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Phone: 0040-264-41.86.52, oeconomica@econ.ubbcluj.ro, http://studiaoeconomica.ubbcluj.ro/

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FORMS OF VULNERABILITY TO THE NEW POVERTY IN THE CURRENT GLOBAL ECONOMY

Cătălin POSTELNICU*
Babeș-Bolyai University, Romania

Abstract. Concepts as "new poverty" and forms of vulnerability are more and more associated with the latest forms taken by the process of economic globalization within the features of the "new economy". This working paper intends to review some of the fundamental concepts available in this area, trying to emphasize their links to and consequences on the current context of the world economy.

JEL Classification: I3, F2, F63.

Keywords: relative poverty, social vulnerability, economic globalization, labor market.

1. Introduction

The phrase "new poverty" appears more and more frequently in some scholarly papers. Most economists and sociologists understand it not as an objectively quantifiable dimension, but rather as the epitome of uncertainty and instability, as a sort of grey area where individuals cannot accustom themselves to a system dominated by competition, competitiveness and high productivity. These new forms of poverty are actually the outcome of an entire range of changes underwent either by an increasingly high-tech society or, relatively, by a society plunging more and more into poverty.

For many decades, the research into the phenomenon of poverty has stressed the opinion that poverty is the expression of a static, homogenous and less meandering process. Subsequently, particularly over the last years, this viewpoint was gradually reconsidered. An increased focus was placed on the role played by the time factor not only with regard to highlighting various stages that ultimately lead to the impoverishment of large numbers of people, but also with regard to the emergence of new forms of poverty. Therefore, in the mid-1990s, and after 2000 in particular, increasingly stronger calls were issued for taking into account the dynamic nature of poverty and, in particular, of the new forms it assumes in the current global economy. The underlying motivation behind these

* Corresponding author. Address: Department of Economics, Faculty of Economics and Business Administration, Babes-Bolyai University, Teodor Mihali 58-60, 400591 Cluj-Napoca, Romania., Tel. +40.264 41 86 52, Email: catalin.postelnicu@econ.ubbcluj.ro

calls was the unanimous acknowledgement of the multidimensionality of the analyzed phenomenon. Thus, it became apparent that there are many intertemporal dimensions of poverty and many more changes of the poverty line than one could possibly imagine, on account of which individuals or even whole families swing between poverty and non-poverty as a response to short-term or, perhaps, long-term events. Today, more than at any time in the past, people are being plunged into and escape poverty on a regular basis (Alkire & Santos, 2014). Thus, the number of people swinging between periods when the monthly income seems sufficient to cover the basics that are vital by comparison to the standards of the society in which they live, and intervals when poverty becomes unbearable has increased. It means that, in some cases, poverty is not a sine qua non condition but, more often than not, a life experience that some people go through for shorter or longer periods of time. On the other hand, in such cases the risk of poverty or the feeling of being poverty-stricken seem much stronger than in the past and is not necessarily linked to the cyclical economic crises (Sen, 1999). Specifically, reference is here made to some aspects of instability and uncertainty affecting the operation of the labour market with the result that the social protection system gets weakened (Bodea, 2014: 192 - 208). Against this backdrop, the sociological measurement of poverty attempts to eliminate some of the flaws typical of the traditional assessment of this phenomenon.

2. Dimensions of the concept within the new economy

In harmony with this trend, recent research has shown that this phenomenon may have a transitory nature, depending on some economic changes of a limited duration. That is why a percentage of the population may slip into a form of poverty while another percentage of the population may get out of, or escape, this condition. Both categories may be vulnerable, in addition to the "hard core" of chronically poor, that is, people who are poor almost all the time. Therefore, an important prerequisite for understanding the impact of poverty on the population is knowing the *period* for which a percentage of the total population of a country is poverty-stricken. If the impact is short-term, then the associated negative effect will not be able to severely afflict the standard of living. However, the opposite is true when the negative effects last longer and contribute to widening the social gaps, a phenomenon directly reflected in the *amplitude of relative poverty.*

The best known form of *new poverty* is the condition of vulnerability understood as *uncertainty* and *instability* which an individual may experience due to short or medium-term unforeseen circumstances (See also Bergh & Nilsson, 2014; Minic et al., 2013: 769-783). While the economic disparity revealed by the *relative poverty* indicated the individual's status in a given society by comparison with other people, *vulnerability* may be defined as the risk of slipping into poverty in the near future, even if the individual is not necessarily poor at the moment. This situation can be linked to various causes but almost all of them can be narrowed down to the shocks stemming from unemployment, the unexpected surge in prices (inflation), destabilizing the economy under the impact of economic crises, temporary incapacity for employment etc.

The traditional forms of poverty - *absolute* and *relative* - can be identified as one-dimensional concepts in the sense that they are defined through a unique variable (income or consumption per capita). The shared characteristic of both categories of poverty is that they divide the human society into those who have the means to live above the national average (and the poverty threshold, respectively) and those who do not have them. Vulnerability, on the other hand, expresses an intermediate status typical of the so-called "symbolic poverty", which is often mistaken for "subjective poverty" (Hansen & Bourgois, 2014). Therefore, as far as vulnerability is concerned, the new poor do not stand out as a homogenous, well-defined social category, but rather as a fragmented, invisible and difficult-to-define mass of people. Naturally, the level of income and consumption remains the major characteristic whereby poverty is measured, but the "new poverty" viewed in light of vulnerability contains some immaterial elements pertaining to the field of human behavior. Consequently, when it comes to reducing poverty, attention must be paid to the implementation of policies and strategies for raising the social capital so that the downward spiral of the ever-increasing impoverishment of population may be mitigated.

Vulnerability is a measurement not of today's level of poverty but of tomorrow's one. Therefore, the label of *vulnerable* could be applied to all families and individuals whose likelihood of facing absolute or relative poverty in the near future (usually within the next twelve months) surpasses the national average (IMF, 2012). If, for instance, a family living now in absolute poverty will not be able to overcome this condition within the next twelve months, then it can be stated that the family is faced with chronic poverty. The same holds true of families unable to overcome the negative annual or monthly income shocks. From this standpoint, vulnerability is a form of prospective poverty, not related to the current level of poverty, but offering "ex ante" clues about the possible evolution of the analysed phenomenon.

Unfortunately, very few are the instances where systematic qualitative analyses of economic vulnerability (Rocha & Moreira, 2010), as it is defined by the economic theory, have been conducted. Some preliminary evaluations, albeit with limited results, have been carried out in some states. This is the result of the fact that the category of vulnerable people is surprisingly made up not only of poor families but also of non-poor families. One cannot state precisely how many non-poor families today become vulnerable tomorrow. A noticeable aspect is the fact that, in addition to absolute poverty (which is quite flexible, for that matter) and relative poverty, the latter understood in terms of economic disparity, there is always a certain level of fragility, a certain level of risk that a great number of families and individuals may fall into poverty. These live constantly in fear of the unknown. Private entities may, to a certain extent, help to avoid such unpleasant situations. However, governments more often than not lack the mechanism needed to ensure, at least in part, the protection against the negative consequences of the risk of poverty, for vulnerable families who are not necessarily poor at the moment.

In the conclusions of the Lisbon European Council held on 23 and 24 March 2000, it was stated that "the number of people living below the poverty line and in social exclusion in the Union is unacceptable" (European Council, 2000). The new knowledge-based society indeed offers enormous potential for partially eliminating the risk of poverty both by creating favorable conditions for economic growth or opening up new ways of participation in the social life and by avoiding social exclusion. Unfortunately, reaching this goal is always hampered by the ever-widening gap between those who have access to the new knowledge and those who are excluded from it.

According to the EU strategy for fighting poverty, by 2020 the main indicator measuring the level of poverty is *at-the-risk-of-poverty rate*, that is, *vulnerability*. This indicator shows the number of individuals at the risk of poverty by comparison with a particular country's general economic conditions. Therefore, the share of people having an annual income below 60% of the national median for the population are said to be at the risk of poverty. Thus, in 2007 at least 80 million people, that is, about 16.6% of all residents in the European Union, were faced with this condition. These average numbers and percentages obviously expressed a wide variety of statistical comparisons between member states (Eurostat, 2007).

The term "social vulnerability" was frequently used to express the effect of socioeconomic changes which have taken place over the last decades (Feyssinet, 2009). It has been noticed that the share of vulnerable people living with the feeling of uncertainty has increased in the post-industrial society hit by many crises, some of which unprecedentedly serious. Many economic analysts have lately attempted to deal individually with the causes of vulnerability. Most authors have reached the conclusion that the major factor responsible for vulnerability is the change of the *nature* of social risks. What is the meaning of this statement? The main thrust of the argument is that the traditional social risks faced many years ago by certain individuals out of the total population could be viewed as random events occurring within a particular period and affecting incidentally some individuals. Such events came mainly from the outside and created a condition of abnormality that could be fixed before becoming extremely dangerous. Today, however, these risks, improperly called 'traditional', have been replaced with other ones that are deeply entrenched in daily life. In other words, the economic uncertainty has become a constant feature of modern society, turning vulnerability into a chronic condition.

Many studies dealing with the issue of poverty have only focused on its current level or, at best, on the poor categories of population of more recent times. This was mainly due to the fact that the "ex-post" method was, and still is, the easiest way to measure poverty. Unlike the said measuring method, the measurement of the new poverty shaped by vulnerability entails the use of tools that reveal the possible causes of an individual's or a family's falling into poverty in the near future. Therefore, this is an instance of an "ex-ante" analysis. For that reason vulnerability is also defined in the literature as the "ex-ante poverty" (Dercon, 2001: 1 and 27).

One of the most common definitions of vulnerability to poverty is based on the likelihood that an individual or a family might suffer a considerable "shock" to their well-being. Since economists usually understand the "well-being shock" as a change in the consumption per capita (or per adult), it follows that these shocks relate exclusively to the changes occurring in the individual consumption. Naturally, these shocks may have a positive side. As far as vulnerability to poverty is concerned, only the negative shocks are taken into account. To this effect, the absolute poverty threshold is extremely helpful to act as a starting point in assessing the future levels of consumption. This method has been accepted because there are no other solutions to determine/measure vulnerability. Nevertheless, one wonders how great must be the likelihood of someone or a family becoming poor in the near future so that they may be deemed vulnerable? If the calculations reveal a likelihood of 1%, does it mean the individual is vulnerable to poverty? Or would it need 10%, or perhaps 50%? This question still remains unanswered. One thing is certain, however: any dividing line between the people who are vulnerable to poverty and those who are not remains arbitrary.

Why is vulnerability to poverty on the rise nowadays? This is another question to which we hope to find a satisfactory answer, without claiming that our answer will capture all the nuances of such an intricate issue. Nevertheless, we believe that there are several reasons in support of the assumption that vulnerability permeated the populations of developed as well as developing countries.

3. Incidence of subjective poverty

Subjective poverty has been dealt with to a lesser extent in the specialized studies. Basically, this form of poverty describes the situation of all people who consider themselves poor on the basis of the perception they have of their own life conditions. Paradoxically, the more a society develops, the stronger this feeling becomes. Some people are dissatisfied with their accomplishments by comparison with their fellow human beings. Likewise, other people believe the difficulties faced on attempting to change the available economic resources into real chances of success are too great in the society in which they live and work. On a larger scale, all are dissatisfied with the quality of their life and, as such, feel vulnerable to any sort of shock they might be in for.

Subjective poverty has many times been associated (Babu & Sanyal, 2009: 361 - 415) with a particular type of demand according to which an individual or a family live with the feeling that they do not earn a sufficient income to lead a decent life, not necessarily one of luxury. In other words, the situation of these people is not something to the effect that they have to satisfy some basic necessities of life, but rather it is more about satisfying some desires, some consumption habits and, in particular, the need to adopt a higher standard of living typical of the so-called 'middle class' and not only. Therefore, it should be no surprise to discover that, in many cases, people entertaining such a perception have a fairly high annual or monthly income. Their high income notwithstanding, these people are discontent and feel vulnerable merely because their desires surpass the available means to satisfy them.

Given the nature of subjective poverty, as interpreted above, there is a tendency to identify it with the relative or, sometimes, even with the absolute poverty. In reality, these concepts do not stand on an equal footing. In the former case, the criteria used to assess the relative poverty are subjective. In the latter case, the situation is completely different because the concept of absolute poverty is clearly in relation to a very low level of subsistence.

Generally, the concept of subjective poverty revolves around subjective feelings. Nevertheless, this form of poverty may be construed as encompassing objective perceptions as well. One of these perceptions is the *social exclusion*, which is viewed as the harshest form of subjective poverty and, on a larger scale, of the vulnerability of an individual. We believe social exclusion may become manifest any time the negative effects of absolute and relative poverty merge together. The phrase “social exclusion” actually refers to the inability of an individual or of a larger group of people to take part in social activities, in which case the said individual or group of people lose their sense of community (Ofac & Stark, eds., 2006). For example, those who believe they are socially excluded allege being discriminated against when applying for the available jobs or they are denied the opportunity to education and vocational training etc. Social exclusion thus consists of a whole range of relationships that ultimately define the individual’s marginalized economic status and isolation. This state of things proves very dangerous because the individual or the group of people feel they are denied the possibility to appeal to established institutions, despite their legal right to do so. The breach of these rights, as it translates in the perception of an individual, ends up with the erection of artificial social barriers against the access on the labour market and the establishment of normal relationships between employers and employees.

At first sight, the phrase *social exclusion* appears to have been recently introduced in the economic scholarly literature. However, a closer analysis reveals that it has been in use as early as the nineteenth century when, more or less explicitly, the literature made mention of pauperism. Social exclusion was at first regarded more as a political issue in the sense that it was of no concern to the then existing public institutions. The social tensions created by industrialization entailed many economic risks that sometimes were difficult to mitigate. They lasted for a long period, spanning not only the late 19th century but also more than half of the 20th century (Bhalla & Lapeyre, 2004: 2). It is not our intention here to review all the events that occurred throughout that period. Be that as it may, those events left deep marks on the industrialized society, particularly in Europe, the continent that greatly suffered the consequences of the two world wars.

The appearance of the welfare state and of the so-called “golden age” (1960 – 1970) has changed radically the approach to social exclusion. The unprecedented economic boom and the almost full use of the labour force (a natural outcome of the efforts to reconstruct the war-torn economies) enabled substantial salary increases and the visible improvement of the life conditions of many social categories which had until then been vulnerable. Concurrent with these, an intense process of social integration was underway. Due to an intelligent policy of income redistribution applied by some western countries, the poverty and unemployment rates decreased significantly so that, within the afore-mentioned period, the studies dealing with poverty dwindled.

Due to the well-known oil crisis and the disturbance it created in most of the world economy, the issue of social exclusion surfaced again after 1973. The French economist and sociologist Lenoir Rene was the first who put it on the spotlight (Lenoir, 1974). In one of his papers published in 1974, he drew attention to the fact that, despite the progress made towards reducing poverty, “the real builders of material well-being do not enjoy the fruits of economic growth". However, the phrase *social exclusion* was attributed a limited meaning so that even the afore-mentioned author regarded it as a peripheral phenomenon which did not affect the entire society.

The 1970s were marked by a range of economic reforms aimed at restructuring the entire production system of the industrialized states. The globalization of capital and the readjustment of the labour market according to new operation principles, coupled with new strategies adopted by multinationals (see also Cheben et al., 2011: 2-4; Dinu, 2014: 449-450, Pop et al., 2011: 93-96), resulted in a slight drop in public services and social assistance which had until then maintained a certain balance between labour supply and demand. Job security began to shake concurrently with a worrying increase in long-term unemployment. Many faced the imminent peril of losing their previously enjoyed social status due to the appearance of new forms of poverty featuring a higher vulnerability and increased social polarization. The latter became more and more visible due to the widening gaps between the upper and the lower classes of the social ladder (Bhalla & Lapeyre, 2004: 3). With each passing day, the lower classes became increasingly insignificant, irrelevant and, worse, an obstacle in the way of the proper operation of the economy. This could not go unnoticed to researchers who, many years before, had drawn attention to the fact that "[…] in the future each nation will have to cope with socioeconomic changes, when the work of millions of people will be less needed (or not needed at all), which leads to their social non-recognition". The global economy is "characterized by a strong proclivity for fragmentation of the employment structure". Under such circumstances, a problem difficult to resolve is "ensuring a social cohesion in a fragmented society in which a significant percentage of the population is excluded for the sake of labour flexibility and economic efficiency" (Bhalla, Lapeyre, 2004: 4).

The new social problems of the 1980s, coupled with the shortages created by some short-term economic crises (as, for instance, the one between 1982 and 1984), further weakened social solidarity. These problems were further expanded by the inefficiency of the welfare state to fight against the new forms of poverty mainly generated by the process of social fragmentation. Consequently, the state's incapacity to ensure solidarity among its citizens sparked off a growing debate. At that stage a new concept was introduced, that of "*social deprivation*". It was a concept difficult to define which referred specifically to those who were partially or totally excluded from society.

After 1990, the European Commission played a decisive role in clarifying the concept of social exclusion by turning it into a major topic of ensuing political and academic debates, the term being mentioned explicitly in a number of documents (European Commission, 1989: 43 and following).

