51	1.67	1.42	1.28	1.24	1.25	1.32
Touristic chalets	0.29	0.42	0.45	0.43	0.35	0.33	0.22	0.22	0.22	0.27	0.19	0.21	0.36	0.31	0.28	0.33
Camping sites	0.69	0.98	0.86	1.08	0.98	0.59	0.51	0.49	1.05	0.80	0.74	0.76	0.68	0.46	0.21	0.34
Touristic boarding houses	1.59	2.07	2.23	2.58	2.80	3.27	3.59	4.10	4.12	3.41	3.17	3.04	3.43	3.69	3.60	4.08
Agro-tourist boarding houses	0.37	0.62	0.86	1.12	1.28	1.23	1.31	1.32	1.35	1.51	1.46	1.63	1.82	2.22	2.16	2.11
Ship places	0.73	0.80	0.59	0.47	0.58	0.51	0.48	0.46	0.56	0.63	0.60	0.52	0.40	0.33	0.0018	0

Source: National Institute of Statistics

Bucharest and county residence towns are the most popular destinations for foreign tourists (77.62% in 2014) followed by other cities and touristic routes (11.37% in 2014) and mountain resorts (6.91% in 2014). We need to stress the significant decrease in preference of foreign tourists for mountain resorts, from 10.13% in 2000 to 6.91% in 2014 and the increase of their preference for other cities and touristic

routes, from 6.71% in 2000 to 11.37% in 2014. The highest increase, between 2000 and 2014, in the number of foreign tourists was registered in the case of other cities and touristic routes (about 274%), followed by Danube Delta (193%) and Bucharest and county residence towns (approximately 126%). The only decrease was recorded in the case of seaside (4.45% in 2014 compared to 2000).

Table 3. Arrivals of foreign tourists by destination type (number of persons)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Spas	25512	26383	32635	36979	45080	36372	36337	36252	27236	22724	22189	26729	29487	32308	33599
Seaside, excluding Constanta	32783	44469	57806	67438	83567	88182	61812	58191	41569	31607	31384	28999	36368	31540	31325
Mountain resorts	87859	87903	98305	98068	116181	112722	96605	118706	105403	81064	86653	97330	113446	127174	132271
Danube Delta, including Tulcea	4594	5552	7049	8379	16566	22887	11789	20445	17438	15888	14208	23012	31299	22790	13482
Bucharest and county residence town	658090	686078	721042	791440	968795	1019585	1016107	1143916	1100733	979858	1047223	1176524	1261442	1308437	1486136
Other localities and touristic routes	58186	64124	82371	102671	129305	150163	157182	173447	173512	144449	144686	164105	184394	195106	217757

Source: National Institute of Statistics

For the foreign tourists the road transport prevails and there are no significant differences from year to year. Regarding the air transport, in the case of the foreigners it cannot be observed the same increasing trend as for the Romanian tourists. This may be due either to the already existing flights to Romania or to the correlation with the foreigners' origin countries. Since the largest percentage of foreign tourists is from neighbouring countries is more advantageous for them to turn to the road transport.

Table 4. Foreign tourist arrivals by means of transport used (%)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Road means of transport	72.34	73.35	74.97	77.62	81.83	75.83	72.72	74.50	77.69	78.23	78.77	74.58	75.94	77.87	75.69
Railway means of transport	12.54	9.64	7.80	6.22	4.67	5.22	5.23	3.56	2.85	2.75	2.96	3.39	3.21	2.89	2.05
Air means of transport	12.44	14.28	14.37	13.44	10.68	15.74	18.59	18.91	16.50	16.86	16.22	19.83	18.51	16.80	20.02
Naval means of transport	2.68	2.73	2.86	2.72	2.82	3.20	3.46	3.03	2.96	2.17	2.05	2.21	2.34	2.44	2.24

Source: National Institute of Statistics

In comparison, regarding the type of transport used by Romanian visitors abroad we can notice a decrease of railway and sea forms of transport throughout the period 2000-2014. In terms of road and air transport, if before 2004 we have an increase of road transport, for the rest of the analysed period air transport registers an increasing trend. This could be explained by the entry on the market of low-cost flights (BlueAir, Wizz Air, Ryanair, Germanwings, Scandinavian Airlines, Carpatair, Vueling, Tuifly, HOP!, Niki, Pegasus, Romavia), of charter flights, which led to the modernization of Airports in the big cities.

Table 5. Romanian tourist departures by means of transport used (%)

