

New Approaches and Tendencies in Entrepreneurial Management

New Approaches and Tendencies in Entrepreneurial Management:

*International Conference
Proceedings*

Edited by

Ovidiu Nicolescu, George Plesoianu
and Alexandru Costin Cîrstea

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FOREWORD

The present book was edited by the Romanian Scientific Management Society (RSMS) – which is the most prestigious Romanian association of management specialists. It has more than 210 university management professors and associate professors from the key Romanian universities.

This book presents the articles presented in the 2014 international management conference organised by RSMS in Murighiol, Danube Delta. Extracts of other articles have already been published this year in *Challenges, Performances and Tendencies in Organisation Management*, a book by World Scientific Publishing House.

According to the RSMS strategy, every two years an international conference is organised with the contribution of all five branches in Bucharest, Cluj, Iași, Sibiu and Timișoara. The next conference will take place in the Carpathian Mountain resort, Păltiniș, Sibiu.

The articles included in this book are divided into four sections:

- Management of change, innovation and quality
- Knowledge-based management and intellectual capital
- Entrepreneurship, SMEs and social enterprise
- University governance and management

This book provides readers with valuable scientific management information. Each article contains relevant managerial information – theoretical and/or pragmatic – that contributes to management development.

The present book, together with other scientific works published by RSMS, such as the 21 volumes of Management Dictionary, Assessment of Romanian Management (5 Years by Research Report), Scientific Management Yearbook 1990–2013, etc., contributes to the development of management science and to the improvement of organisation performance in the context of the transition to a knowledge-based economy.

We express our gratitude to Cambridge Scholars Publishing for their valuable insights into the publication of this book.

Prof. PhD. Ovidiu Nicolescu
President Romanian Scientific Management Society – RSMS

INTRODUCTION

This book is the result of the contributions of more than 30 professors and specialists in the field of organisation management, and presents a set of innovative approaches to international management theory and practice in the context of transition to a knowledge economy. The book is addressed to management experts who aspire to use the latest methods, techniques and practices of organisational leadership, and also to students or other persons interested in the promotion and implementation of best practices in entrepreneurial management.

The main focus of this work is primarily on the managerial methods and techniques presented in the 17 scientific articles, all of which contribute significantly to the organisation management field.

The Romanian Scientific Management Society aims to promote this volume as a tool for disseminating the most important results of scientific research in the field to professors, management consultants, researchers and managers at the international level. This book is also being used as a tool in the development of a competitive school of management in Romania, through the use and adaptation of the best management practices used internationally, thus stimulating the cooperation of the main actors involved in developing new approaches to management and business in Romania and other EU countries.

The book is divided into four sections covering the main areas of interest in management: management of change, innovation and quality; knowledge management and intellectual capital; entrepreneurship, development of SMEs and social enterprises; and management and governance in the university environment.

The first section, Management of change, innovation and quality, includes five articles that present strategies for change and innovation in streamlining industrial production, the controversial issue of climate change as a factor for increasing food security, and strategies for increasing competitiveness in managerial activities in order to develop local communities.

The second section, Knowledge management and intellectual capital, contains four communications that address advanced principles of organisation management based on knowledge (OMBK), intellectual

property as a key asset in OMBK, project management in OMBK and effective negotiation techniques in OMBK.

The third section, entitled Entrepreneurship, SMEs and social enterprises, includes five articles, and addresses entrepreneurial management in the framework of the actual requirements of civil society and communities, presenting a series of econometric methods for forecasting the success of a business, elements of business intelligence, the development of family businesses as a contributor to growth on local and regional levels and elements of "customer relationship" management and entrepreneurial education.

The fourth section, entitled University governance and management, contains three works which highlight the role of higher education in developing superior management skills and techniques as well as presenting adequate and competitive methods for sustainable university management.

In conclusion, the editors believe that by reading this work, both specialists with experience in this area and those wishing to study best management practices will identify useful methods and practices with an innovative international scope that can be utilised in managerial activities.

Prof. PhD. George Plesoianu
PhD. St. Alexandru Costin Cîrstea
Editors

**MANAGEMENT OF CHANGE,
INNOVATION AND QUALITY**

CHAPTER ONE

CHANGE AND INNOVATION STRATEGIES
FOR EFFICIENT INDUSTRIAL PRODUCTION
IN ROMANIA

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Abstract

Innovation and new technologies are top priorities for many companies, considering the global issues that decision makers are faced with in the current economic environment. In order to reach a high level of efficiency and obtain a competitive advantage, companies include new ideas and advanced technologies in their technological processes, which contribute to the added value of the products or services on the market.