Based on these facts, almost all economic analysts believe that the human society has lately become much more fragile. This opinion is expressed not only in academic studies, but also in the analyses performed by some international bodies such as the International Labour Organization (ILO), United Nations Development Programme (UNDP), and the World Bank etc. However, both the economists and the sociologists regard social exclusion as a highly vague concept lacking the elements necessary to formulate a precise definition. Its multifaceted and ambiguous nature results primarily from the fact that, over the years, the concept took on various meanings depending on how it was interpreted. Thus, some economists explain social exclusion in terms of the lack of "social links between individuals and society". Others believe the process of social exclusion results from distortions of the labour market (Silver, 1994: 18). There was also the viewpoint according to which social exclusion is nothing else but the outcome of the government's failure to protect social cohesion. More recently, some economists describe social exclusion as being related to opportunity, within the meaning of "access to resources" (Tilly, 1998: 10). If some hold monopoly over economic resources, other groups are inevitably excluded therefrom.

4. The Architecture of the New Poverty by Types of Risks

The Europe 2020 strategy – adopted in 2010 and referring to the EU-27 member states (later inclusive of Croatia) – advanced the lifting of 20 million people out of poverty by the year 2020 (European Commission, 2010: 3) as one of its main targets. The European platform against poverty is meant to ensure social and territorial cohesion for the near future, so that more people can enjoy the benefits of economic growth, of a dignified lifestyle and of being considered an active social element. Targeting such an ambitious objective is not without its risks, if we are to take into account the recent economic and financial crisis and its dramatic consequences on global economy. Furthermore, the EU GDP witnessed a drop of 4% in 2009, so that the industrial production deflated to the level of the 1990s and approximately 23 million people (about 10% of the active population) have become unemployed (European Commission, 2010: 5). Therefore, the crisis represented a real shock for tens of millions of people and brought to light a series of weaknesses in the structure of the community economies, from the fragile status of the financial system to the halving of the potential for economic growth.

The first attempts of lifting poverty after the adoption of the Europe 2020 strategy were rather timid. Quite predictably, the effort engaged in overcoming the effects of the crisis was considerable and challenged by a series of unforeseen events. The risks of poverty and social exclusion have loomed over the post-crisis years, leaving no room for definite recovery. Beyond the apparently simple indicators referring to absolute (monetary) poverty and relative poverty, the architecture of this "new poverty" can only be highlighted with the help of a wide range of parameters, some of which being difficult to quantify. A brief overview of these parameters shows how this new architecture of contemporary poverty features at least three essential dimensions which are closely linked to frequent types of risk, such as:

- the percentage of population faced at the risk of poverty after the transfer of state-budgeted social allowance;
- the percentage of population covering families affected by serious social deprivation;
- the percentage of population covering families affected by (very) low labour intensity.

Besides these three situations, international statistics (European Commission, 2010) have recorded a third parameter, namely the percentage of population at by the risk of poverty and social exclusion (whereby the individuals are taken into account once, irrespective of their inclusion in one or more of the afore-mentioned sub-indicators).

Methodologically, the first sub-indicator envisions the population facing a risk of poverty after it had benefitted from social allowances (aids, compensations etc.) in addition to salaries and wages, provided all of these add up to less than 60% of the average income in society. This state of affairs offers a lucid perspective on the system of distribution and redistribution of national GDP, and, additionally, on economic inequality bordering on population polarization. The second sub-indicator includes all individuals who: do not possess the necessary means to pay for rent and utilities; defer payments and cannot handle unplanned expenses; cannot afford to pay for basic products of a certain nutritional value at least once a week; give up on holidays or week-end breaks; do not own certain household appliances; and, last but not least, do not possess a (second-hand) car. According to the above-mentioned sources, the third parameter covers the individuals who, over a year, worked for less than 20% of the actual available working time. This parameter heavily relies on the characteristics of the labour market and the evolution of unemployment in all its aspects.

All methodological details considered, what is the situation of several states in the year 2009, the peak year of the recent economic and financial crisis? We have issued a comparative analysis of the states acceding to the EU after the year 2004, except for Croatia, which was only later admitted.

Table 1. The percentage of families living at a risk of poverty for 2009, according to the researched indicators (%)

Countries	Population covering families at the risk of poverty after the transfer of social allowance (%)	Population covering families affected by serious material deprivation (%)	Population covering families affected by low labour intensity (%)	Population covering families at the risk of poverty and social exclusion (%)
Bulgaria	21.8	41.9	6.9	46.2
Estonia	19.7	6.2	5.6	23.4
Latvia	25.7	21.9	6.7	37.4
Lithuania	20.6	15.1	6.9	29.5
Poland	17.1	15.0	6.9	27.8
Romania	22.4	32.2	7.7	43.1
Slovakia	11.0	11.1	5.6	19.6
Slovenia	11.3	6.1	5.6	17.1
Hungary	12.4	20.8	11.3	29.9
EU-27	16.3	8.1	9.0	23.1

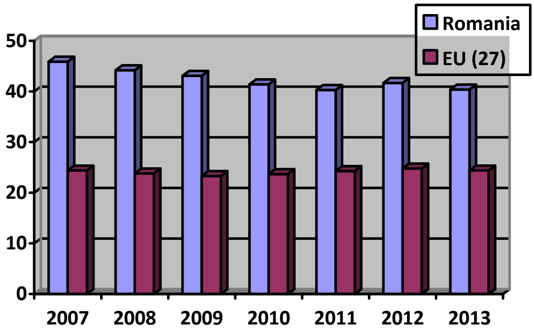
Note: The Czech Republic scored better than the countries included in the table for all categories.
Source: Eurostat 2014d, *Poverty and Social Exclusion Statistics*.

Exact numbers indicate that in the following year, 2010, the number of people covering families at a risk of poverty and social exclusion, according to the three analysed criteria – for the whole of the EU-27 – amounts to 115.7 million (representing 23.4% of the total EU population at the time) compared to 123.9 million (25.6%) for 2005 (Eurostat 2014d). A decrease of 8.2 million between 2005 and 2010 mainly results from the dropping numbers of those severely affected by material deprivation, which did not account for the dominating component of the multidimensional indicator anyway. During the period under scrutiny, the number of people covering families affected by low labour intensity dwindled by 1.3 million, whilst the numbers of those included in families affected by serious social deprivation diminished by 11.6 million. Conversely, the number of those paradoxically claiming a risk of poverty after a transfer of social allowances increased by 1.7 million (Eurostat 2014b). Between 2005 and 2010, the percentage of population at the risk of poverty and social exclusion decreased in half of the EU member states, increased in six of them and stayed unchanged in seven other cases. It is worth looking into the large disparities still present in the case of EU member states Bulgaria and Romania, reaching 41.6% and 41.4% respectively (Eurostat 2014c, 2014d). Also interesting is the fact that, after 2009, on the whole of the EU, the percentage of population at the risk of poverty and social exclusion increased from 23.1% to 23.4% instead of decreasing, in the year 2010 (Eurostat 2014c*)*. The following years, 2011 and 2012, did not manage to remedy the situation. Consequently, EU-28 recorded no fewer than 124.2 million people (24.8%) at the risk of poverty and social exclusion, compared to 24.3% for 2011 (Eurostat 2014d). This supports the idea that lifting people out of poverty and recovery are long and difficult processes.

In 2009, Romania records values which are above the average of EU-27 for all categories included in Table 1. Moreover, if in 2009 the percentage of population covering families at the risk of poverty after transfer of social allowance (income poverty) was 22.4%, in 2012 the percentage reached 22.6%, above the percentage for 2011 (22.2%) or Bulgaria (21.2%). A certain progress was recorded for the indicator of *serious material deprivation*, where a significant drop from 32.2% for 2009 to 25.0% for 2012 was recorded. As a result of this, the percentage of population at the risk of poverty and social exclusion was lowered from 43.1% for 2009 to 41.7% for 2012 (Eurostat 2014d), which translates into 8.9 million inhabitants, and around 8.6 million for the year 2013 (European Commission 2010). This evolution is far from satisfying since most of our neighboring states recorded statistical data far below our situation (with the exception of Bulgaria). For example, Hungary reports 32.4%, Croatia 32.3%, Poland 26.7%, Lithuania 32.5%, the Czech Republic 15.4% etc., while the average for the 28 EU member states is reported as 17.0% for the year 2012.

According to Eurostat (2014d) online data, the percentage evolution of people at risk of poverty or social exclusion was as follows.

Figure 1. People at Risk of Poverty or Social Exclusion (% on total population)



Source: processed by the author, based on data provided by Eurostat 2014a, 2014b, 2014c, 2014d.

From figure 1, we can emphasize the evolution of the amplitude of the phenomenon of risk of social exclusion, comparing the level of this indicator in the case of Romania, versus the EU-27. 2007 – 2013 was chosen as period because of our intention to reflect the eventual impact of economic and financial crisis at a pan-European level. We can observe a fine decrease in percentage, in the case of Romania and an increase of about 1% at the level of whole EU-27, during 2011 – 2013 period, but, in the same time, the presence of the same level of the risk at over 40% of the population in the case of Romania, during the whole period mentioned before. Following the priorities formulated by the Europe 202 strategy, Romania aims at meeting targets in the national context of economic development.

Table 2. Europe 2020 Strategy Targets

Overall Targets	Romania's Targets	Romania 2020
75% of the population aged 20 – 64 should be employed	70%	63.8% (2012) 63.9% (2013)
Reducing the number of people at risk of poverty or exclusion by 20 million in the EU	Reducing by 580000 the number of people at risk of poverty and social exclusion by 2020, as compared to the year 2008	22.6% (2012)

Source: European Commission, 2014

Naturally, the types of risk hereby listed cannot offer an exhaustive picture of the dimensions of poverty either for the European Union on the whole or for each of its states, individually. These risks must be linked to a whole set of social indicators describing access to education, to health, to living conditions etc., which are not the subject of the present paper. Likewise, a detailed analysis of vulnerable groups of population is necessary.

5. Conclusion

From our standpoint, it is very important to mark off the concept of social exclusion from the better known poverty-related concepts of marginalization, deprivation etc. One can rightly ask the question whether social exclusion, as the most serious form of vulnerability, is merely an extension of poverty or a self-standing concept. We are inclined to believe it is a form of vulnerability far more serious than the other well-known forms. Consequently, social exclusion represents a higher level of economic vulnerability for at least two reasons. First, it highlights the multidimensional nature of vulnerability and, second, it is the result of joined factors operating within their causal and dynamic relationship. From this perspective, social exclusion is a combination of factors: distributional (the economic component) and relational (the social component), complemented by some political influences. If some political elements such as political and civil rights are added, social exclusion ultimately defines the relationships between the state and its citizens and between society and individual, respectively. Therefore, social exclusion cannot be interpreted merely in general terms, but of necessity within the scope of the three above-mentioned dimensions: the economic, the social and the political dimension. As other researchers have also shown (Bhala & Lapeyre, 2004: 17 - 23), these three dimensions are mutually reinforcing.

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ETHNICITY VERSUS COUNTRY EFFECT IN DETERMINING MARKET ATTITUDES: THE CASE OF HUNGARIANS

Pál CZEGLÉDI[*]
University of Debrecen, Hungary

Abstract. Are market friendly views determined culturally? Answering this question is an important step in understanding economic development. The paper focuses on Hungary and Hungarians because the fact that substantial Hungarian minorities live in countries neighbouring Hungary gives us the possibility to examine the role of the country of residence as opposed to the role of ethnicity in determining the extent to which a person has a more or less positive view on the market economy. Following the literature on economic growth, which sees ethnicity as a proxy for common culture, this paper uses data that can be found in different waves of the World Values Survey, and applies different theories of market friendly attitudes to identify possible determinants of the strength of such views, other than culture. The example of Hungarians shows that the country one lives in is more important than ethnicity in determining whether one's views on the market are more or less positive, and the country one lives in is important even if several other determinants of pro-market views are accounted for.[1]

JEL classification: B15, P16, P52

Keywords: informal institutions, culture, market attitudes

1. Introduction: the role of "ideology" in economic development

Economists dealing with economic development (understood here as the level of per capita GDP at the country level) or economic growth (the growth of per capita GDP) have been paying more and more attention to "informal institutions", "culture", and values as shown by Kapás (2014) with a brief review of this literature in general, or by Hodgson (2006) and Kozenkow (2014) with Central and Eastern European applications. The reason for the increasing importance of informal factors is that it is now widely accepted (and we are no exception) that institutions are the main determinants of economic development (Acemoglu et al., 2005, Acemoglu and Robinson 2012, Shirley 2005, Rodrik et al. 2004), and institutions must be in line with the views and values people hold. According to Boettke (2001), culture matters because it determines which kind of formal institutions will "stick", i. e. will be accepted and enforced.

[*] Corresponding author. Adress: Böszörményi St. 138, 4032 Debrecen, Hungary. Tel.: 0036-52-526-954, E-mail: czeglédi.pal@econ.unideb.hu

Even those economists who accept that some "informal factors" must be behind economic development do not agree on the question of what kinds of informal institutions are important. We want to focus here on only one question: Is it deep cultural factors that are important, or less deep, ideological ones? According to one approach, these roots are very deep: when we say that culture matters we mean by culture those rules of conduct that have been forming over hundreds of years through a path-dependent evolution and interaction between formal and informal rules (Spoleore and Wacziarg 2012, Guiso et al. 2008).

In this literature culture is aggregated at the national level and is shown to have an effect on economic development in a cross-country setting, but its stickiness is linked to ethnicity. Licht et al. (2007) use data on cultural orientation to show that it is strongly correlated with such measures of institutions as the rule of law, corruption, or the level of democracy. Similarly, Maseland (2013) applies a unique empirical strategy to show that the same is true for different measures of culture. At the same time, these cultural measures are also shown to be determined to some extent by ethnicity. Guiso et al (2006) and Algan and Cahuc (2010), for example, find that individual Americans' level of trust is to a large extent correlated with the trust level of the country from which their ancestors immigrated into the United States. Following this literature I will see ethnicity as the proxy of a common culture.

This view about the deep, cultural origins of informal institutions can be contrasted with the one which argues that these "informal factors" are much more "superficial" (McCloskey 2010, Congleton 2011). The term 'superficial' is exactly the one McCloskey (2014) uses to describe her own understanding of what kinds of informal institutions are important for economic development. It is better to call it ideology than culture. Ideology is, then, different from culture because it is rather about how people learn to think about business and the market while culture includes deep-seated values transmitted in a quasi-genetic fashion from generation to generation. Indeed, some papers have shown quantitatively that even political ideology matters (Bjørnskov 2005) for economic growth of countries.

In sum, an important question of economic development is how deep those informal factors are which we know are important for economic development because they are needed for the market rules to work. This paper tries to address this question by examining a case that is specific for two reasons. First, because we will concentrate on attitudes towards the market economy which can be found in the World Values Survey (2014b,c,d). These attitudes concern, as we will see in section 2, whether people see market competition as a fair way of organizing human affairs, whether they see it as being beneficial, as something that creates wealth, and whether they think the government should restrict it. Secondly, we will concentrate on Hungarians inside and outside Hungary. The Hungarian case seems to be interesting, first because substantial ethnically and culturally Hungarian populations live in the countries neighbouring Hungary. The presence of Hungarian minorities in different Central and Eastern European countries gives us the possibility to compare their attitudes with the attitudes of their fellow Hungarians in Hungary as well with the attitudes of the majority population of the country in which they live. Seeing ethnicity as a proxy for common (Hungarian) culture, this example helps us see the importance of culture in determining anti-(or pro-)market attitudes, as opposed to the society and economy which surrounds them.

Furthermore, the Hungarian case is interesting because within Eastern and Central Europe the Hungarians seem to be the most hostile towards the market economy. Of those Hungarians asked in a Pew Research survey conducted by the Pew Global Attitudes Project (2009), for example, 46 percent said in 2009 that it was a good idea to discard socialism for the market economy (ibid., p. 5), which is far fewer than the numbers of the other countries in the same region.

2. Market friendliness in the World Values Survey

The terms “pro market”, “market friendly”, and “capitalistic” are used in this paper as synonyms to describe the extent to which people’s views on the market economy are positive. “Market friendliness” is thought to be a scale on which a person can be placed at a more or a less market friendly value depending on his or her views. Accordingly, by “anti-capitalism” and “anti-capitalistic mentality” we do not intend to describe a specific ideology; anti-capitalism is implicitly seen as a variable running over a scale of values set by the possible values people may hold.

The exact meaning and measurement of market friendliness are based on data from the World values Survey, which is a survey of attitudes, values, and beliefs people hold all over the world including in a number of countries. Such a survey has been repeated several times. One “round” of the surveys, which takes a couple of years, is called a “wave”. There have been six waves thus far (World Values Survey 2014a). We will use seven survey questions from these different waves of the World Values Survey (2014b,c,d) which express some aspects of the level of sympathy to the institutions of a market economy or to the distribution of income and wealth that results from a market economy. In the following we will list the abbreviated names of the variable we will use, then describe the questions and explain briefly the reason why we think each question deals with attitudes towards the market economy.

Different pay for different work

“Imagine two secretaries, of the same age, doing practically the same job. One finds out that the other earns considerably more than she does. The better paid secretary, however, is quicker, more efficient and more reliable at her job. In your opinion, is it fair or not fair that one secretary is paid more than the other? (Code one answer): 1 Fair, 2 Not fair” (World Values Survey, 2005, p. 9)

In a market economy labour is paid at its marginal product. This question is about whether it is acceptable to let the market work and let the person with a higher marginal product be paid a higher wage.

More income equality

“Now I'd like you to tell me your views on various issues. How would you place your views on this scale? 1 means you agree completely with the statement on the left; 10 means you agree completely with the statement on the right; and if your views fall somewhere in between, you can choose any number in between. (Code one number for each issue):

(Incomes should be made more equal) 1 2 3 4 5 6 7 8 9 10 (We need larger income differences as incentives for individual effort)” (World Values Survey, 2005, p. 10)

Since people are not equally talented or lucky, the logic explained when discussing the previous question and that of entrepreneurial discovery (Kirzner, 1973) will lead to inequalities between people when it comes to income and wealth. The question is about whether the government should do something to reduce this difference, or whether this difference might even be good in that it provides incentives to produce.