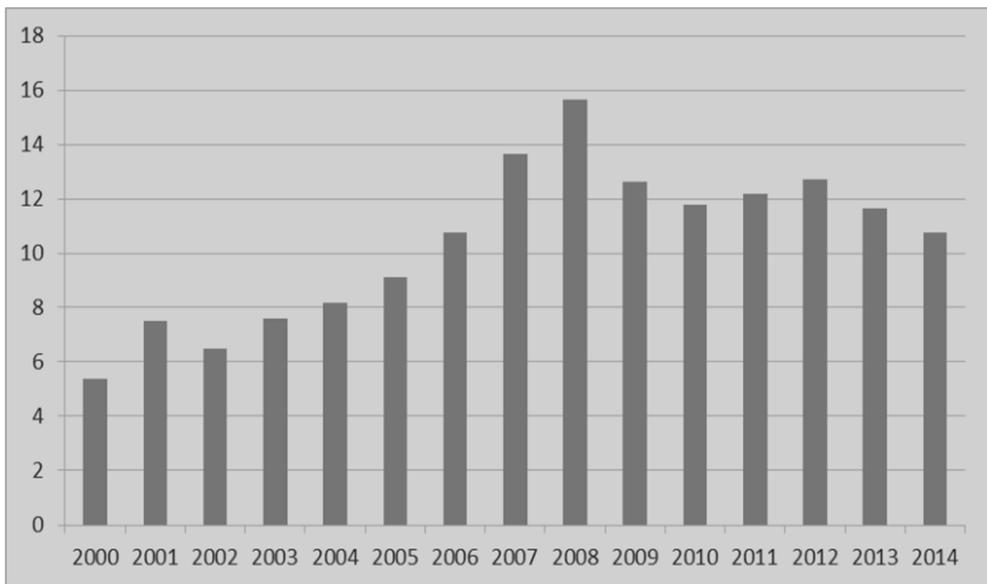
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Road means of transport	78.55	79.37	84.87	85.95	86.20	84.03	83.29	79.80	79.41	79.68	75.75	72.42	75.92	77.38	76.12
Railway means of transport	10.75	10.11	4.36	3.94	3.21	3.11	2.66	2.25	1.98	1.83	1.79	1.98	1.80	1.65	1.28
Air means of transport	8.38	8.44	9.15	9.13	9.85	12.34	13.75	17.70	18.39	18.31	22.15	25.42	22.07	20.77	22.41
Naval means of transport	2.32	2.08	1.62	0.99	0.73	0.52	0.29	0.25	0.21	0.18	0.17	0.18	0.21	0.20	0.19

Source: National Institute of Statistics

Touristic supply

In terms of touristic supply we intended to analyse, first of all, the evolution of capital investment in travel and tourism between 2000 and 2014. As the figures provided by the WTTC show, we can distinguish a favourable period for investments between 2002 and 2008 followed by a decrease between 2008 and 2010. The last four years of the period under review are equally divided between increases (2011-2012) and decreases (2013-2014).

Figure 5. *Evolution of capital investment in Travel & Tourism (RON bn.)*



Source: WTTC

During the time span 2000-2014 the number of accommodation establishments increased with over 96% across the country. If we analyse the evolution of accommodation establishments by type during this time span the highest increase has been registered among hostels

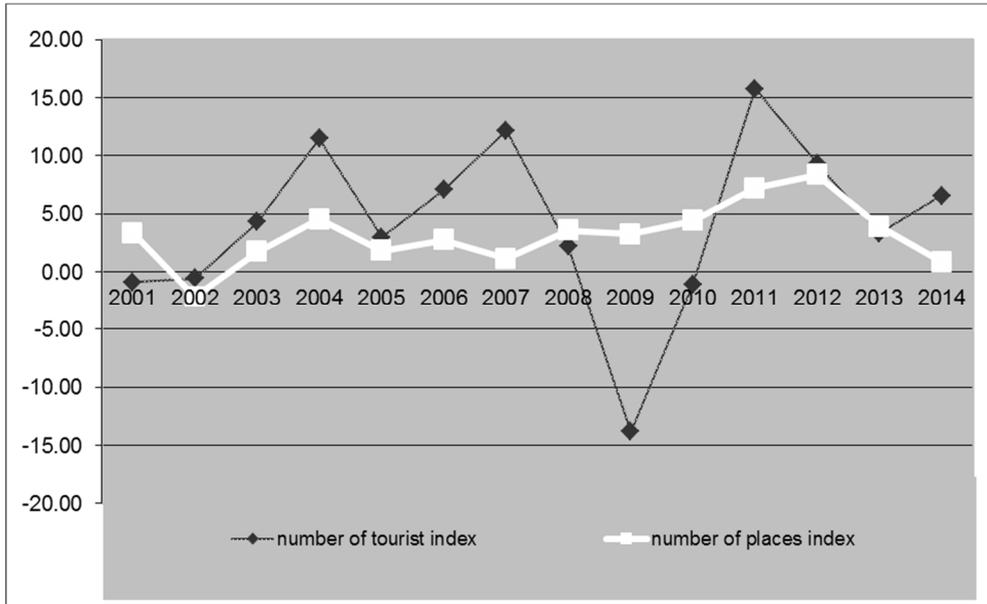
(from 2 in 2000 to 204 in 2014), apartment hotels (from 1 in 2000 to 23 in 2014), touristic halting places (from 6 in 2000 to 35 in 2014) and touristic boarding houses (an increase of more than 6 times). Decreases were recorded for inns (from 23 in 2000 to 5 in 2014), school and pre-school camps (with over 60%) and camps (about 30%).

Except 2002 when accommodation capacity decreased 2% from the previous year, the number of accommodation places increased each year, the largest increase being recorded in 2012 (8.36% compared with 2011). The growth of accommodation capacity throughout the period under review was 54.74%. By type of accommodation, the most significant increase in the period of analysis, occurred in the case of hostels (with 7249% times larger), followed by agro-touristic boarding houses (920.33%) and touristic boarding houses (857.59%). The largest decrease in the number of accommodation places was recorded for ship accommodation spaces, with 92.4% decrease of capacity in 2014 compared with the beginning of interval and camps with 86.62% decrease for the same interval.