The objectives of this article are to analyse and identify the change and innovation strategies needed to improve the *competitiveness* of Romanian industrial production.

The research methods applied in this article will highlight the appropriate strategy for the long-term efficiency of production processes. Through research carried out in both the national industrial environment and the international framework of innovation in this field, this article will provide directions for improving traditional operational flow, along with solutions to nurture better understanding and align this with international best practices. Statistics from the field will contribute to the *strategic analysis of research and development activities*, sources of funds granted for innovation activity and the added value on companies' revenues due to patents. In order to emphasise the importance of *innovative strategies*, a case study on the national furniture manufacturing industry will be presented.

All of these methods will help define the change and innovation strategies for an *efficient industrial market* and will increase competitiveness in the international market.

Conclusions will highlight the necessity of innovation and transition to new technologies in maintaining a *competitive environment* at both a microeconomic and macroeconomic level.

Keywords: competitiveness, strategic analysis, innovation strategies, research and development activities, efficient industrial market, competitive environment

JEL Classification: O32

Introduction

Today's world is facing extraordinary challenges, which have a high impact on economic and social environments. While economies are struggling to recover from the global financial and economic crisis, organisations need to constantly change in order to succeed. Viable solutions for sustained growth can be found through research and development activities, strategic analysis of the economic field, new technologies and the dissemination of innovation.

In order to emphasise the meaning and importance of the terms 'innovation' and 'change', the usage of which has grown exponentially over recent years, we can look at the vast specialised literature where innovation is described as an instrument used to exploit change as an opportunity for a competitive management "Schumpeter" (1943, 81–84). In reference to innovation management, a pioneer defines this as "a process where the opening up of new markets, foreign or domestic, and the organisational development [...] illustrate the same process of industrial mutation that incessantly revolutionises the economic structure from within, incessantly destroying the old one, incessantly creating a new one". He called this process "creative destruction".

According to "Europe 2020 in Romania" (The European Commission 2012),

a time when financial problems persist, Europe needs its real economy more than ever to underpin the recovery of economic growth and jobs. Our industry is well placed to assume this role: Europe is a world-leader in many strategic sectors such as automotive, aeronautics, engineering, space, chemicals and pharmaceuticals. Industry still accounts for 4/5 of Europe's

exports and 80% of private sector R&D investment comes from manufacturing.¹

As mentioned above, industry is a key player in the new growth model for the European Union economy.

The motivation of the research is to emphasise the importance of innovation tools in achieving an efficient industrial market. In order to achieve sustainable economic development, new industrial policy and innovation strategies are needed, and access to knowledge, new technologies, talents and skills is a must.

According to *The OECD Innovation Strategy: Getting a Head Start on Tomorrow* (2010),

innovation is already an important driver of growth in some countries. Firms in several OECD countries now invest as much in intangible assets, such as research and development (R&D), software, databases and skills, as in physical capital such as equipment or structures. Much multifactor productivity (MFP) growth is linked to innovation and improvements in efficiency. Preliminary estimates indicate that in Austria, Finland, Sweden, the United Kingdom and the United States, investment in intangible assets and MFP growth together accounted for between two-thirds and three-quarters of labour productivity growth between 1995 and 2006, thereby making innovation the main driver of growth. Differences in multifactor productivity also account for much of the gap between advanced and emerging countries. This suggests that innovation is also a key source of future growth for emerging economies. In an economy increasingly based on knowledge and innovation, the development of fully functioning knowledge networks and markets could have a significant impact on the efficiency and effectiveness of the innovation effort.

Considering the impact of the reindustrialisation process at the international level, this article aims to set out a strategic framework for a new integrated industrial policy that will stimulate the economic recovery of the Romanian industrial production.

General overview of the Romanian industrial innovation market

When it comes to the national industrial production market, we can say that it has faced one of the greatest economic challenges in years. Over the past two decades, Romania has made a significant step forward onto the competitive industrial market through the increased volume of exports and the increased number of products and services along with the shift towards

higher skill specialisation and added-value goods and services. Yet an efficient strategy for Romanian industrial production is at the centre stage of the national economic growth plan due to its significant role in overall economic sustainable development.

Romania must continue its effort to compete in the market, in both technology-driven and traditional industries. Encouraging and supporting industrial innovation through strategic policies could be the ongoing solution for economic sustainability. Generally, Romanian industrial innovation performance at its highest potential is yet to be exploited.

In *Innovation in Industry and Services 2010–2012*, the National Institute of Statistics (2014) shows that innovation represents the introduction of a product in the company, a new or significantly improved process and a new method of organising or marketing. Innovation must involve new characteristics, new usage purposes, or provide a significant improvement to what was previously used or sold by the company. However, an innovation may fail, or take time to be established. Innovative companies are active enterprises that have launched new or significantly improved products into the market as well as introduced new or significantly improved processes, organisational or marketing methods. Non-innovative companies are businesses with no innovative activity at the time of the study.