Private ownership is better

"(Private ownership of business and industry should be increased) 1 2 3 4 5 6 7 8 9 10 (Government ownership of business and industry should be increased)" (World Values Survey, 2005, p. 10)

It seems to be obvious (Kasper, Streit, and Boettke, 2012, pp. 185-242) that the essence of the market economy is private ownership of the factors of production. That is, a more sympathetic approach to private ownership is a more sympathetic approach to the most important institutions of the market economy. It is true that the question is about *increasing* its importance but the countries whose World Values Surveys sample we will examine in section 3 and 4 are not much different as regards the size of the government, which means this question has roughly the same meaning for people in these countries.

Government should be responsible

"(The government should take more responsibility to ensure that everyone is provided for) 1 2 3 4 5 6 7 8 9 10 (People should take more responsibility to provide for themselves)" (World Values Survey, 2005, p. 10)

Private property and a free market also means private responsibility (Buchanan, 2005). Since the market is the system of profit and loss, and it can only fulfil its role if loss is also suffered by an entrepreneur whose actions resulted in a loss, a more positive attitude towards private responsibility is a more positive attitudes towards the market economy.

Competition is good

"(Competition is good. It stimulates people to work hard and develop new ideas) 1 2 3 4 5 6 7 8 9 10 (Competition is harmful. It brings out the worst in people)" (World Values Survey, 2005, p. 10)

One of the most important tenets of economics is that perfect competition is efficient because of the good incentives it provides for buyers and sellers (McCloskey, 1985, pp. 101-106). This question, however, suggests a bit more. It is more in line with an 'Austrian' understanding of competition (Hayek 1948) in which competition is rivalry, a dynamic process of innovations and discoveries, not just a static equilibrium that is Pareto efficient.

Hard work pays off

"(In the long run, hard work usually brings a better life) 1 2 3 4 5 6 7 8 9 10 (Hard work doesn't generally bring success—it's more a matter of luck and connections)" (World Values Survey, 2005, p. 10)

In a market economy those who are more productive will earn more (McCloskey, 1985, pp. 457-466). The alternative is redistribution of wealth through rent seeking, through, for example, good political connections (Coyne, Sobel, Dove, 2010). The more rent seeking possibilities we have, however, the less free or market-like our economy is. That means, if you are sympathetic to the idea of a market society you will also be sympathetic to the idea that hard work (should) pay(s) off and vice versa. The particular question, however, is not that unequivocal because it may be understood as asking for the respondents' opinion on the present situation of the country they live in. Of the seven questions I have mentioned here this question is, I think, the least clear about attitudes towards the market economy in general.

Wealth is not created

"(People can only get rich at the expense of others) 1 2 3 4 5 6 7 8 9 10 (Wealth can grow so there's enough for everyone)" (World Values Survey, 2005, p. 10)

Another fundamental truth (McCloskey, 1985, pp. 89-96) about the market economy is that wealth is created through exchange: no one should get poorer to make the enrichment of another person possible. This question is, therefore, about the extent to which the respondent accepts the claim that the market is a positive-sum game.

The abbreviated names of the variables I have just listed are created in a way that a smaller number means a stronger ‘yes’ to the question implicit in the name.

3. Theories of market attitudes

What exactly determines market attitudes if they are not deep-seated? In what follows we will review some economic theories of this kind with the aim of finding factors that can hypothetically determine the strength of attitudes towards markets in addition to, or as alternatives to, ethnicity, which is seen here as a proxy of deep-seated culture.

By looking at the theories economists have developed regarding attitudes towards the market economy we will differentiate between three different explanations of why the strengths of negative or positive attitudes towards the market economy may be different. The first one is the “scapegoat theory” of the late Austrian School economist, Ludwig von Mises (2008/1956). The second one includes those approaches that consider religion as a possible determinant of market attitudes. The third emphasizes the role of education.

The “scapegoat theory” of anti-market attitudes can be derived from *The Anti-Capitalistic Mentality* of Mises (2008/1956). In this work he argues that the average citizen hates capitalism because in a market economy success depends exclusively on merit and people are not willing to be honest and confess that they have failed. Instead

> “man IS in search of a scapegoat. He tries to persuade himself that he failed through no fault of his own. He is at least as brilliant, efficient and industrious as those who outshine him. Unfortunately this nefarious social order of ours does not accord the prizes to the most meritorious men; it crowns the dishonest unscrupulous scoundrel, the swindler, the exploiter, the ‘rugged individualist.’ What made himself fail was his honesty. He was too decent to resort to the base tricks to which his successful rivals owe their ascendancy. As conditions are under capitalism, a man is forced to choose between virtue and poverty on the one hand, and vice and riches on the other. He, himself, thank God, chose the former alternative and rejected the latter.” (Mises, 2008/1956 p. 15, emphasis in original).

Our own interpretation of what this passage suggests is that in a market economy, one is not forced to choose between material success and moral values to the same extent as one is forced to do in socialism. What is interesting about Mises' hypothesis is its implication that this cruel choice is exactly the reason why people tend to like socialism. Since in socialism only “the worst get on top” (Hayek 1991[1944], pp. 100-114) you can always say that the reason why you are not there is that you are not bad enough to be on the top. In a market economy you do not have such an excuse.

In our interpretation this Misesian understanding of the “anti-capitalistic mentality” (Mises, 2008/1956) implies that anti-capitalism depends on the willingness to exchange material wealth for moral values. The more important material wealth is for you, the more you will dislike capitalism. If you do not rate yourself according to how much material wealth you accumulate, you will not feel so unsuccessful when you see someone getting richer than you, even if you do not consider them to be doing something immoral. The hypothesis I derive from the

Misesian scapegoat theory of anti-capitalism suggests that the extent to which someone's mentality is anti-capitalistic depends on their willingness to substitute material goals for immaterial (moral) ones. The higher this willingness is, the more anti-capitalistic one's mentality is predicted to be. Bruni and Sugden (2013) also argue for the claim that "stoicism about reward" is a market virtue, or, more precisely, that "market virtue is associated with *not* expecting to be rewarded according to one's deserts, *not* resenting other people's undeserved rewards, and (if one has been fortunate) recognizing that one's own rewards may *not* have been deserved." (ibid., p. 160, emphasis in original).

When it comes to the effect of religion on attitudes towards the market economy, the most famous approach is probably that of Max Weber (2001). Weber's thesis is that Calvinist theology as understood by the common man led to a way of life which then created capitalism. Weber even introduced the idea of inner-worldly asceticism which demonstrates the fact that in Weber's theory the acceptance of market rules and wealth accumulation is not motivated by utilitarian reasons. Although many economists doubt the specific claims of Weber (and many, such as Doepke and Zilibotti (2008), Cavalcanti et al. (2007), or Nelson (2012), do not), he was possibly right in saying that every market economy needs a "spirit" (Storr, 2013, pp. 66-70).

Another hypothesis concerning the way religion affects market attitudes is provided by Buchanan's (2005) parental theory of the welfare state. His theory is that the attitude towards the welfare state is becoming more benign because "[t]he state did, indeed, become God" (Buchanan, 2005, p. 26). The "parental" attitude towards the state that one can see throughout the West, Buchanan (2005) says, is a result of the fact that the state has come to replace God – with his parental role – in people's mind. Religious faith and belief in God offered a psychological security which the statist ideologies are able to offer, too. Classical liberalism lost this race because of its disproportionately strong emphasis on pragmatic utilitarian calculus and because of its disproportionately weak emphasis on the vision, or "dream" which a system of natural liberties could provide (Buchanan, 2000). The hypothesis we formulate, based on the theories of Weber (2001) and Buchanan (2005), is that religious belief may be one of the determinants of the extent to which people's attitudes towards the market are positive.

A third determinant of market attitudes, human capital, can be concluded from Caplan's (2000, 2001, 2007) theory of rational irrationality. This theory may be interpreted as a public choice theory of anti-capitalism which argues with the theories just mentioned. To simplify his argument as far as possible, he argues that people will be irrational until thinking this way will reduce their private wealth. That implies that in the market people will behave less irrationally than in politics, where the price of irrationality is zero. If irrationality is identified with anti-capitalism this theory says that people do not behave on the market in accordance with what they preach in public. Anti-capitalism is simply a good which is to be had for free in politics. Caplan (2007, pp. 114-141) also shows, however, that the extent a person's opinion on economic matters is different from that of economists depends heavily on their education. Caplan's (2007, pp.154-165) estimates do not support the view that a higher income will make you have views that are closer to those of economists, but they support the idea that a higher growth of income will.

These theories are usually silent about whether the values that are held to be important are deep-seated or less superficial. Why is it important to ask the question of how easily these convictions about the market economy can be changed? Because if they are really “superficial” then persuasion can be seen as a (political) entrepreneurial act, and a model of economic development should include that. Persuasion may then be seen as a type of an institutional entrepreneurship (Wohlgemuth, 2002, pp. 227-228) which may be an important part of a broader theory of institutional change. On the other hand, the anti-capitalistic, “zero-sum mentality” may, as Rubin (2003) suggests, be the result of an age-long evolution of the human mind.

4. Market attitudes across the borders of Hungary

In this section and in the next one we will try to make an empirical examination of the idea that beliefs are to a large extent determined by deep cultural factors proxied by common ethnicity. In addition, we will make use of the ideas summarized in section 3 to find other variables in addition to ethnicity.

The idea of examining the attitudes of Hungarians is motivated by the fact that substantial ethnic Hungarian minorities live in the countries neighbouring Hungary, which implies that World Values Survey samples from these neighbouring countries include a substantial number of ethnic Hungarians. This makes it possible for us to see whether the views of these Hungarians are closer to those held by the majority population of the country in which they live, or are closer to the attitudes of the Hungarians in Hungary. If the data allow us to reject the importance of ethnic proximity in favour of a common country as a determinant of market attitudes, we will be given a reason to reject the idea that such views are determined by deep-seated cultural values – at least for the Hungarian case. In order to try to do this we will compare, on the one hand, the market attitudes of Hungarians living in different countries, and, on the other hand, the attitudes of the Hungarian ethnic minorities with those of the non-Hungarians they live in the same country with.

Looking into the World Values Survey data, we have to, first of all, answer the two following questions: How does one identify Hungarians in the sample, and, are there enough Hungarians in these samples for such a comparison?

One problem with the first question is that there is no question concerning ethnicity in the WVS, although there is a question ‘What language do you normally speak at home?' We will call Hungarians those who answer this question with ‘Hungarian’, while the majority population are those who answer with a different language, and those who do not answer (and those who answered with a ‘don’t know’) are not included in the sample.

When it comes to the second question we found only three countries, Romania, Serbia and Slovakia whose sample includes a number of Hungarians which seems to be enough to compare them with a much larger sample of the majority population. The number of respondents identified in the way I have just explained can be seen in Table 1.

Table 1: Sample sizes of Hungarians and the majority populations in different countries in the World Values Survey

	wave 3	wave 5	wave 6
Hungarians living in Hungary	466	1001	n.a.
Hungarians living in Romania	72	97	120
Hungarians living in Serbia	55	32	n.a.
Hungarians living in Slovakia	60	n.a.	n.a.
Majority population in Romania	1163	1662	1382
Majority population in Serbia	1138	1182	n.a.
Majority population in Slovakia	1024	n.a.	n.a.

Source of data: World Values Survey (2014 b, c,d).

We will use these data simply to see (1) whether Hungarians living in Hungary have different views on the market economy than those living in a neighbouring country, and (2) whether Hungarians living in a foreign country have different views on the market economy than the majority population of the same country. Since Hungarians in the neighbouring countries are culturally more similar to Hungarians in Hungary than to the majority population of their own country, answering these questions can provide us with some information on whether their attitudes about the market economy are culturally determined or are dependent on the formal institutional or political environment of the country they are living in.

The simplest approach one can apply in this case is to compare the mean values of the market attitudes described in section 2 between Hungarians living inside and outside Hungary and between Hungarians and the majority population living in the same country. The first comparison gives some information concerning the importance of country-level institutional determinants of pro-market values while the second gives information on the importance of culture. Such simple comparisons do not make it possible to check the effects of factors other than culture, and neither can they account for those factors that move in step with culture (ethnicity). This problem will be addressed in section 5.

4.1. Romania

As shown in Table 1, Hungary is included in wave 5 (2009) wave 3 (1998), and wave 1 (1982) of the WVS, while Romania is included in wave 3 (1998), wave 5 (2005), and wave 6 (2012). Hungary is also included in wave 1 (1982), but the other countries in question are not, so the comparison is not possible in this case. This means that a comparison of type (1) can be made for wave 3 and wave 5, while a comparison of type (2) can be made for wave 3, 5 and 6. Such comparisons are shown in Table 2 and 3.

In Table 2 the views of Hungarians living in Romania and the views of the Romanian majority population are compared. The differences are not clear. There is only one question concerning which it is fair to say that one of these two groups has a significantly and consistently more pro-market view than the other: the Romanian majority population thinks in a more pro-market way about the question as to whether competition is good, since, as it appears from Table 2, they gave a significantly more pro-market answer to that question in all three waves in the survey. This does not necessarily confirm the cultural view. There might be other factors that cause the difference – factors which cannot be identified with this simple method. But at least we know that there is something to be explained.

Table 2: Market attitudes of the majority population and Hungarians in Romania in WVS wave 3, 5, 6

	wave 3 (1998)		wave 5 (2005)		wave 6 (2012)	
	Hungarians	Majority population	Hungarians	Majority population	Hungarians	Majority population
Different pay for different work	1.119 (n=67) (0.213)	1.152 (n=1062)	1.360 (n=89)	**1.174 (n=1539) (0.000)**	n.a	n.a
More income equality	6.015 (n=66)	6.292 (n=1118) (0.229)	4.438 (n=89)	4.666 (n=1596) (0.230)	4.425 (n=120)	**6.204 (n=1332) (0.000)**
Private ownership is better	4.032 (n=62) (0.210)	4.315 (n=1087)	4.388 (n=80) (0.116)	4.786 (n=1563)	**5.088 (n=114) (0.001)**	6.080 (n=1318)
Government should be responsible	**5.274 (n=62) (0.086)**	4.697 (n=1121)	**5.534 (n=88) (0.021)**	4.889 (n=1622)	4.529 (n=117)	**5.267 (n=1354) (0.005)**
Competition is good	3.641 (n=64)	**2.772 (n=1114) (0.015)**	3.838 (n=80)	**3.050 (n=1537) (0.002)**	4.441 (n=111)	**3.077 (n=1303) (0.000)**
Hard work pays off	5.167 (n=66)	**3.789 (n=1143) (0.000)**	3.625 (n=88)	3.340 (n=1601) (0.128)	3.741 (n=116)	**3.254 (n=1354) (0.045)**
Wealth is not created	3.875 (n=64)	**5.606 (n=1090) (0.000)**	**6.907 (n=86) (0.007)**	6.269 (n=1554)	6.113 (n=115)	**7.011 (n=1331) (0.002)**

Note: significantly more pro-market views are in bold. Sample size and p-values of the t-test are in parenthesis. The p-values belong to the null hypotheses addressing the question of whether the more pro-market mean is significantly more pro-market than the one which is less so.

As far as the rest of the questions are concerned, it is much less clear which group has a more pro-market opinion at least in the three waves of the World values Survey that are under scrutiny here. There are only two questions, however, where one can say that it is fairly true that Hungarians have a more pro-market view, but even in these cases the evidence is weak. These two questions are private ownership and government responsibility, because in these cases Hungarians have proved to have a more pro-market view more often than the majority population did. In the case of all the other questions, it is rather the majority population that is more pro-market. All in all, the difference between Hungarians and Romanians within Romania is not clear, but Romanians seem to have slightly more pro-market attitudes.

Table 3 compares the opinion of Hungarians on the two sides of the Hungarian-Romanian border, and shows a clearer picture than Table 3 does. Hungarians in Romania have a more pro-market opinion on most of the questions, especially in wave 5. It may be a drawback here that the survey covers two different years, and it is only the Hungarian survey that may reflect the effect of the financial crisis of the last couple of years. Indeed, the Hungarian values have changed towards a less pro-market attitude over the eleven-year time span of the data in Table 3, showing that the country effect may hide the effects of relatively short-term determinants.

Table 3: Market attitudes of Hungarians living in Romania and in Hungary in WVS wave 3 and 5

	wave3		wave5	
	Hungarians living in			
	Hungary (1998)	Romania (1998)	Hungary (2009)	Romania (2005)
Different pay for different work	1.074 (0.140) (n=446)	1.119 (n=67)	**1.200 (0.002) (n=950)**	1.360 (n=89)
More income equality	3.862 (n=458)	**6.015 (0.000) (n=66)**	4.566 (n=988)	4.438 (0.340) (n=89)
Private ownership is better	5.025 (n=440)	**4.032 (0.004) (n=62)**	5.963 (n=956)	**4.388 (0.000) (n=80)**
Government should be responsible	3.402 (n=458)	**5.274 (0.000) (n=62)**	4.793 (n=993)	**5.534 (0.010) (n=88)**
Competition is good	3.493 (0.359) (n=452)	3.641 (n=64)	4.286 (n=981)	**3.838 (0.049) (n=80)**
Hard work pays off	5.074 (0.409) (n=455)	5.167 (n=66)	5.088 (n=990)	**3.625 (0.000) (n=88)**
Wealth is not created	**5.938 (0.000) (n=451)**	3.875 (n=64)	4.472 (n=971)	**6.907(0.000) (n=86)**

Note: See Table 2.