We cannot talk about a correlation between demand (expressed as number of tourists) and supply (expressed as number of accommodation places) between 2002 and 2011. In the 2002-2004 period both the number of tourists and the number of places have increased, while in 2005 both indices recorded a decline although we would have expected the latter to remain constant or to increase. Starting with 2008 until 2011 the evolution of supply and demand goes hand in hand, the two indexes showing the same trend.

A possible explanation could be that demand was influenced by accommodation capacity or that supply adapted very quickly to demand. There might be a correlation between supply and demand starting with 2011 and until 2014 considering the fact that a decrease of the number of tourist indicator determines a decrease in the following year of the indicator number of accommodation places. It remains to see if the future years will confirm or not this correlation signifying an improvement of tourism administration.

Figure 6. Evolution of demand and supply



Source: National Institute of Statistics

Conclusions

Until present the Romanian tourism sector has not reached its full economic impact potential, in terms of total contribution to GDP (4.8% compared to 9.8% at global level in 2014, ranking 157 in the World) and employment (5.5% compared to 9.4% at global level in 2014, ranking 148 in the World) being below World and Europe averages. In terms of visitors exports contribution to total exports, Romania's ranking is 157, also below World and Europe averages. A positive aspect is that our country's ranking is higher than Europe and World averages when it comes to Travel and Tourism investment contribution to total capital investment in 2014, ranking 66 in the World (WTTC b., 2015).

More importantly, the forecast for 2025 is not promising for Romanian tourism, with a total contribution to GDP of 3.8%, ranking 109 in the World in terms of growth rate, and to employment of 2.7%, ranking 175 in the World in terms of growth rate, while the contribution of the travel and tourism sector to GDP at global level is forecast to reach 10.5% and to employment is estimated for 10.7% (WTTC b., c., 2015).

The share of international tourists increased in the period under review, the main source for foreign tourist being the neighbouring countries. Thus, Romania failed to attract an important number of tourists from the countries included in top 10 spender countries (according to a ranking of UNWTO from 2015). Considering visitor exports contribution to total exports, Romania ranked 157 in the World in 2014, below World and Europe average and also below Bulgaria (ranked 77) and Hungary (ranked 115) (WTTC b., 2015). The forecast for the period 2015-2025 (WTTC b., 2015) for the growth rate of visitor exports, places Romania on 23th place above Hungary and Bulgaria.

The fact that foreign tourists come mainly from neighbouring countries and that the main destinations are the capital and the county residence towns (indicating business travel and also the accessibility of these destinations) leads us to the conclusion that Romania as a tourist destination is not very popular despite the high touristic potential (possessing important natural and cultural resources). There are examples of good practices when it comes to attracting foreign tourists but they are too geographically dispersed and they have a positive economic impact on very small areas. We consider this to be a consequence of the lack of a coherent strategy for Romanian tourism development that should include promotion and infrastructure development. The policy makers (government, tourism associations and tourism operators) have yet failed to identify the competitive advantages that Romania has as a tourist destination and to come up with a plan to capitalize on the opportunities of tourism development (especially international tourism).

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IPSAS IMPLEMENTATION AND PERSPECTIVES FOR EPSAS IMPLEMENTATION AT THE EUROPEAN UNION LOCAL GOVERNMENT LEVELS

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ABSTRACT. Nowadays, the implementation of the IPSAS (International Public Sector Accounting Standards) and the perspectives for EPSAS (European Public Sector Accounting Standards) implementation at the European Union level is a severe problem. The implementation of IPSAS could be the earliest step in the EPSAS implementation that is considered beneficial to the particular needs of the European Union. Within the present paper, in order to assess the level of harmonization at the local level, the Herfindahl index was used. For our study, we considered the European Union cities with a population larger than 300,000 inhabitants, using the financial reports published by these municipalities on their websites. The results of the study indicate a high degree of dispersion regarding the items disclosed by the local governments in their financial statements, taking IPSAS 1 and IPSAS 2 as a benchmark. On the other hand, the results reveal the fact that the English municipalities disclose to the greatest extent the items requested by IPSAS 1 and IPSAS 2.

JEL Classification: H83

Keywords: IPSAS, EPSAS, harmonization, index

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Introduction and Literature Review

The globalization is a social phenomenon that was the subject of growing concerns in a broad range of academic disciplines since the 70s. The accounting was also influenced by globalization and, in terms of literature, the research of impact of globalization on accounting is focused on liberalization of financial markets and accounting harmonization, to encourage the spread of some standard practices (Aghimien, 1999; Ashbaugh, 2011; Cooke, 2001; Voleker, 2000; Cong Phuong & Khoi Nguyen, 2012).

Transforming public institutions in entrepreneurial entities generates in literature much controversy about whether the introduction of private sector management and accounting technique into the public sector is suitable (Roje, 2012). A response to this debate can be given by the reforming of the financial information system, an essential element of the management and decision-making of government institutions, which is also called New Public Financial Management (Guthrie et al., 1999). The purpose is to adapt private sector practices to the public sector, and appeared in the 80's, under the name of New Public Management or NPM (Bellanca & Vandernoot, 2013).

Supporting these changes, International Public Sector Accounting Standards (IPSAS) is in focus, being the link that creates a bridge between public and private spheres by promoting more accurate information about government solvency, patrimonial goods and the costs of public services (Pina & Torres, 2003). The aim is to make financial statements comparable from one period to another and from one public entity to another. Compliance with IPSAS is seen as the earliest step that was taken by all countries involved in beginning a process of modernisation in their executive information systems (Fuertes, 2008).