This requires industrial policy to be understood in its wider sense. According to the statistics of the data processed, Figure 1 shows the total share of Romanian industrial production in the Gross Domestic Product (GDP): industry has registered a positive trend, with a constant increase in the analysis range. It must be considered that in the economic crisis period, commerce and construction figures decreased significantly, highlighting that industrial production was the main driver even in challenging times.

As an important contributor to the general added value of goods and the labour market, as well as a relevant field for innovation, industrial production plays a key role in overall economic performance. It is the most significant contributor when it comes to research and development (R&D) expenses. According to Figure 2, we can see that the percentage of R&D in GDP maintained a flat rate in 2009–2012 but increased slightly in 2012, demonstrating a positive trend in the overall figures.

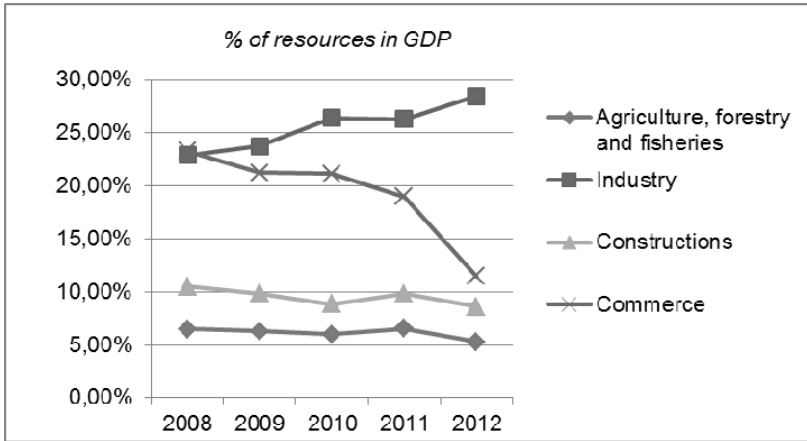


Figure 1-1 Percentage of resources in GDP

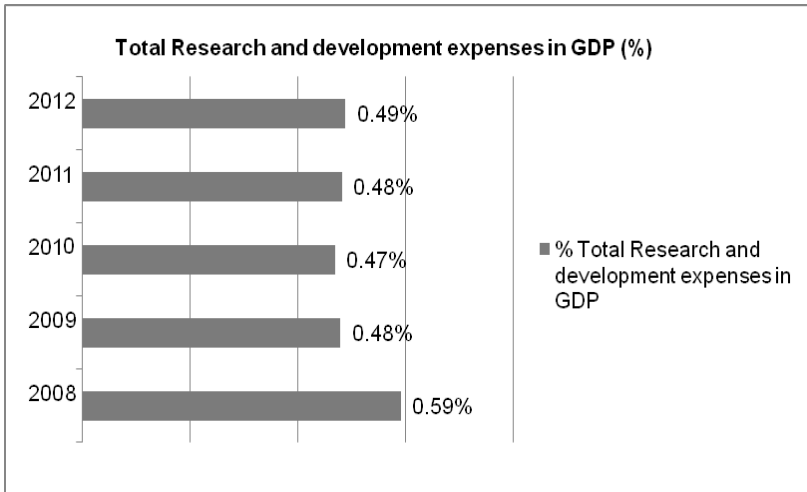


Figure 1-2 Total research and development expenses in GDP (%)

Europe 2020 Strategy states that the European average gross domestic expenditure on research and development is currently set at approximately 2% and the target for 2020 is 3%. According to the same study, Romanian average gross domestic expenditure on research and development aims to reach the actual European level of 2% by 2020.

Regarding the national execution sectors for research and development expenses, Figure 3 highlights the most significant contributors – the public and company sectors. Overall, figures show an encouraging trend in the destination of the funds, considering that both the public and private sectors are subject to sustainable, yet insufficient, economic growth. The public sector is defined by research institutes with knowledge capital while the private sector consists of companies that aspire to innovate and gain knowledge more than companies with research as a main activity.