4.2. Slovakia

Table 4: Market attitudes of the majority population and Hungarians living in Slovakia in WVS wave 3

	wave 3 (1998)	
	Hungarians	Majority population
Different pay for different work	**1.034 (0.015) (n=58)**	1.091 (n=997)
More income equality	4.817 (n=60)	**5.619 (0.022) (n=1002)**
Private ownership is better	**6.000 (0.100) (n=57)**	6.445 (n=986)
Government should be responsible	3.400 (n=60)	3.519 (0.348) (n=1005)
Competition is good	4.089 (n=56)	**3.538 (0.062) (n=987)**
Hard work pays off	**4.439 (0.050) (n=57)**	5.064 (n=1001)
Wealth is not created	4.776 (n=58)	4.958 (0.314) (n=987)

Note: See Table 2.

Data on the Slovakian population are only available in wave 3, surveyed in 1998, and Hungary was also included in wave 3 surveyed in 1998, too. This means that only for wave 3 are we able to conduct a comparison of type (1) as well as that of type (2). The results of these two comparisons can be found in Table 4 and Table 5.

The within-country comparisons of Hungarians and Slovakians do not allow us to draw a clear conclusion. In three questions it is Hungarians who show a somewhat more pro-market point of view, while in two questions it is the Slovakians, and there are two questions where we cannot reject with a 5 percent significance the suggestion that the two views are identical. The difference is very unclear, but Hungarians are slightly more pro-market than the majority population of Slovakia.

When it comes to the cross country comparison of Hungarians, the Hungarians living in Slovakia are not much different, on average, from their Hungarian cousins. The answers given to the more crucial questions (private ownership, competition, wealth) seem to show that it is rather the Hungarians living in Hungary who have slightly more pro-market views. Even this difference might be caused by other factors as we try to show through the discussion of sections 3 and 5.

Table 5: Market attitudes of Hungarians living in Slovakia and in Hungary in WVS wave 3

Question	Hungarians living in	
	Hungary (1998)	Slovakia (1998)
Different pay for different work	1.074 (n=446)	**1.034 (0.075)** **(n=58)**
More income equality	3.862 (n=458)	**4.817 (0.010)** **(n=60)**
Private ownership is better	**5.025 (0.004)** **(n=440)**	6.000 (n=57)
Government should be responsible	3.402 (0.499) (n=458)	3.400 (n=60)
Competition is good	**3.493 (0.053)** **(n=452)**	4.089 (n=56)
Hard work pays off	5.074 (n=455)	**4.439 (0.053)** **(n=57)**
Wealth is not created	**5.938 (0.002)** **(n=451)**	4.776 (n=58)

Note: See Table 2.

4.3. Serbia

Table 6: Market attitudes views of the majority population and Hungarians in Serbia in WVS wave 3, 5

	wave 3 (1996)		wave 5 (2005)	
	Hungarians	Majority population	Hungarians	Majority population
Different pay for different work	**1.036 (0.000)** **(n=55)**	1.207 (n=1078)	1.133 (0.318) (n=30)	1.164 (n=1073)
More income equality	5.111 (n=54)	5.153 (0.461) (n=1115)	6.750 (n=32)	**6.081 (0.062)** **(n=1153)**
Private ownership is better	5.113 (0.420) (n=53)	5.181 (n=1063)	**4.710 (0.064)** **(n=31)**	5.447 (n=1122)
Government should be responsible	3.582 (0.390) (n=55)	3.491 (n=1108)	**5.833 (0.038)** **(n=30)**	4.817 (n=1150)
Competition is good	3.698 (n=53)	**2.878 (0.022)** **(n=1089)**	4.281 (0.378) (n=32)	4.400 (n=1139)
Hard work pays off	**3.273 (0.000)** **(n=55)**	5.024 (n=1108)	5.781 (n=32)	5.596 (0.345) (n=1144)
Wealth is not created	**7.145 (0.000)** **(n=55)**	5.496 (n=1088)	**6.219 (0.080)** **(n=32)**	5.452 (n=1110)

Note: See Table 2.

Serbia is included in wave 3 (1996) and wave 5 (2005). That means that comparisons of both type (1) and (2) can be done for these two waves. This Serbian-Hungarian comparison gives the clearest picture of the three: Hungarians living in Serbia have more pro-market views than their Serbian fellow citizens, while Hungarians living in Serbia are even more pro-market than the Hungarians living in Hungary. This is what the results in Table 6 and Table 7 reveal.

Table 6 shows the cross-cultural comparison. There are only two rows (that of inequality and competition) where at least in one of the two waves the Serbian majority population proved to hold more capitalistic views. In the remaining five rows the Hungarians can be said to do so. It is true, however, that there is only one consistent difference (by which we mean that the difference has the same significant sign in each wave), the question of wealth creation.

Somewhat surprisingly, though, Hungarians living in Serbia have an even more pro-market mentality than the Hungarians of Hungary as shown in Table 7. There is no difference when it comes to competition and the difference is ambiguous when it comes to hard work. For the other five questions, Serbian Hungarians can be said to have a more pro-market mentality. The difference is consistent in two cases, that of income inequality, and wealth creation.

Table 7: Market attitudes of Hungarians living in Serbia and in Hungary in WVS wave 3 and 5

	Wave 3		Wave 5	
	Hungarians living in			
	Hungary (1998)	Serbia (1996)	Hungary (2009)	Serbia (2005)
Different pay for different work	1.074 (n=446)	**1.036 (0.094) (n=55)**	1.200 (n=950)	1.133 (0.154) (n=30)
More income equality	3.862 (n=458)	**5.111 (0.003) (n=54)**	4.566 (n=988)	**6.750 (0.000) (n=32)**
Private ownership is better	5.025 (0.399) (n=440)	5.113 (n=53)	5.963 (n=956)	**4.710 (0.006) (n=31)**
Government should be responsible	3.402 (n=458)	3.582 (0.296) (n=55)	4.793 (n=993)	**5.833 (0.035) (n=30)**
Competition is good	3.493 (0.309) (n=452)	3.698 (n=53)	4.286 (n=981)	4.281 (0.495) (n=32)
Hard work pays off	5.074 (n=455)	**3.273 (0.000) (n=55)**	**5.088 (0.071) (n=990)**	5.781 (n=32)
Wealth is not created	5.938 (n=451)	**7.145 (0.002) (n=55)**	4.472 (n=971)	**6.219 (0.001) (n=32)**

Note: See Table 2.

4.4. Summary

To summarize the results above, we apply the simple rule that if one group has a significantly more pro-market view concerning a certain question in more waves than the other group does in the tables of this section of the paper, then that group is declared to have a more pro-market opinion on that question.

When it comes to the Romanian-Hungarian difference, Hungarians in Romania can be said to have more pro-market opinion in general that the Hungarians in Hungary, but the Romanian majority population has more pro-market views than the Hungarians in Romania. The first contrast is, however, stronger than the second one. This can be given the interpretation that culture has some role (which is the reason why the Hungarians in Romania are still different) but the institutional structure does indeed play a role in forming opinion which is, further, shaped by the majority opinion.

Much less clear is the picture that emerges from the Slovakia-Hungary comparison. There is virtually no difference between Hungarians in Slovakia and Hungary while Hungarians in Slovakia have slightly more pro-market views than the majority population of Slovakia. But a fair judgement seems to be that there is no difference between the three groups.

The Serbia-Hungary comparison is more thought-provoking than the other two. The Slovakian and the Romanian cases are somewhat understandable: living with Romanians makes you have a more pro-market view while living with Slovaks does not. The case of Serbia is more puzzling, however, because Hungarians living in Serbia have a more pro-market mentality than the Hungarians living in Hungary while the Serbs are in between. If the majority population of Serbia is compared with the Hungarians of Hungary it can be shown that the Serbian views are slightly more capitalistic (these results are available from the author upon request). The mentality of the Hungarians in Serbia is not an "average" of the Hungarian and Serb views, as might be expected by emphasizing the country effect and also attributing a partial role to culture.

All in all, the cultural hypothesis could not be clearly rejected but culture does not seem to be a binding constraint on the formation of the views on the market economy as the example of the Serbian Hungarians seems to show. What seems to be a cultural difference, however, might be caused by some other factors. We will try to account for some of the possible determinants in the next section.

5. Regression results

In what follows we will try to answer the same question we discussed above with ordered logistic regressions, an approach which has three advantages over the above analysis. First, it makes it possible to use individual data; there is no need for aggregation. Second, it becomes possible to check country effects for several countries, and the analysis should not be confined to the comparison of pairs of countries. Third, and most importantly, in addition to country and Hungarian language we are able to use other independent variables suggested by the theories reviewed briefly in section 3.

To be able to check the effect of a Hungarian dummy, we must use those data that include individuals from Hungary and the countries we analysed above. That is, we can run regressions with data in wave 3 and 5. Table 9a,b and 10a,b show the results produced by using the ordered logit method. The use of this kind of regression is reasonable because although the answers are not continuous variables, they are not simple nominal ones, either. They have a clear ordering running from 1 to 10 (or from 1 to 2 in the case of the inequality question), and the analyst as well as the respondent is supposed to know the order of the answers. Table 9a and 9b show these results for wave 3, while Table 10a and 10b show the same for wave 5.

The question whether ideology is deep-seated or superficial can be seen here as being equivalent to the question of whether country dummies are significant statistically or it is the Hungarian dummy which is significant. For wave 3 there are three dummies, Serbia, Slovakia, and Romania; for wave 5 there are only two, Romania and Serbia, whose coefficients show the effect of living in these countries on the particular view included as the dependent variable. These effects should be seen as showing whether the fact that the respondent lives in a certain country instead of Hungary has an effect.

When it comes to other factors the analysis must be confined, of course, to those that can be found in the World Values Survey. I chose to use several variables whose detailed description can be found in Table 8 and the reasons for their inclusion are implied by the theories discussed in section 3. We will explain shortly why they were included as independent variables.

Financial situation is included because the more successful you are in the market economy, the less you are in need of a scapegoat to explain your lack of success: self-serving bias (Caplan, 2007:54) may have a role. The prediction is thus that the richer you are the less anticapitalistic your mentality will be.

Education, as we saw, is found to be a very strong explaining factor by Caplan (2007, pp. 50-93) in understanding why people's views are different from those of economists. As economists are more pro-market than the average person, it is expected that the higher the education level one has the more pro-market views (s)he will have.

Age is one of the few objective variables in the survey but objectivity is not the only reason for its inclusion. Talking about post-communist countries we must consider the possibility that an anti-market attitude is the imprint of the communist past (Ganev, 2005). If it is, it seems reasonable to think that older people were affected to a larger extent, especially those who lived under communist regimes.

One conclusion we drew from the Misesian scapegoat theory of anti-capitalistic mentality was that anti-capitalism will depend on the importance someone attributes to materialistic goals over non-materialistic ones. This is difficult to quantify. One possibility provided by the World Values Survey is to use different measures of religiosity with the implicit assumption that the more religious a person is, the less importance she attaches to material goals over non-material ones. To check for this idea, we will use different questions from the WVS that concern some aspects of religiosity. One is the strength of the belief in God, which the respondents have to answer on a 10 point scale where 10 represents the strongest belief. Another one concerns the practice of religious faith. This is a scale running from 1 to 7, where 7 means that the respondent does not really attend religious services, while 1 means that she attends them more than once a week. That is, the higher this number is, the lower the frequency with which the respondent attends a church.

Another variable which, we propose, has something to do with the relationship between a person's non-material and material goals is trust, because trust describes the way you think about other people's motivation. If you trust them, you think that they are not just selfish materialists who are willing to cheat for some material advantage. In this perspective, to trust is to think that other people follow rules just because they think that following them has a value in itself, even if there is a price to pay. In sum, trust, in our interpretation, means the extent to which a person thinks other people are willing to follow non-material goals at the price of giving up some material one(s).

As a kind of opposite to religious belief, the importance people attach to economic growth as a policy goal seems to have something to do with their preferences regarding material and non-material goals. It is supposed that the more important one thinks material goals are, the higher importance she gives to economic growth.

We will also try to account for some of the other theories of market attitudes we mentioned above. Protestantism is an important variable, as implied by the theory of Weber (2001). In addition to Protestantism we added the Orthodox religious denomination, too, to account for the possibility that there is a cultural difference between Western Christians and Eastern Christians, which has an implication for attitudes towards the market economy. Huntington (2008, pp. 98-105, 255-266) famously identified Western civilization with Western Christianity, and the market economy was born in the West (North 2005, pp. 127-145).

Table 8: Other independent variables used in regressions in section 5.

Variable name	Question in WVS	Values
Financial situation	How satisfied are you with the financial situation of your household? If "1" means you are completely dissatisfied on this scale, and "10" means you are completely satisfied, where would you put your satisfaction with your household's financial situation?	1 (dissatisfied)….10 (satisfied)
Education	What is the highest educational level that you have attained?	1 (no formal education)….9 (university level degree)
Age	This means you are …… years old	
Importance of God	How important is God in your life?	1 (not at all) ….10 (very)
Religious attendance	Apart from weddings, funerals and christenings, about how often do you attend religious services these days?	1 (more than once a week) …. 7 (never, practically never)
Trust	Generally speaking, would you say that most people can be trusted or that you can't be too careful in dealing with people?	1: Most people can be trusted; 2: can't be too careful
Importance of growth	People sometimes talk about what the aims of this country should be for the next ten years. On this card are listed some of the goals which different people would give top priority. Would you please say which one of these you, yourself, consider the most important? And which would be the next most important?	First choice or second choice (The variable equals 2 if it is a first choice, it equals 1 if it is a second choice, and zero if neither. No answer or 'don't know' is treated as a missing observation.
Protestant	Do you belong to a religious denomination?	1 if yes and protestant, zero otherwise
Orthodox	Do you belong to a religious denomination?	1 if yes and orthodox, zero otherwise

Source: World Values Survey (2005)

Table 9a and 9b show regressions results on the seven attitudinal variables of market attitudes mentality with those just mentioned as independent variables in wave 3 of the WVS. The Hungarian dummy is significant statistically at least at the ten percent level in four cases of the seven. What is interesting about this is that its effect is pro-market in all four cases. For example, in the case of private ownership (Table 9a column 3), the coefficient of the dummy suggests that if the respondent speaks Hungarian, the log odds ratio of reporting a lower number for this question is lowered by 0.38, meaning a stronger 'agreement' with the statement. Country dummies are significant in five cases, showing that simply living in Serbia, Slovakia, or Romania will make you give significantly different answers than the Hungarians give to these five questions. The Serbia and Romania dummies have a relatively clear effect of making a person have a more pro-market mentality. The Slovakia dummy has a less clear effect – something not so surprising after what has been found in section 4.

Table 9a: Ordered logit regressions with WVS wave 3 data

	Dependent variable: Different pay for different work	More income equality	Private ownership is better	Government should be responsible
Hungarian dummy	-0.662 (-1.85)*	-0.120 (-0.73)	-0.379 (-2.61)***	0.290 (1.80)*
Serbia dummy	0.118 (0.31)	0.908 (4.86)***	-0.345 (-2.07)**	0.327 (1.82)*
Slovakia dummy	-0.786 (-1.89)	1.090 (5.75)***	0.477 (2.83)***	0.512 (2.82)***
Romania dummy	-0.451 (-1.11)	1.396 (7.37)***	-0.952 (-5.33)***	1.139 (6.15)***
Financial situation	0.145 (0.64)	0.118 (7.82)***	-0.043 (-2.83)***	0.087 (5.77)***
Education	-0.114 (-4.18)***	0.162 (10.69)***	-0.097 (-6.22)***	0.059 (3.83)***
Age	-0.008 (-2.14)**	-0.001 (-0.67)	0.008 (2.11)**	-0.007 (-3.24)***
Importance of God	0.043 (1.98)**	0.024 (1.92)*	0.027 (2.11)**	-0.021 (-1.65)*
Religious attendance	-0.121 (-3.19)***	0.072 (3.46)***	0.043 (1.97)**	0.024 (1.10)
Trust	0.092 (0.75)	0.218 (3.17)***	0.144 (2.07)**	-0.081 (-1.16)
Importance of growth	-0.247 (-3.77)***	0.030 (0.72)	-0.154 (-3.58)***	-0.044 (-1.00)
Protestant	-0.203 (-0.66)	-0.097 (-0.72)	0.061 (0.53)	0.250 (2.14)**
Orthodox	0.389 (2.12)**	0.002 (0.02)	0.036 (0.32)	0.130 (1.12)
Pseudo R^2	0.063	0.031	0.027	0.017
Number of obs.	3371	3464	3373	3468

Notes: See Table 8 for an explanation of the independent variables. Z-statistics are in parentheses, standard errors are robust. Letters in the upper index refer to significance: *** : significance at 1 %, ** : significance at 5 %. Z-values without an index mean that the coefficient is not significant even at the 10 % level.

The interesting thing is that in several cases, being a Hungarian makes you hold a more pro-market view on a question, while living in Hungary makes you hold less pro-market views (more precisely, living in some of the neighbouring countries makes you hold more pro-market views). Take the example of private ownership: here the Hungarian dummy, the Romanian and the Serbian dummy all have a significantly negative coefficient, while the Slovakia dummy has a positive one. This means that being Hungarian makes you like private ownership more, and so does living in Serbia or Romania as opposed to living in Hungary. This gives an explanation for the relatively ambiguous results in the previous subsection. On a more general level, this finding supports the view that the culture people share is a less important determinant of market attitudes than the country they share.