Consequently, the general trend in European Union countries is an attempt to unify the accounting and reporting of the public sector on an accrual basis, so the European Commission recommends the implementation of international accounting standards for the public sector (Štangová and Víghová, 2013).

To increase accountability and transparency, the concept of administrative modernization, the web service portals offer the opportunities for use interaction and the dialog between the state and the citizens (Pina et al., 2010). Thereby, the financial information disclosure for public administration is a guarantee for the usage of public resources and answerability of local government to the public to meet stated performance objectives (Pattaro, 2009).

The central goals of IPSAS are the increase of comparability, reliability and transparency of public accounts. Also, IPSAS could be a chance for the European Union Member States to improve their existing accounting systems (Bellanca & Vandernoot, 2014).

Some countries use their accounting standards that are significantly consistent with IPSAS requirements and keep their national sovereignty to apply national accounting standards. Other countries prepare their financial statements in a manner according to IPSAS, and other countries are in the process of adopting IPSAS (Roje et al., 2010).

The IPSAS implementation is not mandatory. The governments and national standard-setters have the power to set accounting standards and guidelines for reporting in their jurisdictions, but, at the same time, IPSASB (IPSAS Board) suggests that IPSAS may be helpful for standard-setters in the development of new standards to contribute to a greater comparability (Tiron-Tudor, 2010).

In the light of the above literature review, our study captures how the financial statements specific to the European Union local governments are harmonized with IPSAS provisions, considering that countries declare

that they use IPSAS. The purpose of the study is to determine to which extent the financial statements issued by the European Union municipalities with a population larger than 300,000 inhabitants follow the disclosure recommendations of two of the most important public sector accounting standards: IPSAS 1 Presentation of Financial Statements and IPSAS 2 Cash Flow Statements.

The paper is structured as follows: the first part consists of a brief introduction, the next part reviews the academic literature regarding the IPSAS and the potential implementation of EPSAS within the European Union Member States. The third part covers issues related to research methodology and data used; the fourth part includes the results of the study, and the final part of the paper concludes, presenting also the study limitations, and research perspectives.

IPSAS and EPSAS

IPSAS – promoter of changes in local government financial statements

Since 1977 Watts argues that financial statements are a product of the market and political processes. This approach is of paramount actuality to the public sector, given the fact that modernization trend of financial reporting in this sector is likely to continue during subsequent years (Christiaens et al., 2014; Luder & Jones, 2003) by promoting IPSAS principles through accrual reporting, sometimes through a supranational pressure exercised by the European Union and Eurostat (Manes Rossi et al., 2014). However, it is shown that despite the promotion and acceptance of accrual principles, the financial information system in the public sector is still relatively divergent (Benito et al., 2007).

Some authors (Chan, 2003; Jones, 2007; Bergmann, 2009) argue that one of the most relevant examples of private sector influence over the public sector is the development of International Public Sector Accounting Standards (IPSASs), mostly based on applicable standards for the private sector (IASs-IFRSs). However, accounting, budgeting and reporting system adopted in public administration present a series of particularities up against private sector, but also among countries (Luder & Jones, 2003) whose reflection has become an accountability tool utile for financial resources collected and spent, or for relationship between public administration and citizens (Rossi & Aversano, 2014).

IPSAS 1 Presentation of Financial Statements and IPSAS 2 Cash Flow Statements are relevant examples of harmonization with the private sphere, in contrast with IPSAS 24 Presentation of Budget Information in Financial Statements whose provisions are exclusively for the public sector. Thus, in the IPSAS adaptation, the accounting harmonization could not be avoided, it is self-explanatory and somehow inherent (Christiaens et al., 2014). Nevertheless, the particular issues of public accounting reporting system remain the same at least four reasons: the first reason targets the main characteristic of public entities (Christiaens & Rommel, 2008), the second reason focuses on the timing of the adoption process (Christiaens et al., 2014), the third reason points the different takeover degree of IPSAS provisions within national regulations (Carvalho et al., 2007; Christiaens et al., 2010) and, not lastly, the used accounting system (Van der Hoek, 2005; Benito et al., 2007).

Regarding the implementation of IPSAS within the local governments, the academic literature includes a series of studies that investigate that issue. The study of Benito et al. (2007) reveals that, regarding the local governments, the countries with the highest compliance degree with IPSAS are New Zealand, Sweden, Australia, USA, Mexico, Netherlands, and the United Kingdom. Related to the disclosure, New Zealand has a compliance

degree with IPSAS of 100%, and also a compliance degree of 96.97% regarding the valuation practices, resulting in an overall compliance level of 98.55% (Benito et al., 2007).

Also, numerous studies emphasize on the implementation of IPSAS at the some public accounting systems. Some authors explore the implementation of IPSAS at some national accounting systems, such as Belgium (Bellanca & Vandernoot, 2013), Slovenia, Croatia, Bosnia & Herzegovina (Roje et al., 2010), Czech Republic (Otavova, 2011) or Spain (Brusca et al., 2013). Also, a series of authors explore the implementation of IPSAS in some not-European countries, such as Zimbabwe (Mhaka, 2014), Irak (Ajshujairi, 2014), Nigeria (Ijeoma, 2014) or Mexic (Sour, 2012). As well, some authors explore the implementation of IPSAS in some economic communities, such as the European Union (Bellanca & Vandernoot, 2014) or MERCOSUR (Caba-Perez & Lopez-Hernandez, 2009). The results of the most studies reveal that the accounting systems of the Anglo-Saxon countries meet the recommendations and principles of IPSAS mostly.