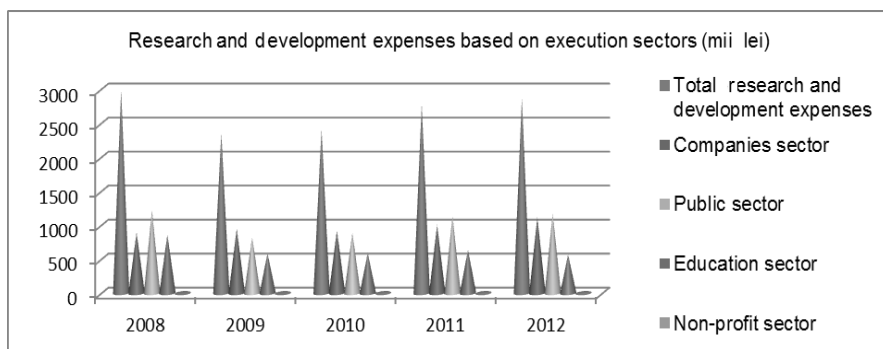


Figure 1-3 Research and development expenses based on execution sectors (million lei)

In *Innovation in Industry and Services 2010–2012*, the National Institute of Statistics (2014) shows that

innovation activities in Romanian companies declined in 2010-2012 versus (the) previous period 2008-2010 according to the results of static research on innovation in industry and services. Non-innovative companies increased with 10.1%. Only four out of ten large enterprises and only two out of ten small and medium enterprises have implemented a new product, process, or significantly improved their organisational or marketing methods. Industrial field registered a 7.7% decrease, from 30.1% in 2008-2010 to 22.4% in 2010-2012. In the service sector, the decline is almost double – from 31.7% in 2008-2010 to 18.8% in 2010-2012.

In the private-public research and development context, it is important to create a proper framework in order for research institutes, with theoretical skills, to communicate efficiently with private companies, which aspire to innovate and have market knowledge. The participation of innovative institutions in the industrial market is not capitalised to its full

potential. However, public research organisations could help the large private sector by forming human resources developing patterns. In order to achieve this cooperation in innovation, a high-quality infrastructure is needed along with a proper legal framework.

The proper use of resources will also require strong technology – and a new innovation policy. In order to highlight the solutions for an efficient and competitive industrial market, specific positive characteristics and features have to be taken into consideration in the assessment of the existing Romanian innovation system, such as the following: strong results and sustainable performance in applied industries such as information technology and communications, pharmaceuticals, automotive and aeronautics; permanent efforts by the Romanian regulatory institutions to adopt and comply with the European Union standards; an increased number of university centres with research competencies; wide acceptance of innovation in the industrial market; promising internationalisation of research (for example, the automotive industry, IT or furniture manufacturing industry); political involvement in defining the best solutions and strategies for a competitive national economy and increased awareness of companies and public institutions of the importance of knowledge, research and development expenses when it comes to sustainable growth.

To determine the feasibility of policy responses to new challenges and opportunities, we can also determine some of the causes of the gap between the Romanian innovation system and that of other countries with similar economies but with better innovation environments. The causes are as follows: the lack of a diverse research and development funding portfolio; the low number of small and medium enterprises along with their limited capacity to sustain innovation and research; the lack of cooperation between scientific institutions and private companies; the lack of political commitment and shortfalls in implementing national strategies due to an inability to implement innovative programmes across industries or allocate the proper funds to areas where innovation is required (i.e., manufacturing of food products, textiles and automobiles, construction or information technology industries); the low number of human resources specialised in scientific research or the inability of these human resources to adapt to the increasingly innovative competition.

Despite the challenges of the Romanian industrial market, policy recommendations and innovation strategies can be formulated. In order to form an innovative approach and to maximise the benefits from the forthcoming framework, it is important to use a proper definition of the problem and problem-solving methodology.

Mann (2000, 2–3) states that TRIZ is an acronym that comes from a Russian term translated into English as the theory of innovative problem solving. TRIZ provides means for problem solvers to access good solutions designed by the world's finest inventive minds. The basic process by which this occurs is: Specific Problem, TRIZ Generic Problem, TRIZ Generic Solution and Specific Solution. Essentially, TRIZ researchers have encapsulated the principles of good inventive practice and set them into a generic problem-solving framework. The task of problem definers and problem solvers using the large majority of the TRIZ tools thus becomes one in which they must map their specific problems and solutions to and from this generic framework. By using the global patent database as the foundation for the method, TRIZ effectively strips away all the boundaries between different industry sectors. The generic problem-solving framework thus allows engineers and scientists working in any field to access good practices in different fields of science and engineering. The four pillars of TRIZ are: contradictions, ideality, functionality and use of resources.

Addressing industrial challenges through innovation – a case study of the Romanian furniture manufacturing industry

In consideration of the specific guidelines of TRIZ's innovative problem-solving methodology, it is important to utilise this approach in the framework of the Romanian industrial production environment and identify efficient and sustainable innovative solutions. We will consider the furniture manufacturing industry, a sound example where innovation and change are musts considering that challenges come not only in terms of complex technologies or innovative designs but also in terms of alternative resources and environmental issues.