An important question that is left unanswered here concerns the nature of the specific determinants which are hiding behind the country effect. A possible answer may lie in the somewhat different experiences the citizens of the countries in question have had of communism, its fall, and the market economy that has emerged since. In Hungary "goulash communism" was legitimized through the provision of a relatively higher living standard in comparison with others in the communist bloc, which was ensured by accumulating a massive amount of foreign debt (Mong, 2012). This could have generated a fake nostalgia towards communism that is stronger than it is in the neighbouring countries, where political repression was more outright, and the standard of living lower.

The view on competition and private ownership may be shaped by experiences on whether the policies that were aimed at privatization and market regulation really resulted in a level playing field for all, or – at least in the public's view – resulted in private monopolies through non-transparent methods. Indeed, a careful look at these policies show (Csaba, 2006, pp. 401-413) that simply discarding the planned economy will not create a well-functioning market order. Economic policy and regulation must be directed towards creating markets. How well government policies have been able to fulfil this role may have affected public opinion on how well markets work in general.

Table 9b: Ordered logit egressions with WVS wave 3 data

	Dependent variable:		
	Competition is good	Hard work pays off	Wealth is not created
Hungarian dummy	0.254 (1.37)	-0.392 (-2.24)**	0.126 (0.70)
Serbia dummy	-0.307 (-1.44)	-0.466 (-2.44)**	0.059 (2.51)**
Slovakia dummy	0.292 (1.40)	-0.358 (-1.83)*	-0.503 (-2.51)**
Romania dummy	-0.401 (-1.81)*	-1.135 (-5.73)***	-0.073 (-0.35)
Financial situation	-0.009 (-0.61)	-0.092 (-6.48)***	0.091 (5.77)***
Education	-0.070 (-4.40)***	-0.013 (-0.87)	0.037 (2.49)**
Age	0.002 (1.14)	-0.010 (-5.46)***	0.004 (1.83)*
Importance of God	-0.024 (-1.95)*	-0.048 (-3.82)***	0.048 (3.64)***
Religious attendance	-0.075 (-3.51)***	-0.018 (-0.83)	0.042 (1.93)*
Trust	0.017 (0.23)	0.307 (4.55)***	-0.173 (-2.49)**
Importance of growth	-0.068 (-1.52)	0.023 (0.52)	-0.013 (-0.28)
Protestant	0.053 (0.39)	0.233 (1.76)***	0.062 (0.44)
Orthodox	0.031 (0.26)	-0.052 (-0.45)	-0.091 (-0.77)
Pseudo R^2	0.013	0.017	0.008
Number of obs.	3423	3473	3401

Notes: See Table 9a.

When it comes to the other variables the results are more mixed. The effect of financial situation is what was predicted: richer people have more capitalistic views, and this variable is statistically significant at the 10 percent level in five cases. The effect of education is even clearer, because this variable is significant in six cases with the direction of the effect as expected.

Age does not always have the predicted effect (in the case of different pay for different work, hard work, and wealth), but older people will reject private property with a higher probability. More trusting people have more capitalistic views on income equality, and wealth but not so on private ownership and hard work.

The importance of growth affects the views on pay for work and private ownership in a more capitalistic direction but is insignificant in other places.

The effect of the religiosity variables is not straightforward, either. The importance of God is usually statistically significant, but not always in the expected direction. When it comes to the acceptance of different pay for different work, private ownership, and government responsibility, this variable has the opposite effects of what was expected. When it comes to competition, hard work and wealth creation, the direction of the effect is “right”. The results for religious attendance are even less comforting because different pay for different work, the need for income equality, views on competition, hard work and wealth creation are pushed towards a more “anti-capitalistic” direction by this factor; it is only the view on private ownership which is made more pro-market by a more frequent visit to the church. This result is not absolutely unique. McCleary and Barro (2003) find that when examining their effects on economic growth, the effect of a belief in heaven and hell has a positive effect, while that of church attendance is negative.

Table 10a: Ordered logit regressions with WVS wave 5 data

	Dependent variable:			
	Different pay for different work	More income equality	Private ownership is better	Government should be responsible
Hungarian dummy	-0.107 (-0.36)	0.124 (0.63)	-0.087 (-0.39)	0.382 (1.83)*
Serbia dummy	-0.071 (-0.25)	1.161 (6.23)***	-0.641 (-3.08)***	0.580 (2.92)***
Romania dummy	0.145 (0.52)	0.202 (1.08)	-1.215 (-5.81)***	0.780 (3.97)***
Financial situation	-0.009 (-0.39)	0.140 (8.71)***	-0.072 (-4.49)***	0.147 (9.43)***
Education	-0.130 (-5.45)***	0.108 (6.93)***	-0.120 (-7.63)***	0.094 (5.96)***
Age	0.004 (1.40)	-0.005 (-2.58)***	0.005 (2.67)***	-0.002 (-1.15)
Importance of God	-0.014 (-0.57)	0.006 (0.38)	0.046 (2.98)***	-0.002 (-0.15)
Religious attendance	-0.068 (-1.95)*	0.011 (0.49)	0.034 (1.39)	-0.014 (-0.61)
Trust	-0.254 (-2.13)**	0.221 (3.01)***	0.338 (4.55)***	-0.055 (-0.74)
Importance of growth	-0.174 (-2.62)**	0.073 (1.65)*	-0.204 (-4.42)***	-0.068 (-1.51)
Protestant	0.451 (2.37)**	0.107 (0.90)	0.551 (0.51)	-0.016 (-0.14)
Orthodox	-0.210 (-1.04)	-0.041 (-0.36)	0.181 (1.40)	-0.307 (-2.45)***
Pseudo R^2	0.032	0.030	0.025	0.017
Number of obs.	3000	3109	3046	3129

Notes: See Table 9a.

Religious denomination does not matter much. The effect of a Protestant denomination is only significant in two cases (government responsibility and hard work in Table 9a and 9b) and only in one of the cases (government responsibility) is the predicted effect in line with the (oversimplified form of the) Weberian theory of a Protestant root of pro-market feelings. Orthodox denomination is insignificant, too, in almost every case, but when it is not (different pay for different work), the effect is as predicted.

Running regressions with the data in wave 5 gives similar results (Table 10a and Table 10b). These data do not include a Slovakia dummy because Slovakia was not surveyed in this wave. That means that the most important variables for us now are the Hungarian dummy, the Serbia dummy, and the Romania dummy. The "other" variables are the same as in Table 10a and 10b.

The lack of a cultural effect is even more obvious. The Hungarian dummy is statistically significant only in the case of government responsibility and even then its effect is a pro-market one.

The effect of Hungary as a country is even stronger, however, especially when compared with Romania. The Serbia dummy does not always show a pro-market effect, although usually it does. Competition and hard work are the questions where it does not and it does not significantly affect the answer given to the first question (different pay for different work). The Romania dummy always has a pro-market effect when it is significant and only in two cases (different pay for different work, and more income equality) is it significant.

The effect of financial situation and education is again relatively straightforward: richer and more educated respondents are more sympathetic to market-like rules.

Religiosity variables do not let us draw a very clear conclusion concerning their effects on pro-market views. The importance of God is only significant in three cases (private ownership, hard work, wealth) and it has a pro-market effect in the two latter cases. Religious attendance has an even weaker and less obvious effect and is significant in only two cases (different pay for different work, and hard work).

Table10b: Ordered logit regressions with WVS wave 5 data

	Dependent variable Competition is good	 Hard work pays off	 Wealth is not created
Hungarian dummy	0.152 (0.74)	0.114 (0.58)	0.230 (1.16)
Serbia dummy	0.347 (1.90)*	0.780 (4.33)***	1.083 (5.96)***
Romania dummy	-0.790 (-4.32)***	-0.635 (-3.55)***	1.654 (9.32)***
Financial situation	-0.075 (-4.87)***	-0.096 (-6.13)***	0.151 (9.41)***
Education	-0.107 (-6.92)***	0.011 (0.71)	0.018 (1.16)
Age	-0.000 (-0.02)	-0.01 (-5.03)***	0.002 (0.92)
Importance of God	-0.003 (-0.16)	-0.033 (-2.09)***	0.041 (2.73)***
Religious attendance	-0.011 (-0.49)	0.042 (1.79)*	-0.020 (-0.83)
Trust	-0.240 (-3.27)***	0.095 (1.29)	0.062 (0.84)
Importance of growth	-0.166 (-3.59)***	-0.217 (-4.66)***	-0.063 (-1.38)
Protestant	0.080 (0.64)	-0.104 (-0.83)	-0.340 (-3.02)***
Orthodox	-0.160 (-1.15)	-0.375 (-2.83)***	-0.344 (-2.62)***
Pseudo R^2	0.034	0.043	0.031
Number of obs.	3073	3122	3057

Notes: See Table 9a.

A higher level of trust does not always imply a more a pro-market attitude. In some cases, trust simply does not have a statistically significant effect (government responsibility, hard work, wealth), and in one case it has an anti-market effect (private ownership). In the remaining three cases the effects is as expected.

The importance of growth is again usually significant and has a pro-market effect, while religious denomination is much less important and its effect is what is expected only once (wealth for Protestantism and government responsibility for Orthodoxy) while it is the opposite of what can be expected in another case (different pay for different work for Protestantism, and wealth for Orthodoxy).

6. Conclusion

This paper has raised the question of whether anti-capitalist views are determined by deep-seated cultural variables or have more superficial roots. We have not tried to give a general answer, only to see what is going on in a specific example: in the case of Hungarians inside and outside Hungary. In this case the general question can be re-formulated in a specific form, i.e. whether Hungarian culture or the Hungarian institutional environment makes Hungarians have the least pro-market views in the region.

Our answer is that it is rather the institutional environment than culture. The answer is based on theoretical and empirical arguments, too. The main building blocks of the theoretical arguments were the Misesian scapegoat theory and the Caplanian "education theory" of anti-capitalism. The fact that a feeling of material success predicts pro-market views gives some corroboration to the scapegoat theory, while the fact that education is at least as strong a determinant of it gives a corroboration to the education theory. The variables we chose to proxy the strength of preference for the non-material goals did not give such straightforward results. The effects of religiosity and trust are mixed, while the effects of the importance of growth is the opposite of what we would expect if the importance for economic growth as a policy aim were a good proxy for the preference for individual material welfare.

The answer to the main question is, however, much less ambiguous. We have seen that the country one lives in is much more important in determining one's views on the market economy than the language one speaks. Those Hungarians who do not live in Hungary are more similar to the views of their fellow citizens than to the views of their fellow Hungarians in Hungary.

All in all, our interpretation is that the scapegoat theory seems to be true at least partially but it is very difficult to find good proxies for the marginal rate of substitutions between material and non-material goods. If so, one important conclusion seems to be that if you want to convince people to accept market institutions, talking about the material prosperity capitalism can bring is not a good strategy. Not because it is not true, but because seeing material welfare as the source of personal achievement in life will make them afraid of a capitalism which does not provide any morally acceptable scapegoat for a lack of material success. Moral reasons for the market economy, we suggest, can do a better job at convincing people to accept market rules.

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HERDING BEHAVIOR UNDER EXCESSIVE VOLATILITY IN CEE STOCK MARKETS

Angela Maria FILIP
Babeș-Bolyai University, Romania

Maria Miruna POCHEA[*]
Babeș-Bolyai University, Romania

Abstract. This study investigates the herding behavior of investors in five CEE stock markets during the recent global financial crisis. We examine herding behavior at industry level by using daily data on stock prices from January 2, 2008 to December 31, 2010 in five industry-groups. Our aim is to test for the asymmetries of herding behavior under low and high market volatility. The results suggest weak evidence of herding behavior in CEE countries over the analysed period.

JEL Classification: G01, G14, G15

Keywords: herding behavior, market volatility, financial crisis, CEE stock markets

1. Introduction

The failure of traditional finance in explaining the "non fundamental" reasons behind price fluctuations and episodes of extreme market volatility over the last decades casted doubt on the effectiveness of its main paradigms: investors are perfectly rational and markets are efficient (EMH). A rational investor immediately and accurately adapts his beliefs and behavior to any new information which arrives on the market. As a consequence, on an efficient market, asset prices will instantaneously and entirely reflect all available information at any time.

A vast pioneer literature (such as Grossman and Stiglitz, 1980; Grossman and Shiller, 1981; Shiller, 1984; De Bondt and Thaler, 1985; Shiller, 1990) provides evidence on the inconsistency of the EMH and rational expectations suggesting that the assumption of perfect rationality ought to be abandoned. In exchange, a more realistic paradigm supported by theoretical and experimental developments of the psychology literature (see Kahneman and Tversky, 1979; Bernstein, 1998; Kahneman and Riepe, 1998; Kahneman and Tversky, 2000) seeks to improve traditional theories and to expand the boundary of financial research. The new *behavioral finance paradigm* states that human emotions such as anticipation, fear, greed, overconfidence, optimism, panic significantly affect investment decisions.

[*] Corresponding author. Address: Teodor Mihali 58-60, 400591 Cluj-Napoca, Romania, Tel. +40.264 41 86 52, Email: miruna.pochea@econ.ubbcluj.ro

According to Bernstein (1998), when facing uncertainty and under extreme emotions, individual behavior exposes patterns of irrationality, inconsistency and incompetence. Kahneman and Tversky (2000) provided psychological evidence that behavioral biases are the result of mental accounting processes and consequently, they are not random.

Considering the significant development of cognitive psychology, an important branch of financial researchers was prompt in dropping the traditional assumptions and integrating cognitive psychology factors into traditional finance theories. The final goal of such complex approaches is to construct a complete model of the investment decision process encompassing potential behavioral biases such as cognitive dissonance, herding behavior, overconfidence, regret aversion, representativeness.

According to the acceptance of financial markets, the herding behavior of investors refers to mimicking the decisions of other investors irrespective of personal information and expectations converging into common actions which are likely to drive away the stock prices from their economic fundamentals. Traditional causes of herding include intrinsic preference for conformity, doubt concerning the manager’s skills, the perception that others are better informed, imperfect information, the additional costs of new information and compensation structures in case of money-funds managers.

The objective of this study is to investigate the investors’ herding behavior on the main capital markets from Central and Eastern Europe. Despite of the fact that herding behavior was intensively investigated on US and Asian markets, this part of Europe has not been closely approached. Moreover, given that most studies were focused on developed markets, we have to emphasize the need of investigating herding behavior on emerging markets. Furthermore, it is known that, in these markets, information is incorporated into the price much slower. Therefore, we believe that emerging markets are a fertile ground for investigating herding behavior, because investors’ tendency to mimic the actions of other investors is much higher.

2. Literature review

Due to the fact that theoretical models of herding behavior are often abstract, there is a gap between the theoretical literature and the empirical one. The majority of empirical studies does not test specific theoretical models, but only verify the occurrence of simultaneous decisions on the stock market or in a particular group of investors.

Most empirical studies have analyzed herding behavior and its implications for the investors from developed markets, particularly from US and Asia.

Christie and Huang (1995) have studied how individual stock returns have clustered around the market return during the periods characterized by high volatility. In order to test this hypothesis, the authors have used the standard deviations of returns as a measure of the dispersion and they have assumed that a decrease in dispersions during market stress suggests the existence of herding behavior. The results of their study show no evidence of herding in the US stock market.

Chang *et al.* (2000) have improved the methodology proposed by Christie and Huang using cross-sectional absolute deviation of returns (*CSAD*) as the measure of return dispersion. In addition, they have proposed a non-linear regression specification in order to identify the presence of herding behavior. The authors found no evidence of herding behavior in developed markets (US and Hong Kong), partial evidence in Japan and important evidence in emerging markets (South Korea and Taiwan).

Hwang and Salmon (2004) have proposed another methodology that uses a more complex model including factors that explain stock returns, size and value. Their *state space model* was tested for the US and South Korean stock markets during the period January 1993 - November 2002. They found there was herding behavior towards the market portfolio and this herding was not influenced by macro factors. Contrary to the common belief, it seems that Asian and Russian crisis have reduced herding behavior and are identified as turning points in herding behavior.

Tan *et al.* (2008) examined the asymmetries in herd behavior related to market returns, trading volume and volatility on Chinese stock markets and found evidence of herding on daily data, while over weekly and monthly time intervals the evidence is much feeble. Their results show that herding is present under bull market conditions, high trading volume and volatility.

Chiang *et al.* (2013) investigated herding behavior for 10 Pacific-Basin of which five were developed markets and six were emerging markets and, US market. The authors have found significant evidence of herding behavior in each country from the sample. Their results contradict Chang *et al.* (2000) who found no evidence of herding behavior in developed markets.

Although the literature dedicated to herding behavior in stock markets is generous, the empirical studies for the European markets are less numerous. Khan *et al.* (2011) found that on French, German, Italian and English stock markets there is herding behavior except periods of market turmoil and crisis.

Ouarda *et al.* (2013) examined herding behavior and its dynamics on the European stock market at the level of 10 sectors. The authors detected the presence of herding behavior for all sectors except the sector of consumer goods. Moreover, when herding is analyzed under the volatility market condition, their results show significant herding during the months characterized by high volatility, even for the consumer goods sector.

3. Methodology

In order to investigate herding behavior on the main stock markets from Central and Eastern Europe, we will use the *CSAD* methodology:

$$CSAD_t = \frac{1}{n}\sum_{i=1}^{n}\left|R_{i,t} - R_{m,t}\right|$$

where *n* represents the number of observations, $R_{i,t}$ the return of asset *i* at time *t*, $R_{m,t}$ the return of the market at time *t*.