EPSAS – European Public Sector Accounting Standards

The IPSAS framework is considered as an “indisputable reference point for EPSAS” (Makaronidis, 2012). Considering the difficulties generated by IPSAS implementation and expressed through public consultations, it is obvious that these standards cannot be easily implemented at the level of EU Member States in their actual form. In this context, the development of a set of European accounting standards for public sector called EPSAS and based on IPSAS in different bases, would give the European Union the ability to meet his needs.

The EU Commission Report (EC Eurostat, 2013a) draws attention to the fact that a set of harmonized EPSAS on their own are not the solution to guarantee the quality of accounting data (Jones and Caruana, 2015). Thus, our study asserts through the assessment of the extent to which the

financial reporting specific to local government meets the IPSAS requirements; it being the first step in the development and successful adoption of EPSAS referential.

The creation and implementation of EPSAS would generate some strong governance structures. Consequently, that fact generates some significant questions such as (Aggestam-Pontoppidan, 2013): 1. What is the body responsible for developing EPSAS?, 2. How will be selected and nominated the members of that body? 3. Will these members be independent of the European Union and the European Commission? Otherwise, how will be the independence protected? 4. What will be the funding source for this body?

The proposal for the creation and development of EPSAS belonged to Eurostat and originated in 2011 when EU Member States were requested to adopt IPSAS. That request turned later into a mission for the European Commission, which is to analyse the opportunity to implement IPSAS within the European Union Member States accounting systems. Thus, the proposal for the IPSAS adoption became the proposal for the EPSAS adoption. The logic of proposal for the EPSAS development would be the following: the Eurozone was gravely affected by the economic crisis in 2008, and some Eurozone countries experienced serious fiscal problems. An inherent weakness of the Eurozone is the fact that the government of each state – and not the European Union – has sovereignty over fiscal policies they issue. Thus, a surveillance of fiscal policies issued by each government would be necessary to avoid generating new crises in the future (Jones & Caruana, 2014).

Furthermore, the potential implementation of EPSAS at the European Union level comes with some significant costs involved in the modernization of accounting such as (Manes Rossi et al., 2016): - investments in technology of communication; - retraining civil servants; - some costs regarding the identification and valuation of assets under accrual accounting; - consultation costs.

Regarding the public sector accounting harmonization, the overall situation indicates that there is a long way to go both before internal harmonization within the specific countries and from a widespread adoption of a set of international accounting standards. Concisely, the main challenges that should be considered to assess the readiness for the adoption of some common accounting principles within Europe are the following (Brusca et al., 2015): accounting education level, information systems adequacy, maturity of accounting systems, political support, clarity of legislation, implementation costs and, not last, consulting needs.

Materials and Methods

The purpose of the article is to establish the extent to which the financial statements issued by local governments of European Union disclose the elements presented in the provisions of IPSAS 1 Presentation of Financial Statements and IPSAS 2 Cash Flow Statements, standards related to the content of the financial statements. For our study, we use a methodology similar to Sour (2012), who's study aims to determine the extent to which the Mexican accounting system take IPSAS 1 and IPSAS 2 as a benchmark. For structuring our sample, the first criterion is the number of city inhabitants. We took into consideration all the European Union cities with a population greater than 300,000 inhabitants. The second criterion is the issuance of the financial statements on the city councils' websites. From 142 cities and municipalities, only 49 issued their annual report or financial statements on the sites. The municipalities included in our sample are: Helsinki (Finland), Sheffield, Leeds, Birmingham, Liverpool, London, Manchester, Glasgow, Bradford, Edinburgh, Bristol, Southwark, Cardiff, Leicester, Portsmouth, Wakefield, Barnet, Sandwell, Reading, Cheshire West and Chester, Brent, Bromley, Croydon, Ealing, Enfield,

Newham, Wandsworth, Kirklees, Nottingham, North Lanarkshire, Wigan, Doncaster, Lambeth, Dudley, Coventry, and Wirral (United Kingdom), Marseille and Saint-Etienne (France), Riga (Latvia), Dublin (Ireland), Tallinn (Estonia), Stockholm, Goteborg and Malmo (Sweden), Warsaw (Poland), Bucharest, Cluj-Napoca, Timisoara, Galati, Iasi, Craiova, Constanta (Romania), Madrid, Sevilla, Barcelona, Zaragoza, Malaga, Murcia, Alicante, Las Palmas, Palma de Mallorca (Spain), Bratislava (Slovakia), and Brno (Czech Republic). It is important to mention that we included some of London boroughs in our sample, taking into account the fact that they are considered as distinct municipalities. Also, it is crucial that the financial statements to be published in English, Spanish, French or Romanian, that being the last criteria for structuring the sample on which study is based.

The method that we used for our study is the content analysis. More specific, we analyze the presence or the absence of the following items from the reports of the financial statements included in the sample: current assets, non-current assets, current liabilities, non-current liabilities, net assets/equity, property, plant and equipment, investment property, intangible assets, financial assets, inventories, cash and cash equivalents, taxes and transfers payable, provisions, financial liabilities, revenue, finance costs, share of the surplus or deficit of associates, depreciation and amortization, employee benefits, dividends, surplus or deficit, each item or revenue and expense, total revenue and expense, the effects of changes in accounting policies and corrections of errors, information about the basis for preparation of the financial statements, specific accounting policies used, a statement of compliance with IPSAS, contingent liabilities, unrecognized contractual commitments, non-financial disclosures (e.g. the financial risk management objectives and policies), the key assumptions concerning the future, other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities

within the next financial year, domicile and legal form of the entity, jurisdiction within which it operates, a description of the nature of the entity's operations and principal activities, and a reference to the relevant legislation governing the entity's operations.