According to the National Institute of Statistics, the furniture manufacturing industry is an important contributor to the overall industrial production. The overall activity of this industry is: in 2008 – 6597.5 million lei; in 2009 – 721.9 million lei, in 2010 – 5952.8 million lei and in 2011– 7055.7 million. This industry revenue is predicted to increase; still, there are some factors that will moderate the general efficiency: changing manufacturing technologies, changing regulations and environmental laws, advanced competition in terms of quality of products and services, price of raw resources and labour and complex customer demand as well as high importation levels. In order to efficiently address these challenges and

decrease the pressure on domestic manufacturers, manufacturing companies must continuously innovate.

Regarding *contradictions*, we can identify the main parameters of conflict or contradiction inherent in the Romanian industrial production market. *Insufficiently structured technology transfer and links between industry and research* is one of the main attributes responsible for the gap between the national and international market, mostly due to the small contribution of general funds in research and development activities. Based on the statistics provided and analysed above, we can see that less than 0.5% of the gross domestic expenditure is spent on research and development while the European figure is currently set at approximately 2%. Yet the national target for 2020 is to accommodate 2% of the GDP, which means that innovative solutions are mandatory for sustainable growth. The furniture manufacturing industry is labour intensive, often incorporating capital or technology, which links exports to an industrially advanced economy. According to the National Institute of Statistics, the furniture manufacturing industry and parts thereof account for: FOB Export 2009 – 1032 million euro; 2010 – 1108 million euro; 2011 – 1358 million euro; and CIF Import 2009 – 324 million euro; 2010 – 323 million euro and 2011 – 354 million euro.

These figures show us an important and sustainable trend: the high level of export of labour intensive products and a lower level of imports leads to favourable foreign trade.

Focus on technological innovation versus soft innovation – currently, innovation is understood in the sense of technological progress demonstrated by physical capital such as equipment, machinery or software. Non-technological innovation should also be part of the general development – innovative capabilities of human resources, innovative organisational process, innovative marketing or distribution flows. Small and medium enterprises are an important subject in this matter because of the barriers they often face in a competitive market: low financial resources for complex technologies, lack of flexibility in implementing production on a large scale and limited funds for patents or highly specialised human resources. Therefore, they become the main suppliers for the large companies. Another contradiction is the *increased number of universities and university graduates but low level of human resources dedicated to scientific activities in the field*, a relevant indicator when considering national competitiveness or industry efficiency. Also, we can highlight conflicting parameters: *tools for monitoring and evaluation of innovation – research and development expenses can provide estimated figures regarding innovation in the furniture manufacturing industry but*

cannot underline the effectiveness of these strategies. Difficulties collecting proper statistical data in terms of knowledge and innovation are due to the lack of accurate instruments that can highlight the possibility of technologies or innovative flows applied in the company – patents or intellectual property figures do not account for the efficiency of innovative solutions. *Lack of participation in international industrial networks, insufficient information technology infrastructure and suboptimal innovation conditions* are also part of the industry contradictions.

The *ideality* approach is based on an evolution process, and will help predict how and when innovation is possible or required. This TRIZ concept is based on eliminating constraints and then projecting the ideal solutions regardless of costs and other resources. In order to emphasise the proper evolution of an innovative system through the benchmark analysis, we focus on the strengths of a successful innovative economy. Since, according to the World Economic Forum 2012, the Global Competitiveness Report nominated Sweden as one of the top European economies as well as a leading country in the furniture manufacturing industry, we will consider its innovative strengths as an ideal example. In *OECD Reviews of Innovation Policy: Sweden 2012*, the OECD (2013, 22) shows that

Sweden is a leading innovation performer with a high standard set on its strengths: successful socioeconomic development combined with the high quality of life; specialisation at the high end of global value chains and fast-developing innovative services; good framework conditions for innovation including solid macroeconomic fundamentals and institutions, a robust financial system and a supportive business environment; a strong human resources base; high investment in Research and Development and other knowledge-based capital and a strong information technology infrastructure; very good output in terms of number and quality of scientific publications; excellence in industrial research and world-class innovation; participation in international academic and industrial networks, high quality of institutions and others.

The Swedish furniture market is a very strong and viable domestic industry with the following market trends: green furniture due to national environmental concerns, tailored designs, space-efficient furniture, technology features incorporated in the design of furniture and multifunctional and easily adjustable furniture pieces.

According to the TRIZ methodology, *functionality* and the *use of resources* are flexible approaches in the definition of innovative solutions. Functionalities guide policies toward an innovative vision while resources imply an innovative process of transformation as they constantly change.