Chang *et al.* (2000) consider that, during periods of market stress, the relationship between return dispesions of individual stocks and market return is expected to be nonlinear:

$$CSAD_t = \alpha + \beta\left|R_{m,t}\right| + \gamma R_{m,t}^2 + \varepsilon_t$$

Therefore, in the presence of herding behavior, we expect the coefficient γ to be negative and statistically signifcant.

Considering the fundamental assumption of Christie and Huang (1995) according to which herding behavior is more persistent during the periods of extreme market movements, we analyze investors' behavior under low and high volatility. Following the methodology proposed by Tan *et al.* (2008) we will examine the potential asymmetric effects of herding behavior related to market volatility based on the following regressions:

$$CSAD_t^{LOW} = \alpha + \beta^{LOW}\left|R_{m,t}^{LOW}\right| + \gamma^{LOW}\left(R_{m,t}^{LOW}\right)^2 + \varepsilon_t$$

$$CSAD_t^{HIGH} = \alpha + \beta^{HIGH}\left|R_{m,t}^{HIGH}\right| + \gamma^{HIGH}\left(R_{m,t}^{HIGH}\right)^2 + \varepsilon_t$$

Herding behavior is suggested by a significantly negative γ coefficient. In order to check the robustness of our results we will further apply the methodology proposed by Ouarda *et al.* (2013) which uses a dummy variable that takes the value *1* under excessive volatility and *0* otherwise and compare the results:

$$CSAD_{i,t} = \alpha + \beta_1 D^{Vol}\left|R_{m,t}\right| + \beta_2(1-D^{Vol})\left|R_{m,t}\right| + \gamma_1 D^{Vol} R_{m,t}^2 + \gamma_2(1-D^{Vol})R_{m,t}^2 + \varepsilon_t$$

We consider that the market volatility is high when it exceeds the average volatility over the previous 60 days. If $\beta_2 < 0$, $\gamma_2 < 0$ and $\beta_2 < \gamma_2$ then the herding behavior is more pronounced under excessive volatility.

4. Data and empirical results

In order to analyze the asymmetric effects of herding behavior with respect to market volatility in five CEE countries (Bulgaria, Czech Republic, Hungary, Poland and Romania) we collected daily data on stock prices from January 2, 2008 to December 31, 2010 in five industry-groups including Banks, Constructions, Oil&Gas, other Financials, Pharmaceuticals and Hotels.

Logarithmic daily returns are computed for each stock based on the following relation: $R_{i,t} = \ln\left(\frac{P_{i,t}}{P_{i,t-1}}\right)$, where $P_{i,t}$ represents the closing price of day *t* for stock *i*. As proxies for the market portfolios we use historical daily data for SOFIX, PX, BUX, WIG and BET Index from January 2, 2008 to December 31, 2010.

Further, we compute the cross-sectional absolute standard deviation for each sector as proposed by Chang *et al.* (2000):

$$CSAD_t = \frac{1}{n}\sum_{i=1}^{n}\left|R_{i,t} - R_{m,t}\right|$$

In order to apply the methodology proposed by Tan *et al*. (2008) we compute the volatility of the market index in each country. The volatility is considered to be high if it exceeds the previous 60-days moving average volatility and low otherwise.

The table below reports the estimation results of the asymmetric volatility models for Bulgaria. The single industry group characterized by herding behavior under high volatility is oil&gas. Under low volatility conditions, herding behavior is detected in two industries: banking and pharmaceutical.

Table 1. Estimates of herding behavior under high and low volatility in Bulgaria

BULGARIA	BNK	CNST	O&G	FIN	PHARM	HTL
α	0.009***	0.015***	0.014***	0.015***	0.006***	0.011***
(t-Stat)	(10.18)	(12.82)	(5.257)	(12.54)	(6.155)	(6.141)
β HIGH	0.447***	0.265**	1.317***	0.552***	0.398***	0.669***
(t-Stat)	(5.046)	(2.438)	(5.254)	(4.874)	(3.994)	(4.001)
γ HIGH	1.878*	0.522	-9.930***	1.470	0.149	-2.716
(t-Stat)	(1.651)	(0.373)	(-3.089)	(1.010)	(0.116)	(-1.265)
Adjusted R^2	0.454	0.125	0.118	0.392	0.241	0.133
α	0.008***	0.011***	0.015***	0.009***	0.007***	0.013***
(t-Stat)	(9.512)	(12.17)	(6.624)	(12.37)	(6.341)	(6.852)
β LOW	0.749***	0.355***	0.948***	0.702***	0.628***	0.787***
(t-Stat)	(6.177)	(2.704)	(3.042)	(6.413)	(3.773)	(2.993)
γ LOW	-5.342**	-2.150	-8.625	0.691	-6.839*	-3.877
(t-Stat)	(-2.053)	(-0.763)	(-1.291)	(0.294)	(-1.915)	(-0.687)
Adjusted R^2	0.241	0.060	0.054	0.431	0.067	0.083

*** statistical significance at the 1% level; ** statistical significance at the 5% level;
* statistical significance at the 10% level.

No herding was detected on the Czech stock market under low volatility conditions and only two sectors, banking and hotels were characterized by herding behavior during periods of high volatility between 2008 and 2010 (see table 2).

Table 2. Estimates of herding behavior under high and low volatility in Czech Rep.

CZECH REP.	BNK	CNST	O&G	FIN	HTL
α	0.010***	0.002***	0.009***	0.014***	-0.0002
(t-Stat)	(9.258)	(2.694)	(10.06)	(6.267)	(-0.864)
β HIGH	0.306***	0.868***	0.268***	0.791***	1.046***
(t-Stat)	(3.938)	(15.204)	(4.362)	(5.151)	(49.42)
γ HIGH	-1.613**	0.839	-0.376	0.539	-0.342*
(t-Stat)	(-2.267)	(1.605)	(-0.668)	(0.383)	(-1.770)
Adjusted R^2	0.059	0.809	0.175	0.314	0.972
α	0.010***	0.005***	0.008***	0.007***	0.002***
(t-Stat)	(9.769)	(3.493)	(11.27)	(3.830)	(3.142)
β LOW	0.014	0.720***	0.211**	1.076***	0.784***
(t-Stat)	(0.111)	(4.112)	(2.330)	(4.554)	(7.669)
γ LOW	6.964**	3.266	1.914	-5.724	3.253
(t-Stat)	(2.542)	(0.880)	(0.998)	(-1.143)	(1.501)
Adjusted R^2	0.101	0.278	0.142	0.163	0.567

*** statistical significance at the 1% level; ** statistical significance at the 5% level;
* statistical significance at the 10% level.

Except for the pharmaceutical industry under low volatility, we didn't find evidence of herding behavior on the Budapest stock exchange during the global financial crisis (see table 3).

Table 3. Estimates of herding behavior under high and low volatility in Hungary

HUNGARY	BNK	CNST	O&G	FIN	PHARM	HTL
α	0.013***	0.011***	0.009***	0.023***	0.011***	0.012***
(t-Stat)	(10.39)	(5.273)	(7.408)	(12.34)	(8.505)	(8.250)
β HIGH	0.220**	0.760***	0.295***	0.579***	0.211**	0.465***
(t-Stat)	(2.501)	(5.323)	(3.522)	(4.533)	(2.325)	(4.415)
γ HIGH	0.525	1.168	-1.106	-1.780	0.844	-0.427
(t-Stat)	(0.574)	(0.786)	(-1.270)	(-1.339)	(0.892)	(-0.390)
Adjusted R^2	0.144	0.407	0.094	0.171	0.155	0.234
α	0.010***	0.010***	0.009***	0.027***	0.007***	0.014***
(t-Stat)	(11.508)	(4.244)	(11.95)	(13.75)	(9.242)	(10.78)
β LOW	0.283***	0.913***	-0.091	0.663***	0.383***	0.209
(t-Stat)	(2.905)	(3.492)	(-1.028)	(3.123)	(4.252)	(1.437)
γ LOW	-1.721	-0.542	4.379**	-2.763	-4.782**	5.076*
(t-Stat)	(-0.847)	(-0.099)	(2.361)	(-0.625)	(-2.551)	(1.673)
Adjusted R^2	0.060	0.143	0.027	0.085	0.060	0.118

*** statistical significance at the 1% level; ** statistical significance at the 5% level;
* statistical significance at the 10% level.

Similarly, on the Warsaw stock exchange, only the financial industry was characterized by herding behavior under low volatility. No herding has been detected in periods of high volatility between 2008 and 2010 (see table 4).

Table 4. Estimates of herding behavior under high and low volatility in Poland

POLAND	BNK	CNST	O&G	FIN	PHARM	HTL
α	0.012***	0.013***	0.011***	0.020***	0.024***	0.014***
(t-Stat)	(15.52)	(8.498)	(9.086)	(10.508)	(7.831)	(8.393)
β HIGH	0.193***	0.477***	0.245**	0.005	-0.037	0.404***
(t-Stat)	(2.944)	(3.591)	(2.330)	(0.030)	(-0.142)	(2.884)
γ HIGH	1.083	-1.196	5.357***	5.224**	3.919	1.046
(t-Stat)	(1.073)	(-0.586)	(3.322)	(2.128)	(0.985)	(0.487)
Adjusted R^2	0.301	0.202	0.461	0.109	0.012	0.233
α	0.011***	0.013***	0.011***	0.015***	0.025***	0.014***
(t-Stat)	(21.11)	(18.87)	(15.37)	(11.35)	(13.78)	(14.29)
β LOW	0.229***	0.278***	0.289***	0.704***	0.080	0.304***
(t-Stat)	(3.849)	(3.565)	(3.539)	(4.925)	(0.401)	(2.752)
γ LOW	1.739	3.567**	3.463**	-6.026**	1.868	2.545
(t-Stat)	(1.531)	(2.395)	(2.222)	(-2.211)	(0.489)	(1.206)
Adjusted R^2	**0.248**	**0.286**	**0.273**	**0.10**	**0.005**	**0.149**

*** statistical significance at the 1% level; ** statistical significance at the 5% level;
* statistical significance at the 10% level.

Table (5) reports the results of herding behavior estimates for Romania under low and high volatility periods from January 2, 2008 to December 31, 2010. No herding was detected over the analyzed period on the Bucharest stock exchange.

Table 5. Estimates of herding behavior under high and low volatility in Romania

ROMANIA	BNK	CNST	O&G	FIN	PHARM	HTL
α	0.010***	0.035**	0.030***	0.095**	0.016	0.182***
(t-Stat)	(7.124)	(2.050)	(3.275)	(2.454)	(1.140)	(5.205)
β HIGH	0.359***	0.595	0.264	-0.647	2.094**	-2.448
(t-Stat)	(3.970)	(0.550)	(0.451)	(-0.265)	(2.351)	(1.118)
γ HIGH	1.099	-5.370	9.613	29.52	4.324	11.97
(t-Stat)	(1.174)	(-0.479)	(1.592)	(1.171)	(0.469)	(0.528)
Adjusted R^2	**0.385**	**0.001**	**0.083**	**0.013**	**0.155**	**0.003**
α	0.023***	0.041***	0.046***	0.074**	0.037***	0.065***
(t-Stat)	(4.681)	(3.607)	(6.986)	(2.200)	(4.666)	(2.755)
β LOW	-0.516	0.306	-3.428***	-4.281	0.018	3.069
(t-Stat)	(-1.013)	(0.260)	(-5.046)	(-1.224)	(0.022)	(1.248)
γ LOW	13.321	-5.230	112.8***	201.4***	18.912	-22.01
(t-Stat)	(1.412)	(0.810)	(8.972)	(3.112)	(1.249)	(-0.483)
Adjusted R^2	0.005	0.000	0.222	0.046	0.015	0.004

*** statistical significance at the 1% level; ** statistical significance at the 5% level;
* statistical significance at the 10% level.

Table (6) reports the estimates of herding when using a dummy variable in order to assess the effects of volatility on the $CSAD_t$ measure.

Table 6. Estimates of herding behavior under market volatility with dummy variable

BULGARIA	BNK	CNST	O&G	FIN	PHARM	HTL
α	0.009***	0.013***	0.014***	0.012***	0.007***	0.012***
(t-Stat)	(13.94)	(17.69)	(8.378)	(17.39)	(8.774)	(9.180)
β_1	0.494***	0.387***	1.282***	0.749***	0.357***	0.591***
(t-Stat)	(6.783)	(4.592)	(6.542)	(9.288)	(3.891)	(3.984)
β_2	0.685***	0.185	0.995***	0.428***	0.685***	0.896***
(t-Stat)	(6.569)	(1.541)	(3.547)	(3.713)	(5.221)	(4.217)
γ_1	1.396	-0.736	-9.578***	-0.565	0.574	-1.910
(t-Stat)	(1.394)	(-0.635)	(-3.553)	(-0.509)	(0.455)	(-0.936)
γ_2	-4.232*	0.747	-9.433	5.379**	-7.819***	-5.733
(t-Stat)	(-1.769)	(0.270)	(-1.464)	(2.030)	(-2.594)	(-1.175)
Adjusted R^2	0.362	0.113	0.094	0.421	0.141	0.104
CZECH REP.	**BNK**	**CNST**	**O&G**	**FIN**	**PHARM**	**HTL**
α	0.010***	0.003***	0.008***		N/A	0.0009**
(t-Stat)	(13.62)	(4.406)	(15.89)			(2.276)
β_1	151.1***	-58.13	42.17		N/A	-6.261
(t-Stat)	(3.283)	(-1.203)	(1.232)			(-0.241)
β_2	0.195***	0.880***	0.254***		N/A	0.976***
(t-Stat)	(2.800)	(12.02)	(4.898)			(24.83)

γ_1 (t-Stat)	-1291* (-1.842)	350.03 (0.476)	817.1 (1.569)		N/A	-3.842 (-0.009)
γ_2 (t-Stat)	-0.569 (-0.628)	0.872 (0.918)	-1.546** (-2.298)		N/A	0.254 (0.499)
Adjusted R^2	0.087	0.598	0.199		N/A	0.856
HUNGARY	**BNK**	**CNST**	**O&G**	**FIN**	**PHARM**	**HTL**
α (t-Stat)	0.011*** (15.53)	0.010*** (6.558)	0.009*** (13.29)	0.025*** (18.37)	0.009*** (12.536)	0.013*** (13.47)
β_1 (t-Stat)	0.302*** (4.902)	0.781*** (5.955)	0.274*** (4.754)	0.472*** (4.279)	0.310*** (5.082)	0.415*** (5.066)
β_2 (t-Stat)	0.152* (1.612)	0.880*** (4.366)	-0.058 (-0.661)	0.832*** (4.903)	0.226** (2.407)	0.288** (2.292)
γ_1 (t-Stat)	-0.154 (-0.221)	0.995 (0.675)	-0.933 (-1.440)	-0.900 (-0.725)	0.027 (0.039)	-0.016 (-0.018)
γ_2 (t-Stat)	0.398 (0.184)	-0.005 (-0.001)	3.841* (1.912)	-5.506 (-1.430)	-2.235 (-1.048)	3.796 (1.329)
Adjusted R^2	0.133	0.258	0.095	0.121	0.147	0.179
POLAND	**BNK**	**CNST**	**O&G**	**FIN**	**PHARM**	**HTL**
α (t-Stat)	0.012*** (26.20)	0.013*** (19.14)	0.011*** (17.697)	0.016*** (15.25)	0.025*** (15.66)	0.014*** (16.43)
β_1 (t-Stat)	0.215*** (4.367)	0.466*** (6.006)	0.231*** (3.243)	0.239** (2.009)	-0.105 (-0.599)	0.373*** (3.883)
β_2 (t-Stat)	0.216*** (4.140)	0.285*** (3.461)	0.297*** (3.923)	0.564*** (4.463)	0.121 (0.649)	0.323*** (3.168)
γ_1 (t-Stat)	0.819 (0.948)	-1.060 (0.436)	5.522*** (4.409)	2.348 (1.123)	4.754 (1.544)	1.429 (0.848)
γ_2 (t-Stat)	1.931* (1.842)	3.469 (2.101)	3.344 (2.202)	-3.945* (-1.557)	1.264 (0.338)	2.268 (1.110)
Adjusted R^2	0.270	0.256	0.367	0.095	0.008	0.190
ROMANIA	**BNK**	**CNST**	**O&G**	**FIN**	**PHARM**	**HTL**
α (t-Stat)	0.018*** (5.808)	0.039*** (4.074)	0.040*** (7.504)	0.082*** (3.184)	0.029*** (4.085)	0.107*** (5.400)
β_1 (t-Stat)	-0.057 (-0.226)	0.415 (0.546)	-0.239 (-0.559)	0.048 (0.023)	1.419** (2.480)	1.372 (0.871)
β_2 (t-Stat)	-0.141 (-0.390)	0.469 (0.431)	-2.978*** (-4.871)	-4.907* (-1.678)	0.626 (0.763)	-0.370 (-0.164)
γ_1 (t-Stat)	4.581* (1.567)	-3.858 (-0.437)	13.806*** (2.785)	23.710 (1.001)	9.966 (1.500)	19.97 (-1.093)
γ_2 (t-Stat)	7.963 (1.125)	-7.557 (-0.354)	106.4*** (8.888)	210.4*** (3.677)	10.22 (0.637)	27.15 (0.615)
Adjusted R^2	0.012	0.000	0.171	0.037	0.101	0.003

The results confirm the previous findings in most cases, suggesting a weak evidence of herding behavior in CEE stock markets during the global financial crisis.