All these listed items are included in IPSAS 1. Also, we assess the presence or absence of the cash flows from operating activities, cash flows from investing activities, cash flows from financing activities, cash flows from interest and dividends or similar distributions, cash flows from taxes or net surplus, cash flows arising from acquisitions and disposals of controlled entities or other operating units, and components of cash and cash equivalents. These items are related to the cash flow statement so, to IPSAS 2. Thus, we consider 36 items from IPSAS 1 and 7 items from IPSAS 2. The presence or absence of the elements is determined using the values 0 for absence and 1 for presence. These values are frequently used in the literature in a series of study based on the determination on disclosure index, such as Singhania & Gandhi (2015), Karim et al. (2013), Bokpin (2013), and Abdifatah & Mohd Ghazali (2012). Besides, we use the Herfindahl index to evaluate the harmonization level for the financial reports taken into consideration. That coefficient was used by Sour (2012) for measuring the harmonization level of the Mexico governmental accounting.

According to Taplin (2003), the Herfindahl Index measures the harmony of accounting practices by summarizing the extent to which companies use the same accounting practice. Also, the Herfindahl Index is suggested by international bodies such as the U.K. Accounting Standards Committee, the U.S. Financial Accounting Standards Board, the International Accounting Standards Committee, and the European Union as a tool for quantifying the degree of harmony of financial reporting practices. In our case, the Herfindahl Index is given by the following formula:

$$H = \sum_{i=1}^k p_i^2$$

Where p is the number of items that appear in the reports of the municipality (i) taking IPSAS 1 and IPSAS 2 as a benchmark, and k is the number of municipalities analysed. We analyse a number of 63 European Union Municipalities. All of them published the financial reports on the city councils' websites. It is important to mention that for our analysis we used the most recent set of financial statements published on each municipality website. The oldest financial statements that we analysed are from 2009, and the most recent set of reports is from 2014.

Results and Discussions

Firstly, we analyse how many financial statements are published in the financial statement by the municipalities included in the sample, taking IPSAS 1 and IPSAS 2 as a benchmark. As it can be seen, most of the municipalities publish the financial statements for 2014, five municipalities publish the financial statement for 2013, one municipality (Warsaw) publishes the financial statements for 2012, another municipality (Tallinn) publishes the financial statements for 2011, the municipality of Brno issues the financial statements for 2010 and Las Palmas issues the financial statements for 2009. We present the stage of that publication in Table 1.

As Table 1 shows, 60 municipalities (95.24%) of our sample issue the balance sheet on the website. All the municipalities included in our sample issue the statement of financial performance. Regarding the statement of changes in net assets, only 45 of the municipalities included in our sample (71.43%) publish that report. 49 municipalities (77.78%) issue the cash flow statement, and 53 of them (84.13%) issue the notes to the financial statements. Another significant issue that can be seen in the table above is that all the considered municipalities from the UK publish all the financial reports required by IPSAS 1 and IPSAS 2. Also, it is important to determine the number of municipalities that publish each of the 43 items from IPSAS 1 and IPSAS 2; the data are presented in Table 2.

Table 1. The financial reports published according to IPSAS 1 and IPSAS 2

Municipality	Year	Balance sheet	Statement of financial performance	Statement of changes in net assets/equity	Cash flow statement	Notes
Brno	2010	1	1	0	0	1
Tallinn	2011	1	1	0	1	0
Dublin	2013	1	1	0	1	1
Madrid	2013	1	1	0	1	1
Barcelona	2014	1	1	0	1	1
Sevilla	2014	1	1	0	0	0
Zaragoza	2014	1	1	0	0	0
Málaga	2014	1	1	1	0	1
Murcia	2014	1	1	1	1	1
Las Palmas	2009	1	1	0	0	1
Palma de Mallorca	2014	1	1	0	0	1
Alicante	2013	1	1	1	0	1
Saint-Etienne	2014	0	1	0	0	1
Marseille	2014	0	1	0	0	1
Riga	2014	1	1	0	0	1
Warsaw	2012	1	1	1	0	1
Bucuresti	2014	1	1	1	1	1
Cluj-Napoca	2014	1	1	1	1	0
Timisoara	2014	1	1	0	0	0
Craiova	2013	1	1	1	1	0
Constanta	2014	1	1	1	1	0
Iasi	2014	1	1	1	1	0
Galati	2014	1	1	1	1	1
Bratislava	2014	0	1	0	0	0
Helsinki	2014	1	1	0	1	0
Stockholm	2014	1	1	0	1	1
Göteborg	2014	1	1	0	1	1
Malmö	2013	1	1	0	0	1
London	2014	1	1	1	1	1
Birmingham	2014	1	1	1	1	1