The discovery of new functionalities and resources can lead to important opportunities and can be subject to efficient innovative strategies. Companies have to create innovative products not only through design but also specific characteristics such as ergonomics, dimensions, adaptability, durability and serviceability. When it comes to the use of resources, companies must adapt to the rapidly renewable and bio-based materials (cane, osier, bamboo, etc.). Ecological materials have always been important but now seem to be a main concern for national economies.

Considering the above analysis, we can formulate *innovative solutions for the furniture manufacturing industry*. At the national level, the government should create strategic partnerships between manufacturers, raw material and components suppliers; add extra value to the furniture industry network; promote research and development investments through specialised institutions by granting appropriate funds to scientific institutes and sponsoring research activities in the field; encourage an efficient national infrastructure in terms of access to the raw materials; develop special training for human resources; secure digital infrastructure for a proper awareness of the national production – general access to the industry's database and reports; facilitate access to specialised institutions in terms of the particular regulations of the industry as well as in terms of environmental laws that impact the field; designate regional institutions as responsible to analyse the advantages and disadvantages of the local market in order to allocate the proper funds for a guaranteed return; create a special newsletter, available for all stakeholders in the *furniture manufacturing industry*, underlining the new market characteristics, trends, manufacturing techniques and international updates; stimulate the participation of companies in international trade through a dedicated national strategy and proper incentive policy for the manufacture of furniture and thereof industry; foster scientific organisations through strategic alliances with universities in the industrial field in order to respond creatively to the organisational, technological and environmental business strategies; offer a proper legal framework and less bureaucracy for patents and licences; consider sponsoring a national seminar on furniture-related topics; and facilitate small and medium business access to funds and a proper legal framework in the field.

Companies within the furniture manufacturing industry will approach innovation through new strategic supply chain alliances; adoption of best practices by learning from other companies in the field (at the national or international level); implementation of modular or cell technologies in order to create customised experiences for the customers; active participation in industrial furniture networks – access to market or

scientific research; creation of new designs or new functionalities instead of imitating imported models; relevant industry training packages for human resources in terms of new technologies, design trends and environmental issues; support for a stable workforce with specialised training focused on innovation strategies and operational excellence; continuous investments in research and development activities for new technologies, materials or organisational processes; establishment of strategic partnerships with other business partners that have common interests; and participation at conferences and workshops regarding the furniture industry through the new clusters between companies and universities for efficient sharing of market knowledge and research activities.

Considering the high potential of the furniture manufacturing industry in overall industrial production, companies should consider innovation as a main factor for sustainable development. Innovative solutions in this industry are generated on a multilevel approach: quality of raw materials; alternative raw materials, environmental laws, design, product functionalities and formation of human resources (from processing raw materials to architectural concepts).

Conclusions

Based on the above analysis, we can define *innovative solutions and strategies for efficient industrial production in Romania*. An ambitious strategy framework for a new industrial competitive policy is needed to encourage a much faster development and commercialisation of goods and services in the international markets. Defining a *national innovation strategy* will contribute to the equality of practices and define common methodologies and indicators for companies. *Internationalisation* is a key factor for access to global knowledge networks. Romanian strategic policy should increase the mobility of researchers and co-operation between different innovative institutions. It is important to participate smartly and efficiently in international trade by exporting high-value goods and services that will ensure important financial resources for future innovation activities. *Providing the necessary technical infrastructure and legal framework* will facilitate easier access to sources of knowledge and increase the number of patenting and licencing instruments. Applying a *new education model* that encourages and funds research activities will not only increase the number of specialised graduates and the cooperation between companies and researchers but will also *diminish the knowledge dependency currently provided by the international market*. *Increasing the participation of small and medium enterprises in research and development*

activities employs political strategies to create sustainable links between research centres, large companies with their market knowledge and small enterprises with their appetite for growth and openness for new economic domains. The *intellectual property legal framework* should be a main concern for government regulation and will help improve the quality of patents. The national government should provide a *proper tax incentive scheme* for companies that apply research and development tools in their current activity. It is also important *to reduce the administrative bureaucracy for patents and licences* to stimulate the engagement of the financial sector in *programmes with private-public cooperation and risk-sharing, strengthen the research and science education level, align and connect industrial capacities at the regional level through the local infrastructure*, facilitate the *diffusion of new technologies* through proper regulation and competitiveness of markets and *increase the transparency of the policies and financial tools* used in the research and development activities.