5. Conclusions

This study tested for potential asymmetric effects of volatility on herding behavior in five CEE countries during the global financial crises. Herding was present in few industrial sectors, mainly under low market volatility (see Bulgaria, Hungary and Poland). We detected herding behavior within two industrial-groups under high market volatility in the Czech Republic. No herding was detected over the analyzed period on the Romanian market.

Herding behavior has a special importance for determining the stocks prices. The existence of herding on stock markets can lead to stocks mispricing. Therefore, the herding behavior results can offer valuable information for the stock pricing models. At the same time, the decision makers can realize whether it is necessary to be concerned of the potential destabilizing effects of herding. Moreover, the appearance of herding can be an extremely useful instrument for identifying the critical point of speculative bubble.

Our study reveals weak evidence of herding during the global financial crises in CEE countries. Future research on CEE countries should extend the period under analysis and use weekly or monthly data in order to study the herding behavior under different market conditions. In the same time, we intend to extend the research to other emerging European countries and to use the state space model proposed by Hwang and Salmon (2004) which can contribute to a better understanding of this investment behavior.

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RECRUITMENT EXPECTATIONS ON PROJECT MANAGERS' COMPETENCIES

Marius RADU*
Babeș-Bolyai University, Romania

Abstract The multidimensional scaling analysis is applied to understand what criteria use the stakeholders involved in project managers' recruitment process. We use the multivariate data analysis technique to understand the relationship between preferences and expectations of the recruitment team of project managers. Visual map emphasize the relationship between the Future Organization Form vs. Successful Project Manager Competencies as they are expected and respective preferred by recruitment team - stakeholders (managers, head hunters, recruiters, etc) involved in the project manager selection. Project manager innovation and people orientation are the characteristics preferred by recruiters, who think that the flat organization will be the future effective form of business organization. Moreover, when it comes to project manager selection and the project set up, the immediate tactical project constraints are perceived more important than the strategic orientation for innovation and people development.

JEL Classification: C1, J2, L2, M1

Keywords: multidimensional scaling analysis, project manager selection, perceived value, matrix organization

1.1 Introduction

Considering authority, responsibility, resources distribution and information flow in organization there are three distinct categories:

- Functional Organization;
- Matrix Organization;
- Project based Organization (Greene & Stellman, 2013, p. 24).

In functional organizations, the departmental managers have all the power over resources; in project organizations, the authority is given to project manager by the sponsors of the project; in matrix organizations, there is a share of authority and responsibility between functional managers and project manager.

* Corresponding author. Address: Department of Management, Faculty of Economics and Business Administration, Babes-Bolyai University, Teodor Mihali 58-60, 400591 Cluj-Napoca, Romania., Tel. +40.264 41 86 52, Email: marius.radu@econ.ubbcluj.ro

In project-driven organizations the teams are organized around projects. They might come from different departments in a matrix organization. In highly projectized companies personnel is contracted independently or hired just for a specific project development, and when the project is done they have to go with other contract.

In project-driven organizations project managers have the whole responsibility and authority over the project in terms of budget and schedule. Project managers choose the team members and release the team at the end of the project. In management literature it is made a distinction between projectized organization which has no hierarchical structure and project-driven organization which includes both matrix and projectized organizations, also called pure product organizations (Kerzner, 2013, p. 99).

1.2 Achieving Project Value through Stakeholder Management

The projects always should be planed and tracked as investments even if they are part of a program, company portfolio or independent projects. When projects are seen as investments the main point of focus in project management will be driven by the expected monetary value of the project. The project will be planned, managed and coordinated considering mainly the monetary value implied.

Beside monetary value of a project there can be depicted a certain set of value drivers which sustain both project and product scope of any business (e.g. Customer Satisfaction, Market Visibility, Community Goodwill, Economies of Scale, etc.)

In order to grow their businesses the companies may consider the projects as proper way to manage their activities. Another objective of the companies might be to make business more profitable, or to sustain the companies to operate faster and more efficiently (Lee, Chen, & Kang, 2009, p. 3). Moreover, projects may be initiated to maintain the business operations. In general all projects are initiated and managed to meet one of these high level business objectives. Often projects involve organizations and processes, but always they involve people. People are the foundation of achieving projects value and business value in general. Considering this we can say that the main influence on project trajectory comes from stakeholders and stakeholders' management is fundamental for project success and project value maximization.

The project manager reports to the project sponsor and he or she is accountable to the stakeholders. A stakeholder is anyone who is positively or negatively affected by the project. The stakeholders are any person who is associated with a project and who can potentially have a positive or negative influence on the project evolution. The stakeholders might be individuals: sponsor, department managers, team members, supervisors, senior management, etc. or groups: executive or steering committees, support staff, shareholders, customers, trade unions, etc.

The stakeholders do not see the project value and project change in the same way. Different stakeholders value differently the project goals and means. The stakeholders have different interests and expectations from the projects evolution during entire project life cycle (Karlsen, 2011, p. 2).

One of the main roles of the project managers is to communicate and help stakeholders to set up realistic expectation. The project manager should permanently work with stakeholders in order to help them to visualize the project value and success. Business analysts are their first specialists who may help.

Jeff Berman defines a three step stakeholder management process:

- Stakeholder Identification
- Stakeholders Assessment
- Stakeholders Management

Also between best practices he mentions the fact that project manager should help the stakeholders to identify “what's in it for me” (Berman, 2006, p. 120).

Basically the personal values and how project value is perceived is different from stakeholder to stakeholder and only communication is not enough for stakeholders’ management. Different stakeholders view the same outcomes from a project as having different values. The project manager needs processes and tools to elicit the stakeholder assumptions and perceptions related with the project during entire project life cycle.

1.3 Getting Buy-In from Top Management in Lean Organizations

Linda Holbeche defines Lean Organization "those that trim their internal costs to produce the highest possible margin on whatever goods or services they are providing" (Holbeche & Mayo, 1997, p. 18). Often lean organization have a flat structure: organizations management hierarchy layers are removed. Flatter structures are designed into organizations in order to get best out of their employees - the main assumption is that an empowered workforce will achieve more and faster than in a hierarchical organization.

The first step of the project manager in achieving project value is to obtain buy-in from sponsor and top-management and getting the project approved. Getting a project approved implies a process and a selection criteria. The main criteria may be: project cost, financial return, strategic fit, risk etc. One of the less visible criteria is related with the soft benefits like customer satisfaction, stakeholders satisfaction or employee morale (Loo, 1996, p. 4).

The sponsors are primarily concerned with 1) the return of their capital – profitability; 2) the risk on their capital and 3) the timing of that return - discounted value (Ibbs & Reginato, 2002, p. 18).

When a project manager is hired for a project the sponsor or any other stakeholder involved in the selection process already has a well structured perception regarding the project and the business domain. On one side she or he has a certain perception and assumptions regarding the future of the project and organization. She has a definition of project success and might have a vision about further business development. On the other side the same stakeholders have expectations from the project manager candidate - the persons which might be in charge with the project (Spradlin & Kutoloski, 1999, p. 5).

The quantitative research presented further aims to understand how the stakeholders involved in the project manager’s recruitment process perceive the importance of different project manager characteristics and competencies.

2. Methodology

We use multidimensional scaling analysis (MSD) to produce a geometric representation of underlying preferences and expectations of the recruitment stakeholders. MDS fits the data on the basis of the spatial proximity between pairs of objects - Future Organization Form vs. Successful Project Manager Competencies - as a measure of their relatedness. The empirical research aims moreover to assess the relative importance of project manager skills and competences as they are valued by people involved in project manager selection process: recruiters, entrepreneurs and project sponsors.

The questionnaire was constructed and applied using LimeSurvey, an open source web based solution. The target population is formed by persons who were involved in project manager selection: entrepreneurs, headhunters, human resources specialists/ recruiters, and managers. The questionnaire was distributed via social networks (LinkedIn and Twitter) with a request for answer. A total number of 280 persons started the questionnaire and 119 (42.5%) were valid responses. The demographic data regarding the respondents are presented in Table 1 bellow.

Table 1. Demographics

Demographics

Occupation	Count	Continent	Count	Gender	Count
Management position	75	Europe	55	Males	60
Recruitment specialist	42	Other than Europe	34	Females	36
NA	2	NA	30	NA	23
Total	119	Total	119	Total	119

The data was analyzed by using R statistical software environment. For the multidimensional scaling analysis it was used MASS library from CRAN and `isoMDS` – the main function for non-metric MDS data plotting.

When the stakeholders are asked to rank the characteristics for the successful project manager their focus goes on project results, project constraints and communication. Of course these are core elements of any project. Moreover orientation through innovation falls on last position and mentoring and people orientation remains in the bottom of the list. Scientific literature and business literature in general mention the characteristics from the list being relevant for any project, but the interesting thing is that when the main stakeholders (the ones who hire the project manager) are asked to order by the importance these entire characteristic they consider people orientation and business innovation on the last position.

3. Data and Empirical Results

In the first set of the questionnaire the respondents are asked to order by importance a set of project manager characteristics - Successful Project Manager Competencies:

- Customer, market and product impact oriented
- Focused communication and team
- Focused on project constraints and project results
- Focused on training, mentoring and people development
- Innovation oriented
- Problem solver

In the second set of the questionnaire the respondents are asked to order what they think to be the current and the future forms of organization for the most performing companies - Future Organization Form:

- Matrix organization
- Project based organization
- Hierarchical organization
- Flat organization
- Other

The MDS model provides a geometric representation of the dimensions along which respondents discriminate their perceptions regarding Future Organization Form and Successful Project Manager Competencies.

Table 2. The characteristics expected from project manager candidates

A SUCCESSFUL PROJECT MANAGER IS:	Mean	St. Dev
Focused on project constraints and project results	4.48	1.59
Focused communication and team	4.38	1.49
Problem solver	3.70	1.54
Customer, market and product impact oriented	3.49	1.64
Focused on training, mentoring and people development	2.80	1.35
Innovation oriented	2.15	1.38

Even though the business innovation is critical for nowadays business development it is interesting to see this on a secondary importance in respect with communication focus. While people development and innovation are strategic drivers for business development, communication and project constraints are tactical drivers for project success. The conclusion that can be drawn is that when it comes to project manager selection and project set up the immediate tactical project constraints are perceived more important than the strategic orientation of the which can be driven by innovation or people development. Main stakeholders involved in project manager recruitment are focused on here and now results more than a long term growth.

When the respondents were asked which they perceive to be the most performing actual form of business organization they mention in the top the matrix organization and on the bottom of the list they put the flat organization.

Table 3. The perceived forms of organization of the efficient companies

IN PRESENT THE MOST PERFORMING COMPANIES ARE:	Mean	St. Dev
Matrix organization	3.93	1.03
Project based organization	3.85	1.06
Hierarchical organization	3.30	1.23
Flat organization	2.71	1.01
Other	1.30	0.84

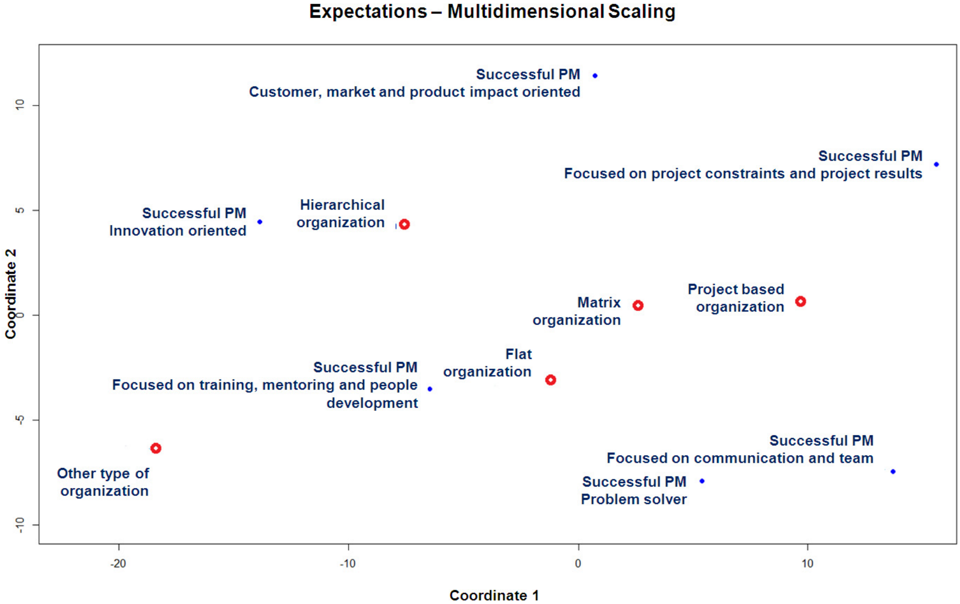
When the stakeholders are asked about the future form of organization design both the project based organization and flat organization are seen upper in the list which means there is an acceptance of the fact that decentralization of management and project based organization are main direction of change business transformation.

Table 4. The perceived forms of organization of the future companies

THE FUTURE ORGANIZATIONAL STRUCTURE WILL BE:	Mean	St. Dev
Project based organization	4.19	1.00
Matrix organization	3.65	0.98
Flat organization	3.01	1.18
Hierarchical organization	2.52	1.22
Other	1.72	1.24

For the MDS analysis we have used a non-metric approach since the values captured from the on-line survey are the ranks of the preferences and expectations for Successful Project Manager Competencies and respective for Future Organization Forms. Perceptual mapping is a unique technique which can provide overall comparisons for all individuals not readily possible with other multivariate techniques.

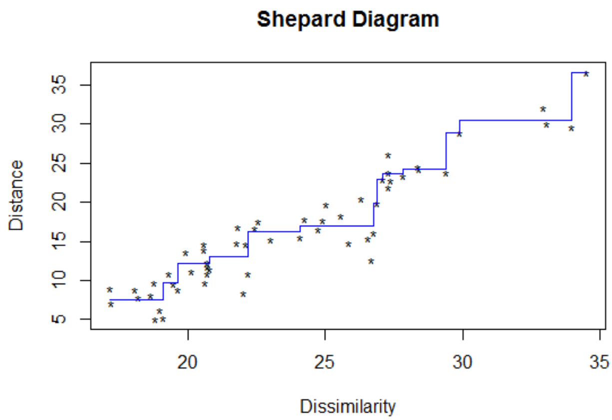
Figure 1. MDS Bi-plot for Successful Project Manager Competencies and respective for Future Organization Forms



From the map we can easily understand that the recruiters, who prefer project manager candidates with people orientation, focus on training and mentoring, see the future form of organization of the companies to be designed as flat structure. Moreover stakeholders who prefer project manager candidates oriented on innovation are related with the ones who see hierarchical structure still an effective organization form in the future companies.

The Shepard diagram for the stakeholders' preferences data shows some discrepancies between the original dissimilarities and the multidimensional scaling solution.

Figure 2. Shepard diagram for the MDS model



The vertical distance between a point and the regression line gives the error of the corresponding distance in the MDS representation. This plot shows also the step-function. This line represents the D-hat values. If all reproduced distances fall onto the step-line, then the rank-ordering of distances (or similarities) would be perfectly reproduced by the respective solution (MDS model). Deviations from the step-line indicate lack of fit.

4. Conclusions

The main conclusion of the empirical research is that even if innovation, learning people orientation are relevant drivers for business growth and in the same time they are strategic pillars for business long time development, when it comes to projects set-up and running business as usual the tactical and immediate drivers as project triple constraints are more important for project valuation and project manager assessment. This means that beyond strategically values the immediate business needs prevails, and this moreover might imply a trade-off: loosing innovation and people from the top priorities list comes with a cost, long time business growth cannot be sustained only based on triple constraint.

The value of the business will be generated not only on tactical-immediate financial figures but on capability to attract, capture and value people in organization giving them the right incentives. People in organization tend to have more and more discretion and accountability at the projects levels on one side and the socio-economic context tend to be more unstructured due to technological advancements.

The main limitation of the research is the reduced number of respondents. More research is required to confirm and refine the conclusions reached in the study. Knowledge of such results regarding recruiters' perceptions should be of value to persons involved in organizational design and business development.

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FROM STRATEGIC DECISIONS TO CORPORATE GOVERNANCE IN THE SME SECTOR IN GERMANY

Zenovia Cristiana POP*
Babeș-Bolyai University, Romania

Hans Jürgen STÜMPEL
Sochi State University, Russia

Ovidiu-Niculae BORDEAN
Babeș-Bolyai University, Romania

Anca BORZA
Babeș-Bolyai University, Romania

Abstract. The purpose of this research is a better understanding of the past and present tendencies with regard to entrepreneurship in modern economies, in order to be able to anticipate the fields in which SMEs are going to develop. Particularly at times of economic crises, it becomes clear that smaller firms are often capable to respond faster, more targeted and more flexibly to global economic fluctuations, and to withstand recessionary phases. Based on the results of a survey on 120 German SMEs, we will illustrate the connection between factors determining the adoption of corporate governance by small enterprises, using GAMMA software.

JEL Classification: L25, L60, L81, O30, O57.

Keywords: Corporate governance, strategic decisions, SMEs, Germany

1. Introduction

Trade and service SMEs, mostly family owned, cannot be underestimated in any economy. These enterprises are perceived as the foundation for healthy economies and they are generating the vast majority of jobs (Gupta, Guha, Krishnaswami, 2013). For example, more than 65 million people were employed by SMEs in the European Union (Blashki, Jantavongso, 2006).