Municipality	Year	Balance sheet	Statement of financial performance	Statement of changes in net assets/equity	Cash flow statement	Notes
Leeds	2014	1	1	1	1	1
Glasgow	2014	1	1	1	1	1
Bradford	2014	1	1	1	1	1
Liverpool	2014	1	1	1	1	1
Edinburgh	2014	1	1	1	1	1
Manchester	2014	1	1	1	1	1
Cardiff	2014	1	1	1	1	1
Sheffield	2014	1	1	1	1	1
Bristol	2014	1	1	1	1	1
Leicester	2014	1	1	1	1	1
Portsmouth	2014	1	1	1	1	1
Coventry	2014	1	1	1	1	1
Nottingham	2014	1	1	1	1	1
Wirral	2014	1	1	1	1	1
Barnet	2014	1	1	1	1	1
Brent	2014	1	1	1	1	1
Bromley	2014	1	1	1	1	1
Croydon	2014	1	1	1	1	1
Ealing	2014	1	1	1	1	1
Enfield	2014	1	1	1	1	1
Lambeth	2014	1	1	1	1	1
Newham	2014	1	1	1	1	1
Southwark	2014	1	1	1	1	1
Wandsworth	2014	1	1	1	1	1
Kirklees	2014	1	1	1	1	1
North Lanarkshire	2014	1	1	1	1	1
Wakefield	2013	1	1	1	1	1
Dudley	2014	1	1	1	1	1
Wigan	2014	1	1	1	1	1
Doncaster	2014	1	1	1	1	1
Sandwell	2014	1	1	1	1	1

Municipality	Year	Balance sheet	Statement of financial performance	Statement of changes in net assets/equity	Cash flow statement	Notes
Reading	2014	1	1	1	1	1
Cheshire West and Chester	2014	1	1	1	1	1
TOTAL		60	63	45	49	53

Source: Authors' compilation

Table 2. The disclosure compliance with IPSAS 1 and IPSAS 2 items

Item	Municipalities	Percent of municipalities
Current assets	60	95,24%
Non-current assets	60	95,24%
Current liabilities	60	95,24%
Non-current liabilities	60	95,24%
Net assets/equity	62	98,41%
Property, plant and equipment	60	95,24%
Investment property	59	93,65%
Intangible assets	59	93,65%
Financial assets	60	95,24%
Inventories	60	95,24%
Cash and cash equivalents	59	93,65%
Taxes and transfers payable	47	74,60%
Provisions	60	95,24%
Financial liabilities	60	95,24%
Revenue	62	98,41%
Finance costs	54	85,71%
Share of the surplus or deficit of associates	37	58,73%
Depreciation and amortization	62	98,41%
Employee benefits	42	66,67%
Dividends	27	42,86%
Surplus or deficit	62	98,41%
Each item or revenue and expense	62	98,41%

Item	Municipalities	Percent of municipalities
Total revenue and expense	62	98,41%
The effects of changes in accounting policies and corrections of errors recognized in accordance with IPSAS 3	37	58,73%
Information about the basis of preparation of the financial statements	50	79,37%
Specific accounting policies used	50	79,37%
A statement of compliance with IPSAS	6	9,52%
Contingent liabilities	46	73,02%
Unrecognized contractual commitments	0	0,00%
Non-financial disclosures (e.g. The financial risk management objectives and policies)	51	80,95%
The key assumptions concerning the future	42	66,67%
Other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year	40	63,49%
Domicile and legal form of the entity	59	93,65%
Jurisdiction within which it operates	59	93,65%
A description of the nature of the entity's operations and principal activities	54	85,71%
A reference to the relevant legislation governing the entity's operations	59	93,65%
Cash flows from operating activities	50	79,37%
Cash flows from investing activities	50	79,37%
Cash flows from financing activities	50	79,37%
Cash flows from interest and dividends or similar distributions	36	57,14%
Cash flows from taxes or net surplus	53	84,13%
Cash flows arising from acquisitions and from disposals of controlled entities or other operating units	33	52,38%
Components of cash and cash equivalents	50	79,37%

Source: Authors' compilation

As it can be seen in Table 2, most of the municipalities disclosed the items requested by the IPSAS 1 to be published on the balance sheet such as current and non-current assets and liabilities, net assets, property, plant and equipment, financial liabilities, provisions, and inventories. Also, almost all the municipalities included in our sample, except Brno, disclose the surplus or deficit and the components of revenue and expenses. None of the financial reports analysed disclose the information related to unrecognized contractual commitments. Regarding the harmonization index value, this is constructed in Table 3, as follows:

Table 3. The harmonization index value

Municipality	IPSAS items identified	p value	p² value
Brno	12	0.00553	0.00003
Tallinn	29	0.01336	0.00018
Dublin	30	0.01382	0.00019
Madrid	34	0.01566	0.00025
Barcelona	34	0.01566	0.00025
Sevilla	21	0.00967	0.00009
Zaragoza	21	0.00967	0.00009
Málaga	26	0.01198	0.00014
Murcia	33	0.01520	0.00023
Las Palmas	25	0.01152	0.00013
Palma de Mallorca	19	0.00875	0.00008
Alicante	27	0.01244	0.00015
Saint-Etienne	15	0.00691	0.00005
Marseille	15	0.00691	0.00005
Riga	26	0.01198	0.00014
Warsaw	24	0.01105	0.00012
Bucharest	35	0.01612	0.00026
Cluj-Napoca	28	0.01290	0.00017
Timisoara	22	0.01013	0.00010
Craiova	29	0.01336	0.00018
Constanta	27	0.01244	0.00015