Innovation is already at the forefront of growth: investments in intangible assets increase the performance of goods and services, enhance competitiveness and provide high-value activities as well as generate new markets. It is essential to identify the specific economic sectors where innovation is a must. With the help of indicators such as the assessment of sector competitiveness and the dynamic of industrial exports, specialised studies show us the exact trend in efficient sectors or areas where innovation is judged to be performing well below its potential. This process will help the overall economic performance by forcing the less innovative companies to exit the market and allowing more innovative firms to enter.

In conclusion, to participate effectively in the fast-growing international network and continue a highly successful path of socioeconomic development, companies must define innovative strategies.

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CHAPTER TWO

MARKETING ORIENTATION AND BUSINESS ENVIRONMENT SELF-REGULATION OF CUSTOMER PROTECTION: EVIDENCE FROM ROMANIA

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Abstract

The great success of the consumer protection movement in attaining its basic goals forced businesses to increase their operating costs, which, in collaboration with the recession beginning in the '80s, led well-financed business groups to rally against state regulation. In their effort against state regulation, business relied on academic research showing that state regulation is increasingly intrusive and destructive of incentives, lacking also uniformity of application, resources and effectiveness. According to Stern (1971), self-regulation in the business environment constitutes an obvious alternative to the paternalistic approach of state intervention in consumer protection. Yet, to be effective, self-regulation needs to be enforceable, which is, as Stern recognises, unlikely due to the lack of incentives for some vendors and/or producers in agreed industry standards and practices. A major impediment to self-regulation is the fear that it might benefit the industry at the expense of the consumers.

The purpose of this article is to underline that self-regulation of consumer protection in businesses is better served by embracing marketing philosophy throughout the company. Following Stern's three pillar construction of consumer protection, this article argues that marketing orientation through best practices and best marketing performance metrics are keys to ensuring the enforceability of customer protection self-

regulation in today's harsh business environment. We conduct a polytomous logistical regression to identify the impact that different facets of marketing performance can have on overall business performance. Obviously, better customer protection and superior customer service are costly. By identifying the marketing performance indicators and practices having a positive effect on the performance of the organisation, we show that putting customers at the heart of every business activity is paramount to organisational efficiency and effectiveness. We also provide empirical evidence of the enforceability of customer protection self-regulation in today's harsh business environment. Finally, a major policy implication of our results consists of identifying the business practices and marketing indicators having a net positive impact on organisational performance. A superior satisfaction of customers' needs might be costly. These findings support a better informed decision-making-process and ultimately an increased organisational efficiency. Management can focus its attention on those business practices that serve the customers' needs while at the same time meeting the goal of the efficiency of the organisation.

Keywords: consumer protection, customer orientation, performance metrics

JEL Classification: M31, M51

Consumer protection and marketing orientation

At the heart of today's consumer protection lies the strategy of empowering consumers through information. This strategy proposes attaining consumer protection without interfering with the good functioning of markets. Although the proponents of today's prevalent strategy in consumer protection argue that consumer empowerment through information is a win-win strategy, many have already underlined both its limits and the actions policy makers need to take to maximise its net benefits. Based on an agreement in consumer protection literature, that this strategy can bring net benefits, a legitimate question is under what circumstances is the strategy of consumer empowerment through information likely to advance consumer protection.

One answer is suggested by Vogel (2003). In a comprehensive comparative study of the consumer protection policies in the US and the EU, Vogel noted that until the 1980s, America was more risk adverse, stringent and innovative both in regulating consumers and environmental protection. In contrast, after 1980, the situation reversed and consequently

the divergence between US and EU was reduced. The shift in the EU stance obviously implied more risk-adverse policy makers due to the emergence of the precautionary principle as a guide to the regulatory decision process.

Yet these changes in the policy makers' stance came only as a response to the crisis the EU was confronted with (Vogel, 2003).

The same author also shows that consumer activism can play a significant role in influencing the outcome, as occurred in the case of genetically modified crops and seeds. This issue substantiates the claim of consumer activism as one of the pillars of consumer protection. Corroborating the impact of crisis and activism on consumer protection, we argue that a more proactive policy of consumer protection on the part of policy makers, coupled with an increasingly active consumer activism, is prerequisite to advancing consumer protection throughout the world. Yet, the focus of this article is on self-regulation in the business environment of consumer protection. After a theoretical review of the relationship between customer protection and marketing orientation, we focus on bringing empirical evidence of the positive impact of marketing orientation to organisational performances. Thus, our results will further contribute to the management commitment to marketing philosophy and, by this, will strengthen the enforceability of consumer protection in the business environment.

The pillars of consumer protection

Four decades ago, Stern (1971) argued that consumer protection is a three-pillar construction relying on (a) government regulation, (b) self-regulation, and (c) consumer activism.