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* Corresponding author: Zenovia Cristiana POP. Address: Department of Economics and Business Administration in German Language, Faculty of Economics and Business Administration, Babes-Bolyai University, Teodor Mihali 58-60, 400591 Cluj-Napoca, Romania, Email: zenovia.pop@econ.ubbcluj.ro

Since the 1980s, economic problems of SMEs are discussed and business topics find increased interest in research and teaching. Progressively, science is becoming more aware of why it is so important that SMEs are active in various sectors of the economy. Precisely in times of economic crises, it is clear that these companies (which are often faster, more goal-oriented and more flexible) are capable to respond to global economic fluctuations, withstand recessionary phases, and seek growth (Cowling and Liu, 2011). Even in these small firms, the change processes within the global economy and the ones resulting from public, governmental and societal factors, are reflected. For family owned SMEs, it has become more difficult to use the financing opportunities offered by banks facing simultaneously management succession problems from one generation to the next. Often, in recent years, the products, trade channels and customer structures have significantly changed. Many of the SMEs manage such changes insufficiently. Despite flexibility, they aren't always able to pull themselves out of the changing situations, to draw conclusions for their enterprise and then take strategic action, following an analysis of their strengths and weaknesses. In the table below, we summarize some of the main strengths and weaknesses of SMEs mentioned in the literature.

Table 1. Strengths and weaknesses of SMEs

Strengths	**Weaknesses**
• intangible assets as central resources; • rapid response due to changes in business environment; • short and direct communication and information channels; • high flexibility; • low degree of formalization; • hierarchy is based on an exchange; • high satisfaction at work; • transparency of the company facilitated by means of linear systems; • decisions are taken quickly; • there are fewer coordination problems; • continuous innovation even if it's short and more intuitive; • high commitment, strong motivation enhanced by the direct involvement of the owner; • relations between employees of SMEs are often a familiar type; • the employee involvement in decision-making process facilitates SME restructuring	• lack of knowledge management; • inadequate information systems; • medium and long term planning almost nonexistent; • limited resources in terms of personnel and finances; • human resources with a limited degree of readiness; • weak position in the market demand; • spontaneous decisions; • patriarchal and authoritarian leadership; • poor decrease with an increase in production costs; • there is no systematic implementation of logistics

Source: Diederichs, 2007; Gora and Mann, 2000; Ilieş, 2006

In fact, these local and regional SMEs are always being challenged by global corporations arising in production, trade and services, and their real chance for a successful future lies in their strategic and future-oriented actions. An easily identifiable trend is the demographic change. The changes on the population level refer to: age, structure, occupation, education, income. The close connection between these demographic changes and the emergence of SMEs associates with the opportunities that aging societies create. By addressing the number of people over 65, which is constantly growing (English, 2006), and offering services tailored to the elderly, SMEs can broaden their customer base.

Another opportunity is provided by the social changes and the way they influence the consumers' desires (Fratu, 2011). The growing concern in the environmental impact has also increased the interest in ecological products. This interest can motivate people to make major changes in their preferences as consumers, choosing the small enterprises that are active within their community rather than the large companies. An increasingly sought after feature of both goods and services, for which the consumers are willing to pay more, is utility (English, 2006). Being aware of this trend, the SME could succeed in exploiting and highlighting this trait and therefore bring onto the market products which fulfill these expectations.

2. Literature review

The first development trend is represented by the establishment of SMEs, especially in the franchise system. In 2/3 of all UK companies, we find the owner, manager carrying out independent activities (Stokes and Wilson, 2006), and franchising, which is commonly used by the SMEs, is booming in the business-to-business sector (Dana et al., 2008:203). Therefore, we can outline a new direction of development. The SMEs' option for the business-to-business sector is optimally outlined by the fact that the performances are greater in B_2B relationships (Ndubisi and Matanda, 2010).

Regarding the future development trend of SMEs, the Massachusetts Institute of Technology (MIT) has conceived a scenario (Hansmann and Ringle, 2005:1), identifying two action options for small firms: SMEs focusing much more on projects, cross-border cooperations through networking and globally better adapted SMEs within the value chain. These represent a third and fourth development direction. In recent years, one can identify the various trends that have shaped the fifth course of action, namely SMEs founded predominantly in manufacturing and services sector (Mugler, 2008).

With regard to the CSR principles, it is important for SMEs, that they make known the 'good' they do. Many ethically correct decisions, cannot be measured in monetary terms. As a result, CSR goals are not included into the company's goals, (Bodendorf, 2005:342) and especially not in those of SMEs, where the financial capacity is limited. This direction will take shape if the government sets a CSR monitoring and management system with clear CSR standards (Lin, Jin and Xuanxuan, 2010). In sum, SMEs have many of the same reasons for engaging in CSR activities that large companies, in the future, raising a new development trend of SMEs.

The knowledge-based economy creates welfare using knowledge management and not financial or other physical assets (Dess et al., 2012:165). Based on the implications of the knowledge-based economy Nicolescu (2011) mentioned that a new type of SME is shaped in this new context, namely the knowledge-based SME. Within this kind of SME, the intangible assets such as trademarks, copyrights, patents, exclusivity agreements, concessions, licenses, good location or commercial networks are dominant. Knowledge and intelligence as intangible assets of an enterprise are sources of competitive advantage (Hitt, Ireland and Hoskisson, 2009), that must be acquired and developed within the enterprise (Grant, 2010:16).

Generally, SMEs need a new strategic orientation to meet the ongoing changes and development trends and thereby generate long-term economic success. Our findings are meant to address managers of small firms and to aid policymakers in SMEs support and action.

3. Methodology

To analyze the development trends, motives and corporate governance challenges of SMEs with regard to its implementation, we used a database that was collected by Niedersachsen Report, which sets for each financial year, a new ranking of the most important East Lower Saxony companies. East Lower Saxony has a well developed SME sector because it provides an environment that is broad and vibrant for SMEs, especially for SMEs from the automotive sector.

The survey targeted SMEs, defined as enterprises with no more than 500 employees. Data collection was done over a 5-week period in January 2011. To consistently recognize development trends, respondents had to be employed in top-management and have their current jobs for at least 5 years. In this manner, we ensured that respondents were in a position to effectively identify how will the SME develope over the past years, and rate the motives to get involved in the ‘corporate governance’ practices and apply its principles.

In total 153 small enterprises, drawn from the Niedersachsen Report, were directly contacted. A response rate of 78% was registered, resulting a sample of 120 valid questionnaires.

We structured the questionnaire on 16 items, testing the changes caused by the economic crises and identifying trends that lead to valuable insights into the SMEs future development in Germany. In the second step, based on the information gathered through the questionnaire and on the research done by Welge (2013) and Mahzan and Yan (2014), that suggested some factors influencing the decision of SMEs in adopting corporate governance principles, we build a factor mapping, by using GAMMA software (Hub, 2002). This helps in the early identification of potential risks or opportunities, and conveys to sustainable solutions. The networked thinking is a method that makes issues visible as a dynamic network of factors, outcomes and effects.

4. Data and Empirical Results

With regard the sector, in our sample, 70% of the SMEs belonged to the service sector, 20% were active as trading enterprises, and 10% were manufacturing companies. We believe that in a competitive economy that tries to struggle to recover after the financial crisis, the manufacturing companies, which add tangible assets, are very important.

Concerning the size, 60% of the surveyed enterprises had between 1-10 employees and 20% more than 50 employees, only 14% fewer than 50 employees and between 250-500 employees 6%.

Considering that East Lower Saxony economic area is a very traditional one, it is not surprising that 70% of the SMEs had been in business for more than 25 years, and 30% have reached 5 years of existence. This contributed to get solid answers to our research questions.

Regarding the collaboration with trade associations, the responses given suggested that only 40% of SMEs are members of a trade association, 10% depending of another association, through franchising, and half of the questioned Hence the future development trend of SMEs, proposed by the Massachusetts Institute of Technology (MIT) regarding SMEs focusing much more on, cross-border cooperations through networking and globally better adapted SMEs within the value chain, was not supported.

To complete the analysis, we investigated the source of knowledge for German SMEs, for instance knowledge about technology development and market entrance strategies. Networking is seen as a source of market knowledge as stated in Sarel, Verreynne, and Kastelle (2012) and not various associations or organizations of SMEs. Strategic alliances aid SMEs to develop essential competencies, smaller companies become keener on innovation, they focus on certain ideas and concepts. The motivation behind this action is that they need to be allied with larger competitors (Gomes-Casseres, 1997:34). If an alliance becomes successful, then it has to generate an enhanced productivity.

Specifically, this study finds that 95% of SMEs registered their sales through the Internet, exploiting the Web's facility further than internet marketing, which is consistent with the literature (Khong Sin, et al. 2010). Specifically, the sales are enhanced through more intensive customer communication. Since the enterprise's founding, only little or no changes were taken by 5% of the SMEs in order to adapt to the market dynamic, explaining the predominant role of German SMEs in the economic landscape.

These changes were counteracted through own analysis by 85% of SMEs, while 2% had not performed an analysis to counteract the changes and 1%, had taken measures, however without success. The SMEs rely on their capacity to judge situations and identify them as opportunities. Through exploring decision-making of SMEs owners from our dataset, we not only add value to the SMEs literature, but also show that the German manager's qualification and skills positively impacts the timely adaptation to changing environments through proactive moves and risk taking decisions. Skills are those abilities developed within the enterprise, that give their owners the opportunity to make something right, better, more efficient or faster (Grant, 2009; Thomson, Gamble and Strickland, 2004:82). To put it simply, this defines competitive advantage at enterprise level (Grant, 2010:44; Hitt, Ireland and Hoskisson, 2009:16). Even though the SMEs' managers do not gather the market information from various associations or organizations meant to represent the SMEs' interests, we can still reveal the real reason behind the German SMEs success by means of the following responses. 90% of the German SMEs determine their own market position by analyzing the changes of the market, and only a small minority does not do that.

Managing change is a resource consuming activity, and is above all daunting when financial and human resources are limited. The significant changes in the eyes of the German SMEs take place as follows: 92% are changes of the market and customers, followed by changes of distribution channels (Internet). These changes are met by 95% of the German SMEs with concrete ideas. SMEs failure rates or empowerment also reflect the importance of state policies (Bagautdinova et al. 2014). Concerning these, 60% of the SMEs perceived positively the policies taken by the German state.

The survey, conducted on the SMEs revealed that almost 85% of respondents reported that they had used B_2B relationships, while 55% of SMEs were engaged in CSR activities and have also CSR goals included into the company's goals.

Applying the principles of corporate governance in the German SMEs would lead to an optimization of management. Although this is seen as important by 75% of SMEs, there is a need to establish concrete steps for corporate governance implementation and for processes tailored to the needs of small businesses. Especially because there is a close collaboration between the top management of an SME and shareholders (Welge, 2013), corporate governance is a critical factor.

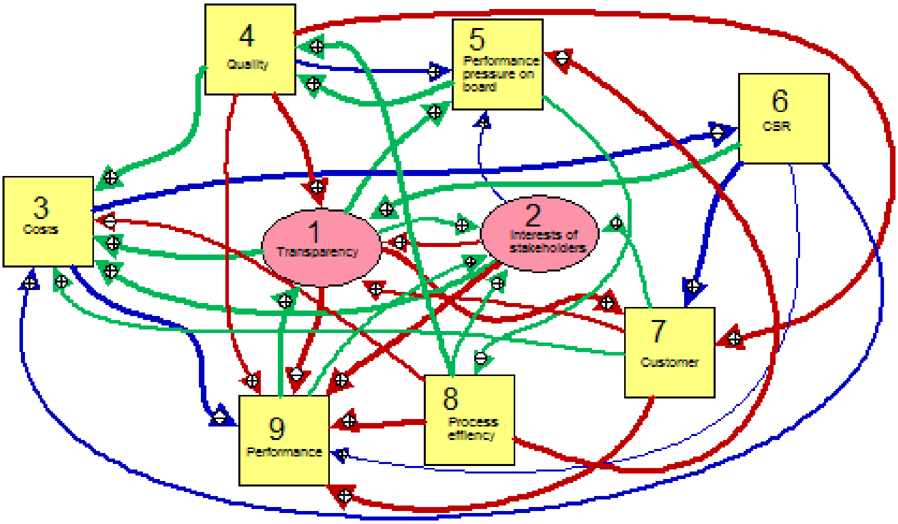
We will further examine the factors influencing corporate governance, namely the insertion of the term "Corporate Governance" in the corporate philosophy of small businesses, using the GAMMA methodology. Specifically, we explore the effect of the new concept on the other tightly-bound elements of the SMEs dimensions. The next step is to determine from the literature, relevant elements that are tied to the subject of Corporate Governance in SMEs. Based on the research of Welge (2013) and Mahzan and Yan (2014) we propose the following elements:

1. Transparency
2. Interests of stakeholders
3. Agency Costs
4. Quality
5. Performance pressure on the board members
6. CSR
7. Customer
8. Process efficiency
9. Performance

Each of the above elements has been transferred and defined in the network as illustrated in Figure 1, by using the GAMMA software. With oval shape, we highlighted the target variables, while the influenced variables were marked with square shapes. Concerning the element number 5, we examine the requirements for board members. The question that arises is, whether the members of the board feel overwhelmed, because of the company's management expectations, and the lack of competence needed. CSR can also be seen as a promotional strategy for gaining the trust and loyalty of customers and can be obtained through various actions. Under the element *customer* - we understand the target client. For every company the customer satisfaction and retention is of great importance.

The target variables are placed in the middle, as they are the most important and the other variables are represented in a circle around it. You can see that between the elements a certain dynamic formed: these elements are active and influence one another.

Figure 1. Corporate governance: elements interaction map



One differentiates the individual variables between two modes of action, mutually affecting each other: aligned (+) and opposed (-). The arrows show, which influence the elements exert on one another. Thus, the slim arrows show a small influence, the central thick arrows a middle influence and the thickest arrows a strong influence. The duration of the effect generally range from long term, medium term to short-term.

These results provide preliminary evidence that transparency has a high impact and strong influence on the other SMEs elements. It is a critical factor, since it is highly influenced by other variables, but at the same time also influences even more variables. In the long run, the transparency is strongly influenced by the quality and strongly shapes the customer perception and the economic success of an SME.

Performance is a heavily influenced variable, exerting little influence on the system. Performance is also a passive variable because it is negatively influenced by the cost and the lack of transparency and positive, strong and on the long term influenced by the interests of stakeholders, customers and process efficiency. It has a stronger influence only on transparency.

Quality has a low impact capacity, and also a high influence on the system. The quality is an active factor as it affects the costs, transparency and customer satisfaction level, and even the performance pressure on the boards while strongly shaping the workflows and process efficiency (Hammann, Habisch, and Harald Pechlaner, 2009). All other variables have a low to medium impact on the system and affect the system only in a low to moderate fashion, and can be referred to as slow variables.

5. Conclusions

It has become clear that these companies in particular have been able to respond to fluctuations in the economy in a purposeful and flexible way in recent years, even during periods of serious economic downturn. More specifically, they have been able to react quickly to changes in the markets, and in their customers' expectations.

It appears that about 95% of these companies have had to adjust their product portfolios and cope with increasing competition. However, they did not relocate their businesses, and focused on their home market.

In the case of the established SMEs, which have been operating for longer than 25 years, it was uniformly found, across all the sectors, that Internet sales did account for a large share of this business.

One example of the study's findings was that the companies were increasingly turning their attention to the consequences of demographic changes, and towards meeting the needs of affluent senior citizens. This applied to manufacturing, trading and service companies. This customer base represents a specialized but attractive market for all small and medium-sized enterprises, and covers everything from meeting their needs at home to global travel and lifelong learning. Previous surveys have also shown this (ActiveAge, 2012). Thus, taxi firms have adapted to meet the specific transportation needs of the elderly. Ready-made meals are delivered straight to their front doors. Care services look after them in their homes, and also in the flourishing residential care sector. But the health and fitness industry, on a more general scale, is also benefiting from this trend.

Although there are already 8 million people of foreign origin living in Germany (DAAD report, 2014) less than 4% of the companies surveyed in our research, considered adapting their range of products or services to meet the needs of these immigrants.

Another attractive sector of the population – and therefore a consumer category – for the small companies in question, are the affluent middle class. When they get home from work, these people want to make the most of their leisure time. The survey showed that there is an increasing abundance of cleaning and gardening firms. Themed restaurants and luxury dining is part of the way of life of this sector of the population. Health and fitness also play an important role, and the study shows that these areas might lead to further changes among SMEs in the future. As the standard of living in a society rises, so does the status enjoyed by pets. Much time and money is spent on feeding, caring for and training them, irrespective of whether the animal in question is a horse, dog or cat.

A large number of the trading and service companies questioned recognize opportunities among this sector of the population. In the future, the ongoing changes in their corporate structure and profile will enable them to seize and adopt corporate governance principles.

Differences in the way we live our lives, with no extended family close by, as working mothers or as single-parent families, show that, in the future, there will be a need for a new generation of services. Information provided by the study showed that childcare and tuition, and even foreign language teaching for young children, was following an upward trend.

The changes we witnessed in trading practices during the last few years have had a serious impact. The bulk sale of cheap food, clothing and even electrical items in large markets where consumers were left to make their own choices appears to have come to a halt. Currently, offering organic and fresh products, directly from the farm and receiving advice from specialist salesmen across the retail sector are important factors driving change and development in SMEs.

The majority of all the small companies were aware of these changes as a result of conducting their own analyses. As a result, the majority generated concrete ideas within the family and were developing strategies on this basis. They did not seek advice from institutions or strategy consultants. The companies questioned were unable to confirm they were suffering from the financial problems which are widely discussed today.

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