Municipality	IPSAS items identified	p value	p² value
Iasi	27	0.01244	0.00015
Galati	34	0.01566	0.00025
Bratislava	10	0.00461	0.00002
Helsinki	30	0.01382	0.00019
Stockholm	41	0.01889	0.00036
Göteborg	40	0.01842	0.00034
Malmö	35	0.01612	0.00026
London	39	0.01796	0.00032
Birmingham	38	0.01750	0.00031
Leeds	40	0.01842	0.00034
Glasgow	38	0.01750	0.00031
Bradford	41	0.01889	0.00036
Liverpool	40	0.01842	0.00034
Edinburgh	40	0.01842	0.00034
Manchester	41	0.01889	0.00036
Cardiff	40	0.01842	0.00034
Sheffield	40	0.01842	0.00034
Bristol	42	0.01935	0.00037
Leicester	40	0.01842	0.00034
Portsmouth	40	0.01842	0.00034
Coventry	41	0.01889	0.00036
Nottingham	41	0.01889	0.00036
Wirral	41	0.01889	0.00036
Barnet	40	0.01842	0.00034
Brent	42	0.01935	0.00037
Bromley	41	0.01889	0.00036
Croydon	42	0.01935	0.00037
Ealing	41	0.01889	0.00036
Enfield	41	0.01889	0.00036
Lambeth	42	0.01935	0.00037
Newham	41	0.01889	0.00036
Southwark	41	0.01889	0.00036
Wandsworth	41	0.01889	0.00036
Kirklees	41	0.01889	0.00036

Municipality	IPSAS items identified	p value	p² value
North Lanarkshire	41	0.01889	0.00036
Wakefield	42	0.01935	0.00037
Dudley	40	0.01842	0.00034
Wigan	41	0.01889	0.00036
Doncaster	40	0.01842	0.00034
Sandwell	41	0.01889	0.00036
Reading	40	0.01842	0.00034
Cheshire West and Chester	42	0.01935	0.00037
TOTAL	2171	1	0.01687

Source: Authors' compilation

Thus, the value of H-Index is 0.01687. According to methodology used by Sour (2012), for interpretation goals, the index can be normalized (H_n) as follows:

$$H_n = \frac{H - \left(\frac{1}{k}\right)}{1 - \left(\frac{1}{k}\right)}$$

According to Sour (2012), H_n takes values between 0 and 1. In this case, zero indicates a total lack of harmonization, and one indicates that all financial statements analysed are in complete harmony with the principles and recommendations of IPSAS 1 and IPSAS 2. For our study, H_n is calculated as follows:

$$H_n = \frac{0.01687 - \frac{1}{63}}{1 - \frac{1}{63}} = 0.00027$$

In the case of financial statements issued by the European Union municipalities with a population greater than 300,000 inhabitants, the value of H_n indicates that governmental accounting is dispersed. In our case, the value of H_n is below 1 (0.001) and shows the dispersion of the

use of the accounting practices. That fact is justified because it can be noticed that the British municipalities have a greater degree of disclosure according to IPSAS 1 and IPSAS 2 than the rest of municipalities included in the sample.

Conclusions

The creation and development of IPSAS is the earliest step that the public entities should take to modernize and improve their financial reporting systems and increase the accountability and transparency. Also, the IPSAS should be taken as a significant reference for EPSAS. However, it is very important to take into consideration the costs involved by the implementation of these standards such as investments in technology and communication and the training of personnel.

Regarding the European Union local administrations, it can be noticed that the financial statements issued by United Kingdom municipalities have the highest harmonization degree, taking IPSAS 1 and IPSAS 2 as a benchmark. The financial statements issued by municipalities such as Bristol, Brent, Croydon, Lambeth, Wakefield, and Cheshire West and Chester have the highest degree of disclosure according to IPSAS 1 and IPSAS 2 (97.67%). All these British municipalities disclose within the financial reports published on their websites 42 of the 43 elements recommended by IPSAS 1, and IPSAS 2. All of them do not disclose information related to the unrecognized contractual commitments. On the other hand, the municipalities whose financial statements have the lowest degree with IPSAS 1 and IPSAS 2 are Bratislava (23.26%), Brno (27.91%).

Regarding the financial reports that municipalities issue, all the reports analyzed include the statement of financial performance. The percent 95.24% of financial statements analysed include the balance sheet,

84.13% of them include the notes to the financial statements and 77.78% of the financial reports include the cash flow statement. The statement of changes in net assets is included in 71.43% of the financial reports that we analyse.

Also, the calculated value of harmonization index reveals a high degree of dispersion regarding the items disclosed by the local governments in their financial statements, taking IPSAS 1 and IPSAS 2 as a benchmark. Thus, by determining the level of actual harmonization regarding the financial statements issued by the local government and two accounting standards - IPSAS 1 and IPSAS 2 – considered essential points of the modern accounting, the objective of our study is achieved.

A significant limitation of the study is the fact that it targets only the cities of the European Union with a population greater than 300,000 inhabitants. Secondly, the study aims only the IPSAS regarding the content of the financial statements: IPSAS 1 Presentation of Financial Statements, IPSAS 2 Cash Flow Statements and IPSAS 24 Presentation of Budget Information in Financial Statements. Also, many of the European cities with a population greater than 300,000 inhabitants do not publicly publish their annual financial statements. Another significant aspect that we observed is the fact that most of the Anglo-Saxon cities from the European Union publish their annual financial statements on the city councils' websites. We can conclude that the Anglo-Saxon city councils are more aware of issued related to transparency than the Continental-European city councils.

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