Prior to the 1980s, it was largely accepted that government intervention was necessary to protect consumers from the insecurity induced by market volatility. Reich (1979) argues that this motivation led governments to "assume the role of purchasing agent, assessing the merits of particular products". Some authors show that by assuming this role, the state is tampering with the competitive and incentive structure of the market. Consequently, consumer protection justifies the government acting as a purchasing agent as long as the benefits to the consumers are greater than the costs incurred by altering competition and incentives in the market.

Deeply rooted in the argument of the government acting as a purchasing agent is the assumption that a paternalistic government must intervene to protect consumers who, under certain market conditions, fail to comprehend the incumbent risks of a purchase (Reich, 1979). Thus,

Reich (1979) shows that in their purchasing decision, the consumer minimises all costs associated with purchasing, including hidden costs such as injuries, health problems and property damage or unforeseen maintenance costs. A “paternalist” government should intervene to minimise the hidden costs that consumers may incur.

There are several extensions of the minimising hidden costs theory, the first of which concerns the already-mentioned irrationality of economic agents central to the prospect theory. Irrational consumers do not consider all the information available to them. As Howell (2005) noticed, taking the limits the consumers have in processing information into consideration can improve the implementation of the informational empowerment of consumers. Secondly, minimising hidden costs is further refined using the agency theory. Thus, asymmetric information sometimes makes producers reluctant to provide consumers with all the relevant information for their purchase. Consequently, the state should intervene to force a complete disclosure of relevant information (Muris, 1991). It should be noted that this information must be considered by policy makers implementing the divulging of information to customers. As already mentioned, the very birth of consumer protection was based on the premise of greedy, selfish economic agents taking only their own interests into consideration. Failing to consider the social responsibility of businesses is prone to incurring hidden costs, which further adds to the argument for state intervention in consumer protection.

The attack on the state-supported policy for consumer protection was obviously caused by the business environment. Facing increasing operational expenses because of intrusive customer protection legislation, business has rallied against the “paternalistic approach” of state-supported customer protection policy (Bernstein and Zetoon, 2005; Howell, 2005; Reich, 1979). Economic literature has also provided arguments against paternalistic state intervention in consumer protection. The “invisible hand”, introduced by Adam Smith in his 1759 *The Theory of Moral Sentiments*, is still at the very heart of today's neo-liberal paradigm. According to this paradigm, there is no need for state intervention since individuals, in their efforts to maximise their own gains, benefit the entire society through positive spillovers, even if the focus of their efforts is selfish. The idea of markets automatically channelling self-interest toward socially desirable ends is a central justification for the laissez-faire economic philosophy, which lies behind neoclassical economics (Slater and Tonkiss, 2001).

Consequently, consumer protection literature proposes self-regulation as the second pillar of an effective consumer protection policy. Stern

(1971, 49) shows that many companies have undertaken pro-consumer activities, acknowledging that responsible businesses protect the health and safety of consumers, improve quality, simplify warranties, improve repair and servicing quality, self-police fraud and deception and provide effective channels for consumer complaints. According to the same author, the most prevalent tools employed by businesses to protect consumers are best practices, product standards, codes and promotional practices.

Finally, Stern (1971) underlines that an effective consumer protection policy should also rely on consumer activism. Indeed, we can identify at least one situation when consumer activism ultimately dictated the policy outcome. Thus, according to Vogel (2003), genetically modified crops and seeds present a successful example of the impact that consumer activism can have on protecting consumers. A detailed analysis of the role consumer activism played in the struggle over biotech food is presented in Kurzer and Cooper (2007).

Marketing orientation and self-regulation of consumer protection

Embracing pro-consumer activities and acknowledging business responsibilities are the essence of not only business self-regulation of consumer protection but also customer satisfaction, a classical marketing paradigm. In marketing literature, customer satisfaction refers to the ability of a product to offer, meet or surpass customer expectations (Bendle, Pfeifer and Reibstein, 2010). According to Narver and Slater (1990, 21), customer orientation reflects the “sufficient understanding of one’s target buyers to be able to create superior value for them continuously”. Some authors show that a firm might focus on (a) building customer preferences (which correspond to customer orientation), (b) outperforming competitors (which corresponds to competitor orientation), or (c) a combination of customer and competitor orientation, which is the essence of marketing orientation. Thus, marketing orientation is a broader concept than customer orientation. Most marketing performance models and metrics take both customers and competitors into consideration, focusing therefore on marketing orientation rather than simply on customer orientation.

Prior to conducting the proposed empirical analysis, we first need to define a proper model of marketing orientation and identify the metrics used to assess marketing performances. According to Narver and Slater (1990, 21), customer orientation is best measured using the marketing performance indicators classified in the following categories: